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Default Process review for the
Federal Reserve Bank of Cleveland's Program:
"Getting Back in Gear"

March 11, 2014

We value:

- ❖ Customers
- ❖ Collateral
- ❖ Communities

We CARE about CUSTOMERS!



- Outreach attempts starting early in the delinquency
- More than 6 million outgoing calls / month on accounts in default.
- Letters
- Outreach events
- Door knockers
- Mediation



If outreach is successful....We have options!

Retention Options

- Refinance
- Modification
- Repayment Plan
- Forbearance – Stipulated Plan

Liquidation Options

- Short Sale
- Quit Claim Deed (QCD) aka Deed in Lieu (DIL)

We Care about the COLLATERAL!

Pre-foreclosure activities:

Property inspections, generally starting at 45 days past due;
-- repeated every 30 days – even if occupied.

Property Preservation on vacant and abandoned properties prior
to foreclosure / ownership:

- Security
- Winterization
- Lawn care
- Snow removal
- Hazardous waste removal
- Vacant property registration



Valuation / Decision to foreclose (or not)

To Foreclose or not to Foreclose:

Case by Case Decision

- Location / Condition
- Lien Position / Value / Equity
- Moratoriums (disaster or other situations)
- Time to foreclose
- Occupancy / Vacancy
- Investor / Insurer requirements
- Regulatory Requirements or Restrictions:
 - State
 - Federal
 - Local
- Bankruptcy status
- Loss Mitigation Status: Qualified package / repay / trial period
- Probate
- Military Indulgence
- Collectability / asset searches / title reports / capacity to repay
- Strategic Default
- Fraud
- Fair and Responsible Lending



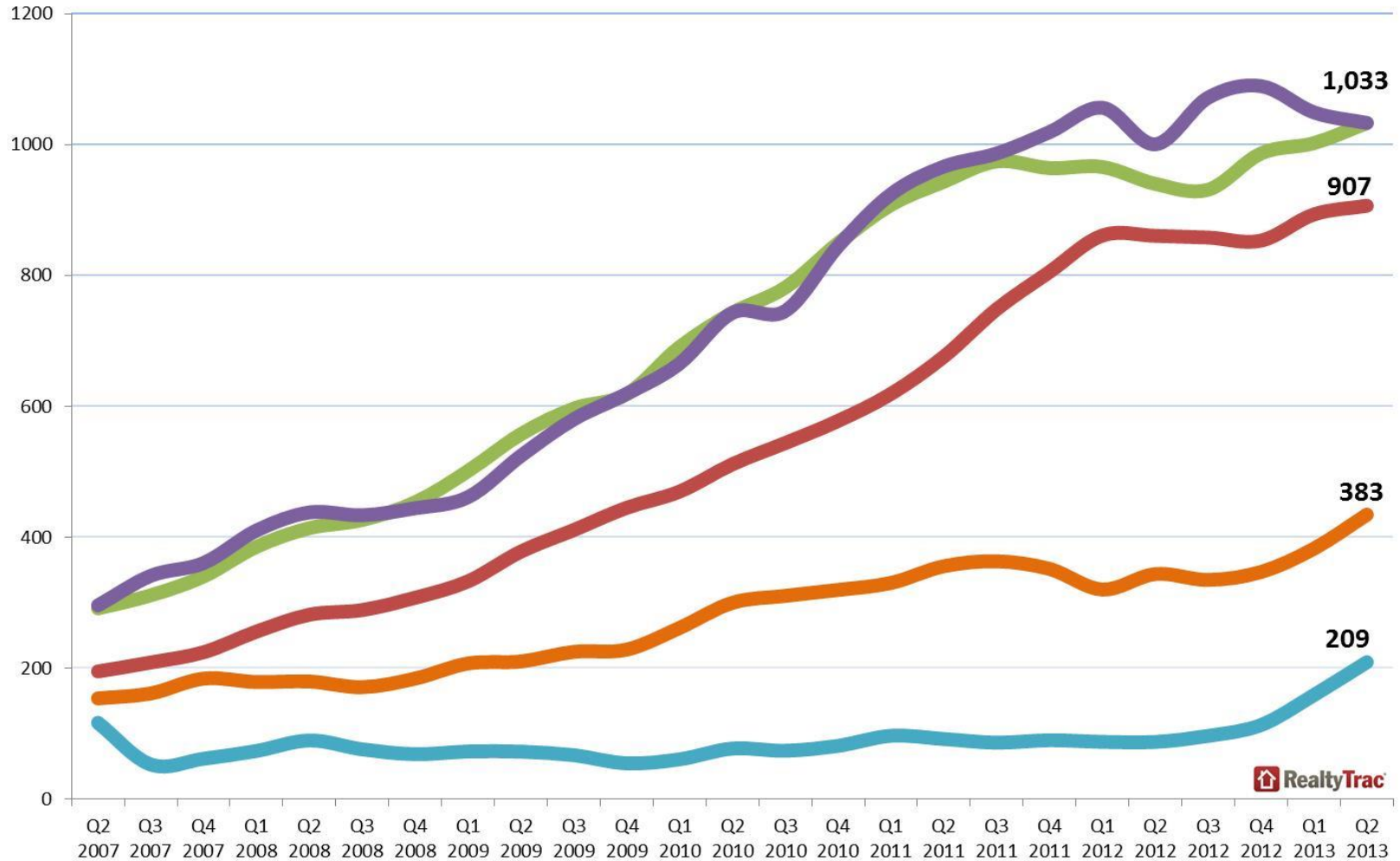
Administrative: Charge off

Regulatory Requirements – Based on default events and value

- Partial Write Down
- Full Charge Off / Write Down

Average Days to Foreclose

California Florida New Jersey New York Texas



Foreclosure Time Frames per the GSE's as of September 2013



State	Method of Foreclosure*	From LPI to Foreclosure Sale (# of Days)	State	Method of Foreclosure*	From LPI to Foreclosure Sale (# of Days)
Alabama	Non-Judicial	270	Nebraska	Non-Judicial	330
Alaska	Non-Judicial	300	Nevada	Non-Judicial	390
Arizona	Non-Judicial	300	New Hampshire	Non-Judicial	270
Arkansas	Non-Judicial	280	New Jersey	Judicial	750
California	Non-Judicial	300	New Mexico	Judicial	480
Colorado	Non-Judicial	330	New York City	Judicial	990
Connecticut	Judicial	690	New York	Judicial	820
Delaware	Judicial	480	North Carolina	Non-Judicial	300
District of Columbia	Non-Judicial	300	North Dakota	Judicial	405
Florida	Judicial	660	Ohio	Judicial	450
Georgia	Non-Judicial	270	Oklahoma	Judicial	420
Guam	Non-Judicial	500	Oregon	Non-Judicial**	330
Hawaii	Judicial	500	Pennsylvania	Judicial	480
Idaho	Non-Judicial	440	Puerto Rico	Judicial	720
Illinois	Judicial	480	Rhode Island	Non-Judicial	330
Indiana	Judicial	480	South Carolina	Judicial	420
Iowa	Judicial	480	South Dakota	Judicial	360
Kansas	Judicial	330	Tennessee	Non-Judicial	270
Kentucky	Judicial	420	Texas	Non-Judicial	270
Louisiana	Judicial	390	Utah	Non-Judicial	330
Maine	Judicial	570	Vermont	Judicial	510
Maryland	Non-Judicial	485	Virgin Islands	Judicial	510
Massachusetts	Non-Judicial	350	Virginia	Non-Judicial	270
Michigan	Non-Judicial	270	Washington	Non-Judicial	360
Minnesota	Non-Judicial	270	West Virginia	Non-Judicial	290
Mississippi	Non-Judicial	270	Wisconsin	Judicial	480
Missouri	Non-Judicial	270	Wyoming	Non-Judicial	270
Montana	Non-Judicial	360			

We Care About COMMUNITIES

Real Estate Owned - REO

Prelist

- Vacant property registration
- Redemption
- Eviction
- Property Preservation
- Valuations
- Prepare for Market

Market

- Protect and Maintain
- Repair
- List / Negotiate

Closing



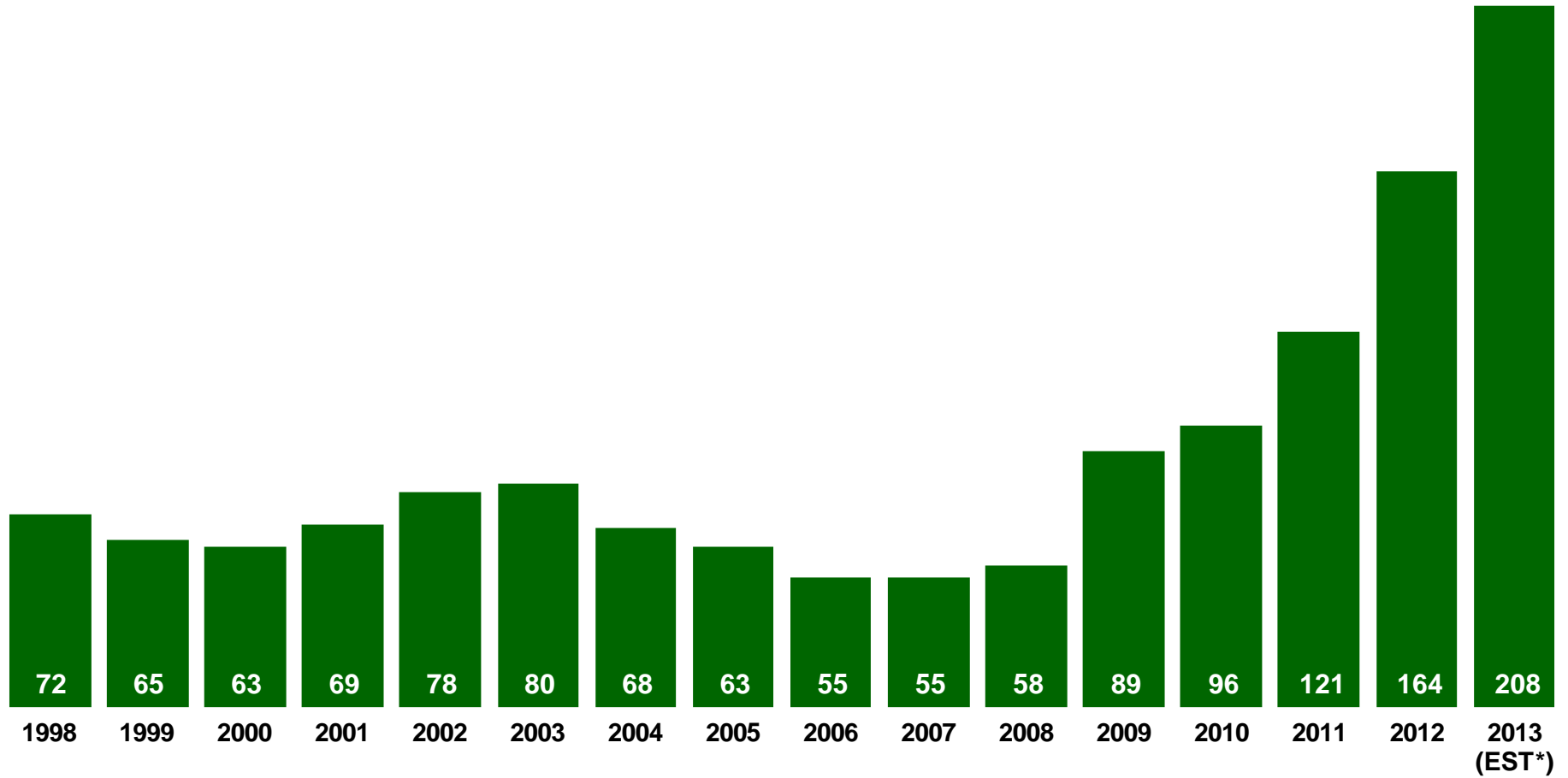
Challenges

- Changing market conditions / regulatory requirements
 - Ability to communicate with borrowers to assist in saving their homes
 - High cost of servicing – conducting business “as usual”
 - 1998 \$72 per loan
 - 2006 \$55 per loan
 - 2013 \$208 per loan (estimated)

**Source: MBA’s Servicing Operations Study 1998-2012

 - Defaulted loans even higher
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- Delays caused by bankruptcy, moratoriums, legal process, contested foreclosures
 - Investor and Insurer requirements
 - Non-linear processes which overlap (customer / collateral based activities)
 - Fraud
 - Dealing with Customer and dealing with properties

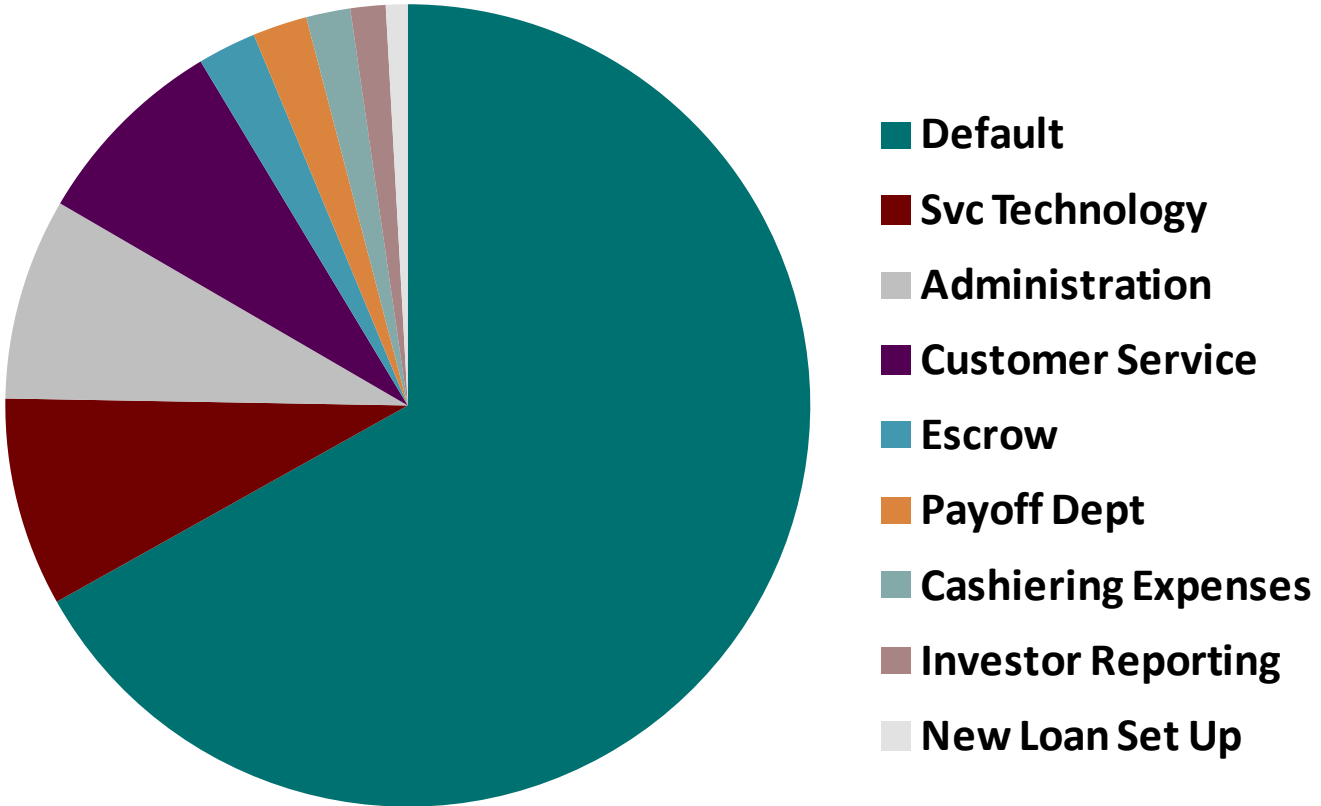
Direct Servicing Costs 1998-2013 (\$ per loan)



Source: MBA's Servicing Operations Study 1998-2012;

* Peer Group Program conducted by MBA and STRATMOR 1st Half 2013

Direct Costs and Breakout by Function in 1H2013



Source: Peer Group Program conducted by MBA and STRATMOR 1st Half 2013

Default Cost per Defaulted Loan (2010-2013)

	2010	2011	2012	2013 (EST*)
<u>\$ per Avg Defaulted Loan</u>				
Default	515	737	1,041	1,615
Unreimbursed FC/REO Losses	291	537	1,148	803
Total Default	806	1,274	2,190	2,418
<u># Defaulted Loans per Default FTE</u>	192	114	102	78

Source: MBA's Servicing Operations Study 1998-2012;

* Peer Group Program conducted by MBA and STRATMOR 1st Half 2013

New Job Titles in the World of Default: A Sample

- Single Point of Contact
- Senior escalations supervisor
- Document Indexer
- Dashboard developer
- Scripting designer
- Imager
- File auditor
- Audit and examination liaison
- Fact checkers, junior underwriters, senior underwriters, post underwriting auditor
- Fair lending specialist
- The Mortgage Banking Compensation Survey, conducted by McLagan, tracks over 230 positions in servicing alone.

Source: MBA's Servicing Operations Study 1998-2012;