



Afraid to Call

Penny Paplanus, CMB, vice president of compliance for New Century Financial Corporation, Irvine, California, is pulling no punches. Servicers will face some real challenges in 2007 as delinquencies continue to climb. At the heart of the problem will be overstretched borrowers facing resets on their adjustable-rate mortgages, she warns. A speaker at the Mortgage Servicing and Default Management Conference in early December in Arlington, Virginia, sponsored by the New York-based American Conference Institute (ACI), Paplanus said the troubles will be exacerbated by consumers' reluctance to communicate with servicers.

"The biggest problem we really have as servicers [is that] borrowers don't call us [when there's a problem]. They avoid the lender. They tell their moms. They tell the guy down the street. They tell everybody that's moving, but they don't come and talk to us. We have multiple ways to assist them. But they're just afraid because the mortgage loan is the biggest thing in their lives—so they're afraid to call."

Along those lines, **Bruce Dorpalen**, national director of housing counseling in the Philadelphia office of Chicago-based ACORN Housing Corporation, suggests that mortgage servicers let his neighborhood organization be their partner. Also a speaker at the ACI Mortgage Servicing and Default Management Conference, Dorpalen called for "a system that allows housing counselors to call into servicers [and be] empowered to offer all necessary loss-mit methods to delinquent borrowers."

He said, "Counselors offer a sympathetic, informed ear." Without them, "customers feel totally disempowered; they have no idea what [servicers] are doing; they feel like they're giving up their future to some stranger." In defense of the industry, Dorpalen said, "they have gotten a lot better at hiring nicer people" who are responsible for doing loss mitigation and collections.

On another topic, "The potential of offshore [outsourcing] is too compelling to ignore," said **Catherine Brune**, senior vice president and chief information officer (CIO) for Allstate Insurance Co. Inc., Northbrook, Illinois, speaking at the 5th Annual BITS/*American Banker* Financial Services Outsourcing Conference in November in Orlando, Florida.

Brune reported that her company has employee and contract work sites in Ireland and India, and despite early reservations among company employees—some who felt sending work out of the country would hurt fellow American workers—Brune said, "Outsourcing/offshoring has created more jobs within Allstate and Illinois, and they've been higher-paying jobs and more exciting. But the road there is not smooth," she conceded.

"The reality is, if you do spend a lot of time talking to your people about the whys and the hows, once you get through that and once they see the power of what it means to them . . . it is amazing how much smoother this journey becomes." The insurance giant, with revenues of \$35 billion in 2005, has 6,000 information technology (IT) employees and enough stored data to fill 27 million hard-copy books, according to Brune.

One reason outsourcing took off is "because suddenly [it provided] this ability to get accountability," said **Rajeev Agarwal**, also a speaker at the Financial Services Outsourcing Conference in Orlando. Agarwal, senior vice president with State Street Group, Quincy, Massachusetts, said, "A majority of CIOs cannot explain what happens to the billions of dollars that are spent on IT systems."

Some 25 percent of State Street's operational expenses go to IT, according to Agarwal, who described such spending as a "monolithic" cost item on a majority of profit-and-loss statements (P&Ls). His criteria for selecting the right outsource supplier may surprise some, as Agarwal puts pricing "at the bottom of the list. At the top is domain knowledge," he declared, noting that while service providers "talk about financial services and talk about credit cards, ATMs [automated teller machines], mortgage processing or insurance, it's difficult for us to find the right domain knowledge."

According to **James Lockhart III**, director of the Office of Federal Housing Enterprise Oversight (OFHEO), the safety and soundness regulator overseeing Fannie Mae and Freddie Mac, the term "systemic risk" triggers an "emotional debate" with the two government-sponsored enterprises (GSEs), so lawmakers in Washington who are plotting new oversight rules for the GSEs prefer not to use it. However, Lockhart deliberately does refer to systemic risk when discussing the GSEs' debt load, because, he said, "If unexpected losses occur . . . the massive size of the [GSEs] could [produce] a very detrimental impact on the financial markets."

Although systemic risk may be part of the political debate, most experts are convinced there is little risk of it happening.

Speaking at SourceMedia's Secondary Market Conference in New York in December, Lockhart noted that federal legislation "will not mention systemic risk," which he defines as "the risk that a financial institution unexpectedly experiences . . . severe financial difficulty, and those difficulties disrupt the financial sector and cause a reduction in economic activity."

Lockhart said further that if OFHEO is granted new and greater oversight powers, it would "restore confidence in [Fannie and Freddie], and the markets will be very happy [knowing] that these two companies will not grow out of control again." He

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On the Road

repeated comparative statistics showing that the combined mortgage-backed securities (MBS) debt of the GSEs is \$4.3 trillion (\$5.2 trillion with Federal Home Loan Bank [FHLB] debt), greater than the total U.S. government publicly held debt of \$4.9 trillion. Without sufficient controlling legislation, the OFHEO director said, “the enterprises have a continued cloud over their head.” The GSEs, he concluded, “have just really grown too rapidly and too out of control.”

Who knows where fraud begins in the mortgage process? “If I’m an underwriter and I don’t pay attention to [disparities], and then fraud is found in that file, it’s fraud. But there’s also a pretty significant underwriting error that allowed that loan to get on the books,” noted **Cheryl Howe**,

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senior vice president of quality control for Aurora Loan Services LLC, Littleton, Colorado, speaking at SourceMedia’s Mortgage Fraud Conference in Las Vegas in mid-December.

Howe’s assessment connects to one made by **Marta McCall**, senior vice president of risk management with American Mortgage Network Inc., San Diego. McCall said, “Many people entered our industry in the last five years, and many of those people—the third-party originators—do not understand the complexities of some of the products we’re offering today.” Speaking at the Mortgage Fraud Conference, McCall said, “There are just too many product options out there. To expect our third-party originators to understand [all] those products is getting more difficult—not only to understand them, but to explain them, too.”

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