MARKET UPS AND DOWNS

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Improbably there is a positive side to the rough ride the mortgage market has taken in the past few years. It's not easy to find a silver lining in the cloud of record defaults and foreclosures that have hung over the market the past three to four years. The good news is the loan level data collected in the servicing of defaulted mortgages can provide key insights into foreclosures: notably, how to predict the likelihood of foreclosures based on loan parameters, the timelines involved and how to head them off in the future with safer underwriting criteria.

By Ravi Ramanathan

DecisionReady has collected activity level information from more than three million loan reviews by default servicing associates. The data we have can be used by servicing organizations to identify intelligent metrics on loan performance by a variety of factors, including loan characteristics such as geography, and investor and property type.

What conclusions can be drawn from the data we've assembled? How can this data be used?

First, we've found the data on defaulted loan performance share some common patterns, which can help pinpoint some of the top reasons that lead to a loan default and foreclosure. We're

sure that the subjectivity of decisions by bank employees is replaced with more objectivity. Thus, compliance has been layered with a process-based component. Much of the compliance process used in the past was based on a snapshot of loan file data. We've learned that process compliance is just as important as document compliance in dealing with today's regulatory environment.

Servicing technology such as ours collects data on each loan we review, including all attempts by the servicer to reach out to borrowers and the loan decisions made throughout the default servicing process. This transactional activity level data can be mined and

with opportunities to mine this data for use in anticipating borrower behavior.

Servicers can review the performance and outcome of loans based on their interpretation of policy from the transactional data collected. They can mine and use this invaluable data to identify all available alternative options to foreclosure when servicing delinquent mortgages. If foreclosure cannot be avoided, the data can help servicers establish foreclosure sale dates.

A New Era

Today, loan level electronic documentation is required to prove beyond a reasonable doubt that servicing associates followed the policy and process guidelines. It is no longer possible to establish compliance with training guides and processing manuals. The scrutiny of servicer decisions by external and internal auditors has led to the creation of the electronic documentation of the servicing process and the document trail. Therefore, opportunities to collect and interpret loan level data will only increase.

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also able to determine some common factors associated that lead to better decisions on whether a foreclosure sale date should be postponed. The data we have collected provide critical insights into how the past behavior of homeowners is a leading indicator in predicting future loan performance.

The increased scrutiny of servicers by both internal and external auditors has resulted in an abundance of loan level data that not only allow servicers to identify and drive process and policy changes, but also provide key insights into the performance of loan portfolios. All this has emerged from the development of managing policy and process compliance in mortgage servicing through technology. The market dynamics provided the impetus to collecting detailed data, and technology provided the means to do so.

Prior to the subprime crisis, origination and servicing compliance was associated with document gathering and the timely disclosure and execution of terms and notices. Today, compliance must en-

analyzed to identify intelligent metrics on loan performance, using a variety of parameters.

The data collected in the process of servicing defaulted loans allows servicers to identify and drive process changes through their organization. Importantly, the data also provides key insights on portfolio performance. Servicers can combine third-party market and economic data with their own data, creating powerful business intelligence for management's future decision-making.

Investor guidelines concerning critical servicing decisions are often ambiguous, requiring a good deal of interpretation from servicers and servicing associates. For example, guidelines requiring "sufficient customer outreach" can be interpreted in many ways. Servicers need to formulate a process to effectively address the compliance rules. Technology can break down these complex decisions into a series of simpler steps and objective questions for servicing associates, thus eliminating any ambiguity. It also can provide servicers

Servicers have developed more stringent processes given the new regulatory dynamics, enabling them to collect data on associate productivity at the loan level. Servicers then can review and compare data between associates across different sites and different departments, allowing for better capacity planning for their operating units. Servicers can gain more insight into the productivity of their associates and into how geography, investors and loan types affect their servicing costs. Servicers now can have more meaningful conversations with investors on the cost of servicing, as well as on portfolio performance.

One of the more significant challenges servicers face in managing delinquent loan and foreclosure timelines is finding a balance that accommodates the diverse views of borrowers, investors and regulators. The underlying data can help manage this delicate balancing act. How servicers interpret subjective compliance decisions can have a signifi-

cant impact on portfolio performance.

For example, most investor guidelines allow a servicer, under delegated authority, to postpone a foreclosure sale date if the borrower is engaging in an "active workout" of the delinquent loan. But what constitutes the definition of an "active workout," including any exceptions that need to be noted for a waiver, is critical in determining whether the foreclosure sale date postponement will be considered.

In several states, a foreclosure sale date can only be postponed if the entire foreclosure process is stopped and subsequently restarted. Such a move not only is costly, but also results in prolonged foreclosure timelines. Analytics based on the data mined from a servicing portfolio can assist servicers in making such important and consequential decisions.

Data collected from process compliance procedures during default servicing provide crucial information on the true costs of default servicing. The actual asset risk profile of the servicing portfolio can be determined by applying analytics to the data. This data can help ascertain the key components for establishing accurate loan pricing on new originations as well as provide a basis for evaluating the threshold accuracy of traditional underwriting criteria, such as loan-to-value (LTV) and debt ratios.

Origination and servicing loan data can be combined to validate and shape loan underwriting rules and guidelines.

Technology has enabled servicers to meticulously track their processes and documents, which has yielded invaluable data on loans and loan performance during a very turbulent time for servicers. This information has provided servicers with insights to delinquent borrower behavior and helped them fashion home retention and foreclosure timeline procedures and strategies. ❖

ABOUT THE AUTHOR

Ravi Ramanathan is president and CEO of DecisionReady Solutions of Irvine, California. The company builds solutions that assist servicers, investors, and regulators through process-based compliance. DecisonReady's technology helps restore general market confidence in servicing processes and process conformance of delinquent assets. Ravi can be reached at Ravi@DecisionReadySolutions.com.