



## A Speed Bump for Mortgage Workout Efforts

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By [Kate Berry](#)

Despite much talk of proactive efforts by the mortgage industry to work with troubled homeowners, evidence is beginning to accumulate that many servicers are struggling just to process, let alone resolve, the surging defaults.

At least two of the top five servicers have been telling borrowers it will take two to three months to determine whether a loan qualifies for a workout, according to Ron Morgan, the president of strategic default solutions at MortgageHub Inc. Such delays could push more borrowers into foreclosure, he said.

"The pain is astronomical," said Mr. Morgan, a former national director of mortgage servicing at the Resolution Trust Corp. "The industry is in dire need of accelerating resolution decisions for the overwhelming number of borrowers trying to keep their homes."

Of course, as a software vendor Mr. Morgan has skin in the game. But other observers have also recently found the industry's loss-mitigation capacity wanting.

A study released last week by Moody's Investors Service Inc. found that the 16 largest subprime servicers, which manage a combined \$950 billion of loans, modified just 1% of the ones that were made in 2005 and that reset in January, April, and July.

The survey also found that most large servicers still rely on letter-writing campaigns instead of outbound calls to reach borrowers, which Moody's said is "of particular concern given the potential size of the problem." Roughly 15% of servicers' portfolios are subject to interest rate resets, the survey found, and loans originated last year are expected to have much higher delinquencies.

"The number of future loan modifications ... may be lower than needed to mitigate losses," Moody's warned.

Servicers face pressures other than economic ones to avoid foreclosure. Today the National Training and Information Center, an activist group based in Chicago, will call for a two-year moratorium on adjustable-rate mortgage resets. The nonprofit plans to name two mortgage lenders that it claims have played "a critical role in the rise of foreclosures."

Wes Mee, an executive vice president and the chief operating officer of First American Corp.'s national default title service, agreed that the volume of defaults, consolidation among servicers, and the failure of many borrowers to make their first mortgage payments have made loan modifications more difficult.

"Everyone is struggling to keep up," he said, though some modifications are being made because title insurance volume on modified loans is up 40% this year.



"Certain processes in the industry are driving the wrong behavior," Mr. Mee said. For example, he said foreclosure lawyers are not paid for doing workouts and actually get higher ratings and earn foreclosure fees if a borrower goes into foreclosure.

"The key is to give the foreclosure attorneys some incentive to get information from the borrower to the servicer," he said, adding that his outfit is developing a different scorecard for attorneys based on loan workouts.

Tom Kelly, a spokesman for JPMorgan Chase & Co., said that its Chase Home Finance, the largest subprime servicer, is contacting borrowers two to five months before their adjustable-rate mortgages reset, but that it is still hard to reach most borrowers.

"We have modified substantial numbers of loans," he said, declining to give actual figures because of competitive reasons. "It is always in the best interest of the servicer, the borrower, and the investors if we can modify a loan, because foreclosure means there's no chance the investor is going to recoup their money."

Countrywide Financial Corp., the top servicer overall, said Monday that it has completed more than 17,000 loan modifications, which involved changing at least one of the loan's terms to cure a default, and that it is on track to complete 25,000 this year.

In an interview this month, J.K. Huey, the senior vice president of home loan servicing at IndyMac Bancorp Inc., said that more than half of the borrowers who call the company for a workout or a loan modification do not qualify.

"We want to help people stay in their home provided they have the financial ability to do so," she said. "But we have to make sure they're going to be successful and the loan is going to perform. We can't do a modification just for the sake of it."

Of those whose requests for relief are rejected, roughly 60% did not respond to written requests for financial information, such as the borrower's last two pay stubs, a W-2 form or the last income tax return. "A lot of people do not want to send the financial information needed to prove what their income is," Ms. Huey said. "They really don't want to take the time to work with us."

The other 40% of loans that are denied loss mitigation are to borrowers who are current on their mortgage payments but who contacted IndyMac in an effort to get a lower rate, she said.

"We do have some customers calling us that shouldn't be calling us," Ms. Huey said. After reviewing those customers' finances, "we say that they have a \$4,000 surplus and are able to make their payments, and they say they just wanted to check."

Chris Sabbe, an executive vice president at MortgageHub, said some servicers are taking four to six months after a loan turns delinquent to get in touch with the borrower. In the meantime, he said, servicers are advancing payments on the delinquent loans to the mortgage holders. "Every day that goes by servicers are losing money on missed mortgage payments."



MortgageHub, of Pleasanton, Calif., is owned by ISGN Technologies Ltd. of Chennai, India. The unit recently teamed up with USFN, a Tustin, Calif., trade group of foreclosure lawyers and trustees, to form a loss-mitigation technology platform that can be integrated into servicers' own systems so they can share information back and forth with foreclosure lawyers.

Mr. Sabbe said a better way to streamline the process is to have foreclosure attorneys send letters to borrowers to initiate a workout solution before a servicer begins the foreclosure process.

"Once the servicer gets information from the borrower, they can queue up that loan according to risk and determine what they're likely to lose on the asset if it goes into foreclosure," he said. "The problem is the servicers don't have enough resources to address the magnitude of defaulted loans."