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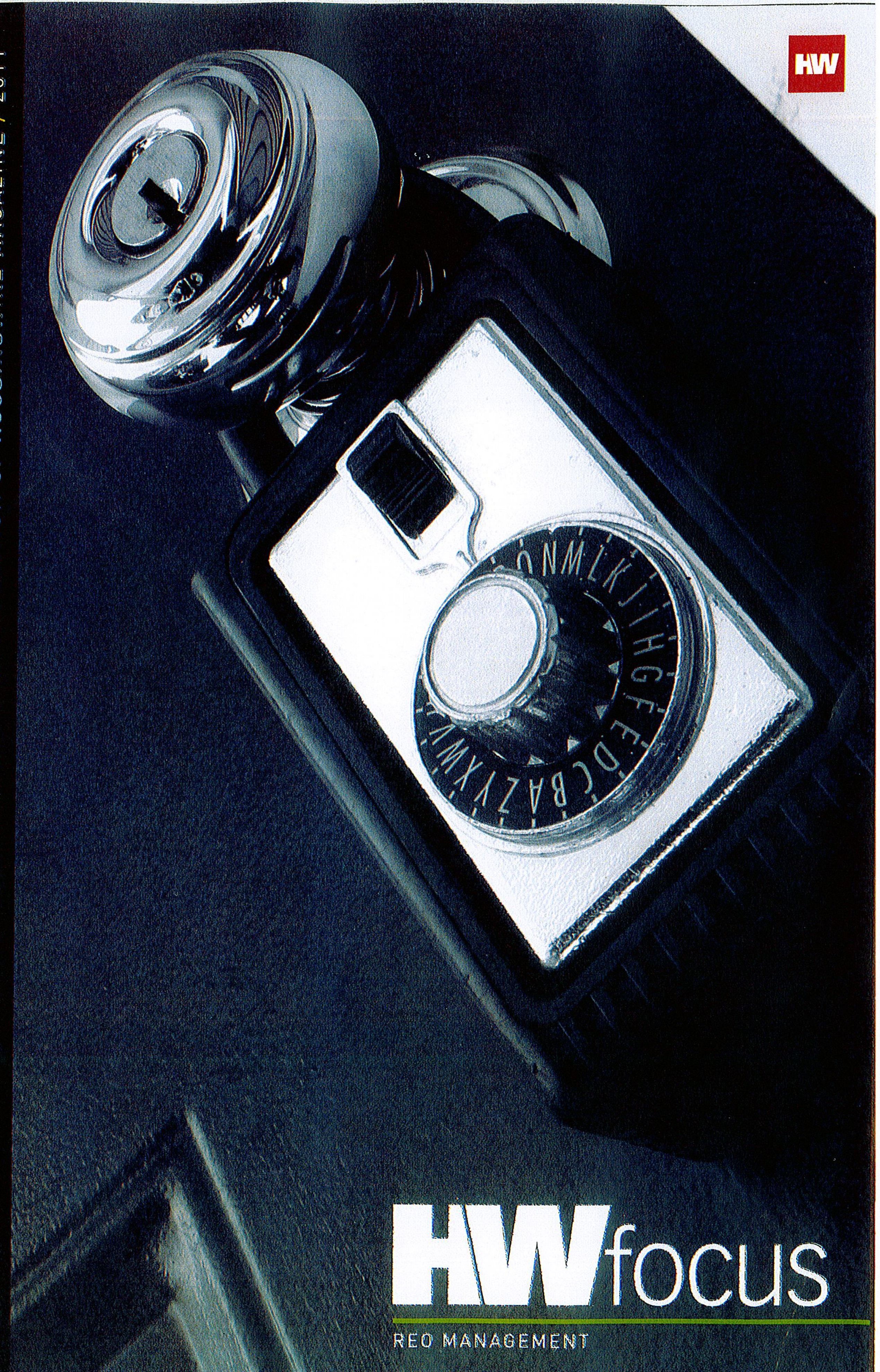
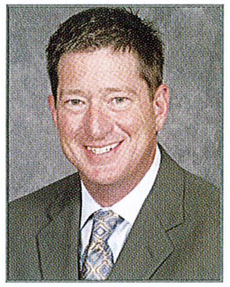


REO's new landscape

REO departments need a robust sales mindset

By Ronald Jasgur



When the current housing crisis reared its ugly head, the industry assumed it was a short-term problem and proceeded to ramp up toward the ability to manage the avalanche of foreclosed properties moving to REO.

At most companies, the same processes that were in place when REO numbers were in the dozens are effectively the same processes used today.

The only problem now is that they're applied toward managing hundreds or thousands of properties rather than a few, with a singular goal of tracking the life cycle of a property from default through disposition.

Default managers everywhere concentrated on how quickly properties could be moved from foreclosure to disposition, tracking how many properties were liquidated each month and what type of loss severity was ultimately realized.

When defaults represented 1% of originations, it was easy to "lend your way" out of a bad situation. More originations offset the low, but growing, default rate, and "the new normal" of liquidation allowed the industry to be content with routine tracking and reporting. Not anymore.

Most lenders rely on some pretty sophisticated technologies to track REO. They're terrific for managing assets, collecting documents and tasking the numerous vendors who are relied upon to move assets along a predetermined track.

But the systems and processes that are being used today to manage assets leave glaring holes — and missed opportunities.

As the nation comes to terms with the fact that the housing crisis is beyond our worst fears and is going to be an issue for the next 10 to 15 years, there are new problems that default managers must address.

REO DEPARTMENT AS SALES FORCE

At the MBA servicing conference this past February, many executives commented that there is much room for improvement in the way REO is handled. Not one of these individuals considers their REO department to be a sales force.

But they should.

Government oversight, institutional investors and industry policies are beginning to force attention on agent-buyer fraud, ambiguous and haphazard sales policies and vendor reviews. The successful companies in the new landscape will be those that look at their REO inventory as a product that needs to marketed, managed and sold rather than a byproduct of a failed origination.

REO inventory has long been the redheaded stepchild of the mortgage industry. Now that these properties represent at least 25% of today's sales, it's time to transition from an operationally centered process to a sales-driven approach. With a modest shift in perspective, banks and servicers can reinvigorate their default departments and prepare everyone involved for greater success.

Shifting from incremental improvements to a finely tuned sales machine requires not only identifying and reducing incidents of fraud and inefficiency but also creativity. Identifying ways to cross-sell within an organization, offering community incentives and capturing origination leads for in-house sales staff are ways that the industry can offset the original loss from a defaulted loan.

There is not a product known to man that sells itself. The very reason companies support a sales force is to gain the best execution through the broadest customer base possible.

If we really expect to resolve the REO crisis, we must stop managing the process and begin approaching this with a most robust sales approach that we can create. No company wants to manage their products; they want to SELL them.

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