Michele McCoy  
Director of Default & Special Servicing

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
Process / Timelines vary by state
<table>
<thead>
<tr>
<th>State</th>
<th>Method of Foreclosure*</th>
<th>From LPI to Foreclosure Sale (# of Days)</th>
<th>State</th>
<th>Method of Foreclosure*</th>
<th>From LPI to Foreclosure Sale (# of Days)</th>
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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

• 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)**

- **1998:** $72
- **1999:** $65
- **2000:** $63
- **2001:** $69
- **2002:** $78
- **2003:** $80
- **2004:** $68
- **2005:** $63
- **2006:** $55
- **2007:** $55
- **2008:** $58
- **2009:** $89
- **2010:** $96
- **2011:** $121
- **2012:** $164
- **2013 (EST*):** $208

*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)

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

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;