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More Firms Keeping MSRs: Here's Why

INSIDE TAKE

By Paul Muolo

One tenant of real estate investing is that you never should sell a home in a down market. And one tenant of mortgage banking has always been that you don't sell servicing rights in a down market either.

Of course, since the housing bust three years ago, few large bulk "healthy" MSR packages have changed hands, unless the government's been involved. But it appears that a sea change could be in the making regarding which firms service America's home mortgages.

It's no secret that the nation's megabanks have seen their MSR portfolios slide in volume the past year. Among the top five ranked servicers, just one firm, Wells Fargo, managed any growth in the first quarter, and that bank's growth was negligible at best 1%.

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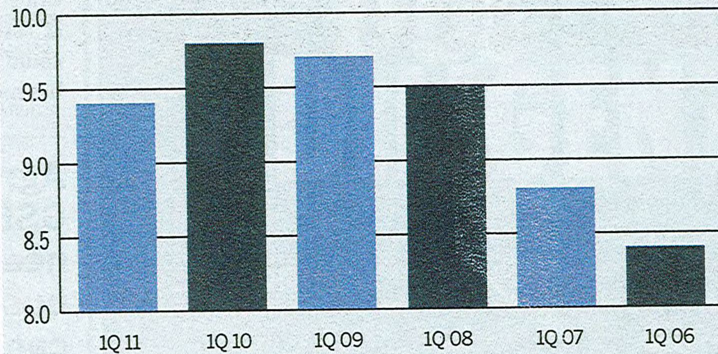
Residential MSRs Outstanding

(Dollars in Trillions)



Source: NMN/Quarterly Data Report. Questions? Email Paul.Muolo@SourceMedia.com.

Will Renting REO Create a Floor for Housing Market?

By Brian Collins

WASHINGTON—With home sales anemic and an anticipated avalanche of foreclosures looming, policymakers are beginning to view renting troubled properties as a way to soak up inventory and put a floor on the housing market. And investors are starting to take note.

Some analysts are calling for Fannie Mae, Freddie Mac and the Federal Housing Administration to loosen their restrictions on lending to investors so they can turn foreclosed single-family properties into rentals.

Institutional investors—none of which have been identified by name, though chances are private equity money would be involved—want to purchase seriously delinquent loans in bulk from the GSEs and lease back the properties to former homeowners at market rents. They also see a chance to create the first single-family housing REIT, which could attract even more institutional investors to the model.

With up to 5 million foreclosures anticipated over the next 18 to 36 months, the Obama administration is exploring the notion of renting as a way to stabilize housing markets and communities.

Renting provides cash flow to maintain the properties and pay real estate taxes to counties. In addition, the tenants can find a rental for three to five years, repair their credit record, and possibly buy the home down the road.

Four members of the House Fi-

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Questions Arise Over B of A's MSR Package

By Paul Muolo

BANK OF AMERICA STILL HOPES TO unload roughly $50 billion worth of "legacy" mortgage servicing rights, but a recent bid deadline came and went with no deal being reached, according to industry advisors familiar with the offering.

"The portfolio didn't trade," one servicing analyst told *National Mortgage News*. The analyst, who requested his name not be used, added that B of A "is still working on it, but they weren't happy with any of the bids."

The package—which has been described as "high touch" servicing—is expected to be offered again.

B of A has declined to discuss the sale, or its size. As reported on the *NMN* website two weeks ago, the MSR package was initially thought to be in the $40 billion range, but new information suggests it's $10 billion higher.

Sources said Freddie Mac, which

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A Moment Of Truth Coming on GSE Limits

By Brian Collins

WASHINGTON—The moment is soon approaching when mortgage bankers will have to decide whether to keep funding government-backed loans with balances between $625,500 and $729,750.

The way things stand today those high-balance loans can be securitized through Fannie Mae, Freddie Mac and Ginnie Mae. In a few months, maybe not.

But the uncertainty on the limit could end soon if Congress does not extend the $729,750 maximum loan limit by Sept. 30 and the GSE/FHA cap drops back to $625,500.

Some large lenders have already ceased funding loans above $625,500, according to housing groups that are urging Congress to extend the $729,750 loan limit for another year.

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Loss Mit Makes Strides but Has a Way to Go

ROUNDTABLE

Far from over, at best, the foreclosure crisis is stabilizing somewhat, indicating that loss mitigation—especially foreclosure prevention and bank-owned property management—is making some progress but still has a lot of room for improvement and will likely remain a hot topic for years to come.

At the SourceMedia Third Annual Best Practices in Loss Mitigation Conference in Dallas, attendees discussed at length issues pertaining to the present state of the market, how both federal and state level regulations are shaping their processes, best servicing practices and loss mitigation tools,

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Shane Kislack

Ronald Jasgur (Left) thinks recovery could take 10 years in Vegas. **Steve Collier** says, "You've got a lot of inventory in the courts."

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Traditional Loss Mit Makes Progress But Has a Way to Go

ROUNDTABLE

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as well as expectations about the future of their industry.

Editor-in-chief of the mortgage group publications, Mark Fogarty, sat down with industry experts Steve Ozonian, chief real estate officer of Carrington Holding Co.; Jay Loeb, vice president and a principal owner of National Creditors Connection Inc.; Ronald Jasgur, president of Woodward Asset Capital; and Steve Collier, vice president of loss mitigation at Prommis Solutions.

FOGARTY: *Looking forward, when do you think that the great foreclosure flood is going to start to abate? It really hasn't yet. Maybe it's at the top of the crest but how many more years do you think it's going to take before it works its way through?*

JASGUR: I'll say a decade or longer at this point. I think at least another 10 years, especially in markets like Las Vegas where you're going to see underwater borrowers for a long time.

OZONIAN: I think it depends on the market. It's a market-by-market response to that question now. I don't think there's a ubiquitous answer you can provide for the entire country. It's going to be different in different cities and some are going to be a decade, some are going to be three years. Washington doesn't have a problem right now. I think you have to look at each market.

FOGARTY: *Until the government shuts down!*

OZONIAN: I think real estate has always been a local business and that has not changed during this dilemma. There are still local phenomena's going on and different markets will recover at a different pace.

COLLIER: I think too you're seeing a direct influence of knowledge. And knowledge, as we know, is power. You have a lot of borrowers and consumers out there that are much more knowledgeable about real estate law today than they have ever been in their lifetime. They didn't even know what the documents looked like that they were signing when they made the loan. Today they know everything there is to know about how to dispute it if there's a default, or respond to it, which is going to put it in court, it's going to drag the process out and delay the foreclosure process. So, that has had an impact. I mean, you've got a lot of inventory in the courts. I'll speak for Florida. Because now litigation attorneys are doing seminars on how to beat the process, so it's really creating a real burden to get through the process, get through the inventory, get the property out of the marketplace and get the REO out there.

FOGARTY: *And on top of that you have the shadow inventory that hasn't been listed for sale yet. I think we've just seen in the last month or two that it started to come down a little bit, but I think it's still over a million units.*

COLLIER: But the shadow inventory is still driving down market prices where shadow inventory is actually getting out there and they're getting the inventory out on the marketplace. It is still driving real estate values down in almost every market. Where they have the most, where they're doing the best job in unloading inventory, that's where they're seeing the highest percentages in decreasing property values. Miami and Tampa in Florida, there's some in California and some in Nevada as well.

FOGARTY: *How about doorknockers, are they effective? A lot of people think they are coming to collect money, so that's probably why it is hard to get them to open the door. Once it happens, is door knocking an effective technique?*

LOEB: That's my business. I would hope it is. We've been busier than ever. We've been taking a whole different approach to door knocking, and that's getting the borrower response packages back and giving them the good news and what we're relating to them at the door. You are always going to have people that avoid you and if they're going to avoid a letter and a phone call and we knock on the door and they won't come to the front door…you asked earlier Mark about what has changed in best practices. One of the new best practices is an old practice. We're busier than ever with clients coming back to us. Carrington was like that all the time. First payment defaults? Go out there and knock on the door. Thirty-day delay? Field contact and say what's up, it's a collection call to get the money in. So the philosophy for the last two-and-a-half years has been back-end. It's kind of turning back, swinging back to say:
Let's go to old-school collections and let's make aggressive borrower contact in the beginning. Spend a little money here and avoid the python at the end. So, maybe the new best practice is a very old practice. It's been around for a long time.

OZONIAN: It's a very old practice. Used to be the original subprime loan practice. The guy that made the sale was also the guy that collected the money.

LOEB: Steve probably did. I bet.

COLLIER: Well you're building relationships. I mean, regardless of what the purpose of the visit is, the door-knocking campaigns that I've seen work well are the ones that truly account ownership to the field reps. And those borrowers call those people back. I've seen it happen with in-house, with servicers and servicers who use vendors that do it. But borrowers feel a disconnect with the servicer but they really connect with the individual if that's face-to-face with them at the door.

FOGARTY: *Once they realize it's not someone there to collect money, but trying to help, they're probably quite relieved to work with them.* ♦

Renting

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nancial Services Committee introduced a bipartisan bill last week that encourages banks and the GSEs to rent foreclosed properties. The neighborhood stabilization bill (H.R. 2636) authorizes these federally chartered institutions to lease REO to renters for up to five years. (The leases can include an option to buy.)

It also opens the door for federal institutions to engage in "lease-back deals with homeowners not in foreclosure," according to Federal Financial Analytics, a Washington consulting firm.

Such an approach allows serious delinquent borrowers to remain in their homes if they agree to pay rent and sign over the deed to the bank or GSE.

A deed-for-lease transaction creates a technical foreclosure. In terms of the accounting treatment, the GSEs and banks would take less of a hit than on a REO sale. In dollar terms, it is estimated the holder of the note would lose 30% more on an REO sale than doing a deed for lease.

Reps. Gary Miller, R-Calif., Spencer Bachus, R-Ala., Barney Frank, D-Mass., and Carolyn McCarthy, D-N.Y., are sponsoring the neighborhood stabilization bill.

"It is good to see Congress is thinking along these lines," said Anne Canfield, a Washington financial consultant. "But it is not as comprehensive as some proposals that are being discussed with some institutional investors." (Canfield declined to name the investors.)

Investors are willing to make a substantial investment to purchase seriously delinquent loans from Fannie and Freddie and lease back the properties to the former homeowners. They would presumably hold the properties for a minimum of three years and give the former owner the first right of refusal when they list the property for sale, she said.

Private-money firms, she added, would be willing to fund a nationwide rental company, which is needed to manage and maintain the single-family rental properties. "No federal money is needed nor has any been requested," Canfield said.

But to get the DFL program off the ground, they need inventory—and the GSEs have plenty of that. As of March 31, Freddie Mac controlled $82 billion of seriously delinquent loans (90 days or more past due) with Fannie holding almost double that amount, $147 billion. (Institutional investors would also like to discuss a joint venture with the GSEs.)

To test their theories, some of investors have started a pilot program in Phoenix where they are purchasing properties on the courthouse steps and approaching the former owners with an option to rent. "It has been a very successful program," Canfield said.

Meanwhile, individuals and small PE groups are relying mostly on cash to purchase distressed single-family properties and turn them into rentals. They see a market where rents are rising, multifamily vacancy rates are falling and more foreclosures are in the pipeline.

"Rental yields are high enough to entice some amount of private capital, but financing for investor properties would certainly attract more capital and cushion further home price declines," according to Amherst Securities Group. ASG believes investors are the "key" to increasing demand for housing and absorbing the excess supply of units.

But a lot of investors can't reach the scale needed to hire a full-time property manager and maintenance personnel since Fannie limits its investor financing to 10 properties, Freddie to four properties and FHA doesn't make any loans to investors. ♦

MSR Package

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is controlled by the government, has been pushing for the sale.

As for which investors might bid on the package, speculation has settled on subservicing firms. "I don't think any of the traditional buyers are interested," said one East Coast advisor. Another advisor suggested subservicing firms may not ultimately win the bid.

"Traditional buyers" is code for the megabanks: Wells Fargo, Bank of America and JPMorgan Chase. All have their own problems these days, dealing with MSRs and Basel III capital rules which cap how much servicing rights can count toward core capital. (B of A, of course, is the seller, hoping to unload seasoned servicing that belonged to Countrywide Financial Corp., which it bought in August 2008.)

The B of A package is believed to be the largest servicing offering to hit the secondary market in quite some time. However, later this summer a $40 billion package of Taylor, Bean & Whitaker MSRs will be ready for bidding.

The TBW package has been approved for sale by the firm's bankruptcy trustee. Milestone Merchant Partners of Miami and Washington has been selected as the broker on that deal.

A representative from Milestone said he could not comment on the TBW package at this time. ♦