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**Mortgage Servicing News**

**“High Tech Solutions”**

# High Tech Solutions

**Technology is being used as a proactive tool to keep more properties from going into foreclosure.**

Faced with an increasing number of foreclosures and potential losses, lenders and servicers are looking long and hard and which loss mitigation measure will work best to keep families in their homes.

There is a significant amount of loss if a lender has to take a property back. On average, lenders are losing \$50,000 on each subprime loan that goes into foreclosure and \$30,000 to \$50,000 on loans in the prime market, according to Duke Olrich, founder, president and chief executive officer of DRI Management Systems in Newport Beach, Calif.

As a way to stop foreclosure from happening, lenders are now turning to scripted interviews where borrowers are taken through a special group of prescribed questions. The interview is kept short and to the point, lasting about 10-15 minutes, with time to counsel clients. “It helps the borrower get

out of the bind they are in,” said Mr. Olrich. “These interviews help create a solution.”

For many borrowers, their monthly mortgage payments have marched away from them. Perhaps they started with a payment of \$800 with a low interest rate. Close to the market, the adjustable rate mortgage does not have a low interest rate anymore, and the payment is \$1200 a month. “This has happened especially in the North and Midwest where people have lost their jobs and plants are closing,” he said. “For many people, their payments have been raised significantly. They have the income but can they cover the increase? I think the industry has been very progressive in the last five years. But now more attention is focused on finding solutions because of the potential losses.”

Through scripted interviews, lenders and servicers work to determine the true intention of the  
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borrower. Do they want to stay in the property or not? The biggest question every investor wants to know is, "What is their financial ability to pay on the loan?"

The borrower's information is pushed through an economic model, and the typical way many servicers go is to offer the borrower a payment plan, which varies in length. Payments are rearranged, and the fees, costs, and late charges are tallied. If the borrower owes \$3,000, the plan might be made to pay \$3,000 over a year-long period, Mr. Olrich said. This could mean paying \$200 a month along with the regular payment.

If that money is not there, the lender may take out a forbearance plan and accept something less than what is owed in order to keep the loan in current status. This is something that happens a great deal in the FHA arena, he said.

Loan modification plans are getting the most play now, allowing lenders to float the borrower a new loan at a lower interest rate, making the payments more affordable. "This is the best option for those who are sure to go into foreclosure," said Mr. Olrich. "Sure, the lender is making less interest but they are facing a \$50,000 loss."

Some borrowers have homes where the value of the property is less than the value of the loan. A short sale is an option here. The lender puts it up for sale at the market value and accepts reduced payment to satisfy the debt. The borrower has no foreclosure on their through this option. "The lender has a loss but it is less than what is forecast if they waited."

The real estate market has gone from flat to backwards, Mr. Olrich adds. "Even in hot markets like California, it has gone flat to backwards. Borrowers have refinanced to get better loans if the value went up. If it hasn't, they can't get into another loan. Homes have gone backwards in value in many cases. I think it will be the end of 2008 before it turns around. We've still got a year or so of rough road."

Mortgage Hub, which recently acquired Fair Isaac's mortgage products, says technology helps the lender be proactive from keeping the property from going into foreclosure. The most important piece is to have a good system in place that moves data and borrower information without having to rekey data, says Dave Demster, president, mortgage products division, MortgageHub. "You want the data to flow continuously. No re-entry, one version of the truth," he said. "No rekeying makes the handling of data much smoother."

Powerful integration components allow lenders to gather the financial information and credit information on a borrower. When the loan rolls into default, MortgageHub can present to the user the current position of the borrower, helping to create a resolution they can present to the borrower. The industry players and lenders don't have the bandwidth to deal with it. MortgageHub's automated system connects all the key players with a single, seamless system.

"We plug right in and have as many of the other vendor systems integrated with our own servicing system."