



# CASCADE OF CHANGES

New systems and practices manage the flow of loss mitigation options.

**C**omplaints from consumers, real estate professionals and public officials are rampant—it takes too long to get an answer from servicers and investors on a loan modification application or a short sale offer. Distressed borrowers, as well as potential homebuyers are left in the lurch, fuming. The delays are just one more roadblock in the way of a housing recovery.

By Ted Cornwell

It's not difficult to see why mortgage servicers are finding it difficult to manage the problem. Short sales and foreclosure sales accounted for nearly a third of all existing home sales in August, according to the National Association of Realtors.

The nation's largest servicers completed more than 780,000 mortgage modifications under the federally incentivized Making Home Affordable Modification Program at the end of July. But that is out of more than 2.5 million eligible delinquent loans, according to the Treasury Department.

And an analysis by ProPublica, a public interest journalism website, found that only 20% of homeowners who applied for HAMP assistance have received a permanent loan modification. According to ProPublica, missing documents were cited in a quarter of applications that were rejected.

### Special Servicing Advice

Executives at Wingspan Portfolio Advisors, a "high touch" special servicer that focuses on returning loans to performing status, believe that technology can be used to leverage the expertise of loan modification staff to complete modifications more quickly with fewer compliance problems.

Founded in 2008, the suburban Dallas-based company takes on loans from troubled borrowers who in some cases, have not had contact with a primary servicer for as long as 18 months.

"We don't automate dialing. We basically have a single point of contact for all our borrowers," explained E.J. Kite, vice president for information management at Wingspan.

Wingspan uses the Interliq servicing platform from Harland Financial Solutions, complemented by default management technology from DRI Management Systems. "Those two technologies work extremely well together," Kite said.

Wingspan also uses technology from IndiSoft for its Web-based portal that allows stakeholders, including borrowers, to see what is happening on a mod.

Users log in, authenticate themselves and upload all documents for a loan mod. The system can also show borrowers if they are missing documents or haven't signed something.

Leveraging technology, Wingspan focuses on getting mortgage insurers, senior and junior lien holders and other parties to work from the same page.

"As a special servicer, our focus is on home retention, so our number one goal is to keep the borrower in the home," Kite said.

Steve Shiller, vice president of asset management at Wingspan, said the company has customized the software it uses to incorporate best practices and transparency for managing modifications and short sales.

"We have been able to build in all the different investor rules into the software," he said.

Going forward, Wingspan executives believe there is an opportunity to help vendors in the field with mobile technology that can be used for inspections and field services related to short sales and REO management. GPS locators on cell phones, for instance, can be employed to make sure contractors, real estate agents and inspectors are looking at the correct property.

"It really enhances the transparency. It's something everyone has been asking for, for a really long time. Borrowers are complaining about being charged fees for things that never really happened," Shiller said.

The online platform consolidates data and documentation so that different stakeholders in a loan modification or short sale, including mortgage insurers, title companies and lien holders all have access to the same package.



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**Joe Filoleta**  
**CEO, DepotPoint**

"You might have everyone calling about the same thing. What this does is consolidate all of that," Shiller said.

Shiller said that increasing consumer access to technology and comfort using the Internet has made it easier to do loan mods from an online portal. That technology has also helped consumers educate themselves about the options available to them.

"Ten years ago borrowers weren't always made aware of the policies or what was available to them in terms of modifications," he said. "People in general are using technology more than many of us expected."

Kite said that while technology can make the process more efficient, at the end of the day, the key to getting and keeping a borrower in a modification is, "understanding the emotional equity the borrower has," with regard to staying in the home.

### Modernizing Mods

CoreLogic, based in Santa Ana, Calif., formally unveiled its IntelliMods software for automating the loan modification process earlier this year, claiming IntelliMods will accelerate the approval and fulfillment of loan modification packages while providing an audit trail to support the decisions that are made.

The program relies on decision-making "cascades" to determine a borrower's eligibility for a HAMP, GSE or private investor mod program. The calculations keep running until a borrower is matched to a program or all options are exhausted. Those options include possible interest rate reductions, principal reductions or an extension of loan terms.



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Sapan Bafna, a senior director at CoreLogic, said development of the program was sparked because servicers found they were not ready to handle the increased volume of demand for loan modifications in the wake of the housing meltdown.

"It was really chaos back then," Bafna said.

The technology does the initial data scrub to determine eligibility. When modification criteria are met, IntelliMods automatically creates a modification package in recordable format that can be sent directly to the borrower via FedEx, eliminating the time that many servicers spend preparing and sending packages from their own mail rooms. Those automatically generated packages include reply and tracking data so borrowers can return signed, recordable documents.

IntelliMods builds upon automation that has been used to streamline refinancing decisions so, Bafna said.

"Doing it fast really never compromised the quality. It made it consistent, transparent and accurate," he said.

He describes IntelliMods as a complete platform that includes not just technology, but also process reengineering and personnel support. The software is hosted on servers in Santa Ana and Dallas, and users gain access via a secure website that includes a lockdown so only a designated users have access to specific data.

The software relies on "loose integration" architecture to import data from a client's servicing system of record. The loose integration, as opposed to a hard integration, means the program doesn't need to be updated every time a system of record makes changes to its programs.



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**Ronald Jasgur**  
**President**  
**Woodward**  
**Asset Capital**

The software relies upon programming "parameters" that can be changed without reprogramming the hard code.

Currently, CoreLogic is working on enabling e-signature capabilities and other innovations that could help automate the borrower's response to a loan mod offer, Bafna said.

Rich Owens, director of product development, said the IntelliMods decision cascades can be customized by business analysts on the client's side.

"You actually see that cascade line-by-line in order to see the here and why of the reason why it made the decisions that were made," he said.

Driven in part by regulatory consent orders being negotiated between national mortgage servicers and state attorneys general, national servicing standards affecting loan modifications and short sales may be coming down the pike, Owens said. That puts a premium on the audit trail incorporated in IntelliMods.

"That auditing function, being able to defend the decision you made, is huge, especially in this environment," he said.

### Securing Short Sales

Ronald Jasgur, president of Woodward Asset Capital, said short sales leave lenders vulnerable to a range of fraud perils. But technology can be adapted to minimize the risk. Woodward Asset Capital is the parent of OfferSubmission.com and VerifiedShortSale.

He said the online platforms ensure that banks, note holders and servicers have complete "top down transparency" when an offer is made on a potential short sale, so that real estate listing and buyers' agents cannot conceal offers to manipulate the price.

While default management systems are great at task tracking, OfferSubmission and VerifiedShortSale complement that with a negotiation platform so that servicers and investors are involved in the sale decision. The sheer volume of REO and short sales invites potential abuse, he said.

"The bigger this problem has become, the more opportunity there is for people to game the system," he said, noting that buyers, sellers and real estate agents are the most motivated parties in the transaction. If offers have to go through several parties before they get to the servicer, there's a chance the offer or other data may be manipulated.

Most of the technology for detecting short sale fraud is "backward looking," he said, watching out for repeat transactions shortly after a short sale has been completed.

VerifiedShortSale also tracks outstanding liens, such as unpaid homeowners dues and taxes, which might affect the lender's response to an offer.

"This is kind of a paradigm shift, because most banks only want to review one offer and do it after an offer has been signed," Jasgur said.

Users of OfferSubmission.com and VerifiedShortSale agree to allow buyers and their agents to submit offers directly to the online platform, to ensure that the bank or mortgage servicer is the first in line to see any offer.

Typically, a potential buyer has to submit an offer to the listing agent who submits it to the bank. Then they just have to wait, not knowing if the bank has received or reviewed the offer or if other offers have been made. But with Woodward's two platforms, there is an open line of communication.

"The buyer's agents these days are shut out of the process," Jasgur said. "With our systems, when the offer goes in they get immediate confirmation that their offer has been received and is in line for a decision. The buyer's agent stays engaged the whole time. They are updated in real time."

For instance, if the bank's response to an offer is delayed because they are waiting for a response from a mortgage insurance company, the buyer's agent will see that noted in the status report, he said. Real estate agents can access the system from computers or smart phones, he noted.

Jasgur said that VerifiedShortSale has helped lenders improve their sale prices, claiming that industrywide, lenders typically are obtaining an average of 85% of the asking price on short sales. Firms using VerifiedShortSale are averaging upwards of 95%, he said.

Joe Filoleta, CEO of DepotPoint, said the myriad of delays and confusions surrounding loan mod and short sale decisions has an obvious cause.

"The issue is purely coordination and transparency," Filoleta said. "At the end of the day, technology provides the platform for transparency and communication."

Technology tools are particularly important today because companies have been forced to hire staff inexperienced in default management to manage the high volume of foreclosures, often trying to turn loan origination staff into loss mitigation experts overnight, Filoleta said.

Technology tools that guide the workflow using a "manufacturing paradigm" help servicers better train their staff members to become competent in completing short sale and loan mod transactions, he said.

DepotPoint's platform, TrackPoint, also allows users to keep abreast of the new state and local laws and regulations that are being promulgated daily regarding foreclosed property and short sales.

To be successful, he said technology platforms must be able to incorporate risk management best practices into their workflow. And Web-based platforms like TrackPoint Short Sale create a level playing field that allows any real estate agent who wants to submit an offer to do so, so that the servicer is not at risk of never receiving the best offer.

In addition to TrackPoint Short Sale, Filoleta's firm offers AgentConnect, which allows real estate brokers who specialize in short sales or REO to register with the company. Participating agents are graded on their performance and timeline management, so that servicers can review their work. Servicers can use AgentConnect to select real estate agents to manage a short sale or REO transaction, not only by reviewing performance scores but by searching for local expertise.

He said DepotPoint's platform has been adapted to manage HAFA short sales and other, private investor sales as the number of short sale options have grown.

"The system will guide the asset manager through the process and tell them at any time which program they are in compliance with or not and what needs to be done to get back into compliance," he explained.

In terms of TrackPoint user requirements, Filoleta said all users need is a Java enabled Web-browser.

Going forward, he sees an opportunity to think about creating dynamic scripts within the workflow that incorporate information a credit counselor may have about late stage nonperforming loans. The enhanced scripts may incorporate more data about the borrower's income, for instance, including estimates about the sustainability of that income, which can be incorporated into a servicer's analysis. Projected changes in collateral values and marketing costs could be incorporated.

Filoleta believes the need for short sale and loan mod technology is only likely to grow given the continued high rate of foreclosure. "Certainly it seems that we have the same shadow inventory or even greater than what we had a year ago," he said. **MT**

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