

**Mortgage Servicing:
Performance Trends and Operational Planning
Discussion**

**MBA 2007 Servicing Conference, San Diego, CA
Thursday, February 22, 2007 * 9:15 a.m. – 10:30 a.m.**

**Moderator:
Marina B. Walsh
Mortgage Bankers Association**

Moderator:

Marina Walsh, Sr. Director, Single Family Industry Benchmarking
MBA Research Department





Discussion Panelists:

Karen Griffis, Senior Vice President
Regions Mortgage

Deb Iglehart, Vice President
Nationwide Advantage Mortgage Company

Vera Porter-Andrews, Senior Vice President
Saxon Mortgage

- **The Big Picture – Servicing Performance Trends through 1st Half 2006**
- **MBA Delinquency and Foreclosure Trends through 3rd Quarter 2006**
- **Servicing Operations by Function: Prime and Subprime Highlights**
 - » Default
 - » Customer Service
 - » Processing Functions
 - » Servicing Systems
 - » Other Functions
- **Panel Discussion on Operational Planning**

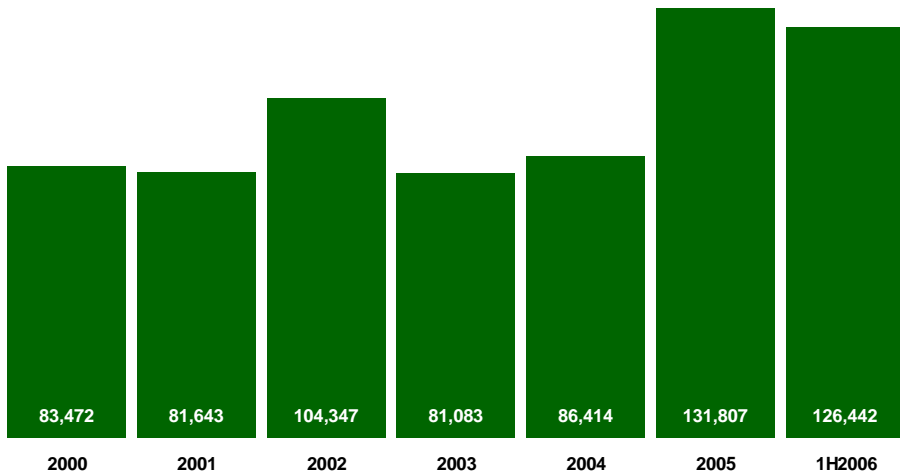


The Big Picture - Servicing Performance through 1st Half 2006

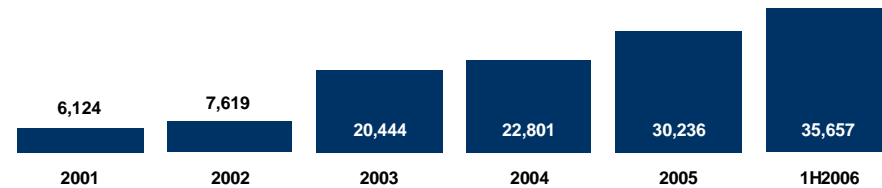
Avg. Firm Servicing Volume in \$Ms by Peer Group



Prime – Large Players



Subprime



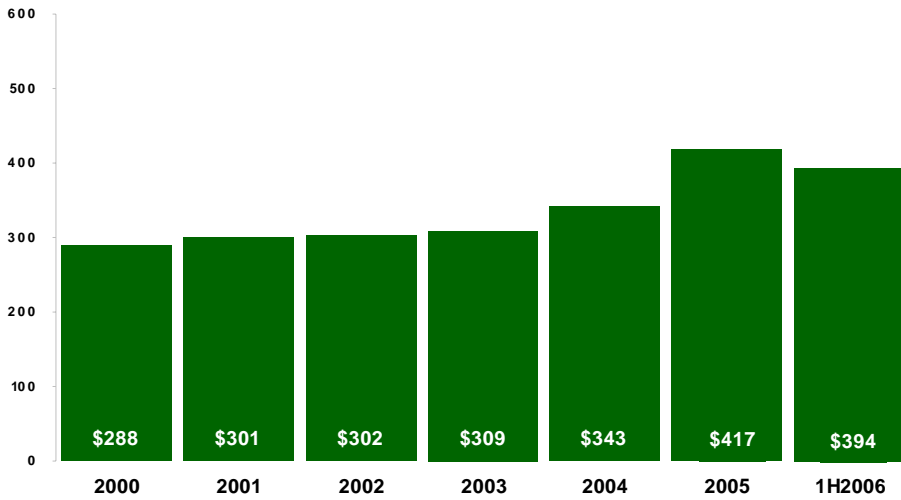
Source: MBA/STRATMOR Peer Group Survey

- Subprime loans represent about 13-14 percent of mortgage debt outstanding based on MBA estimates

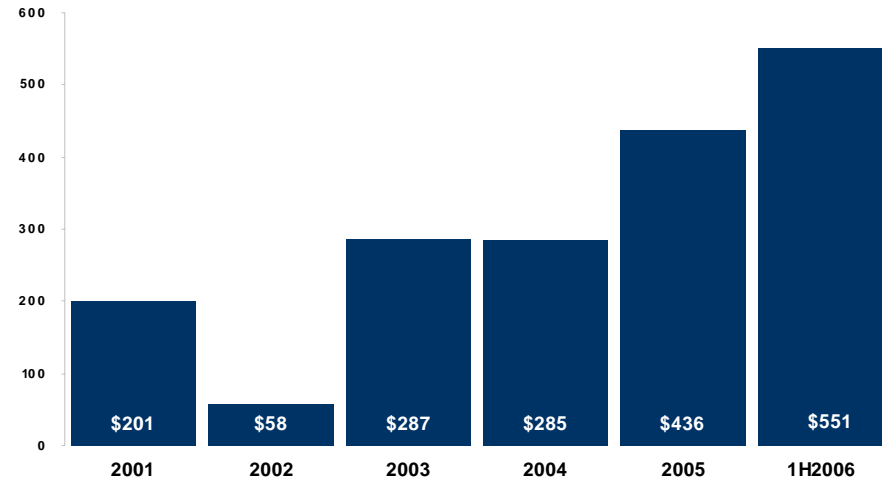
Servicing Net Operational Income (\$/loan) by Peer Group



Prime: Large Players

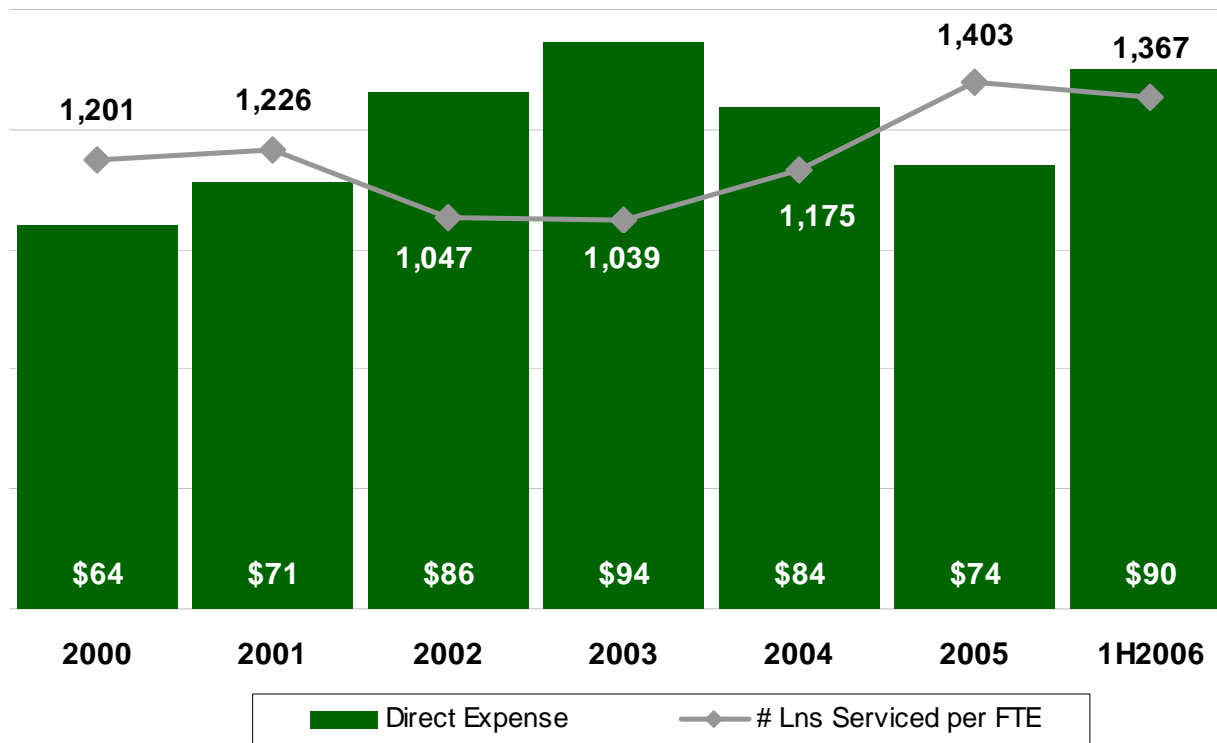


Subprime



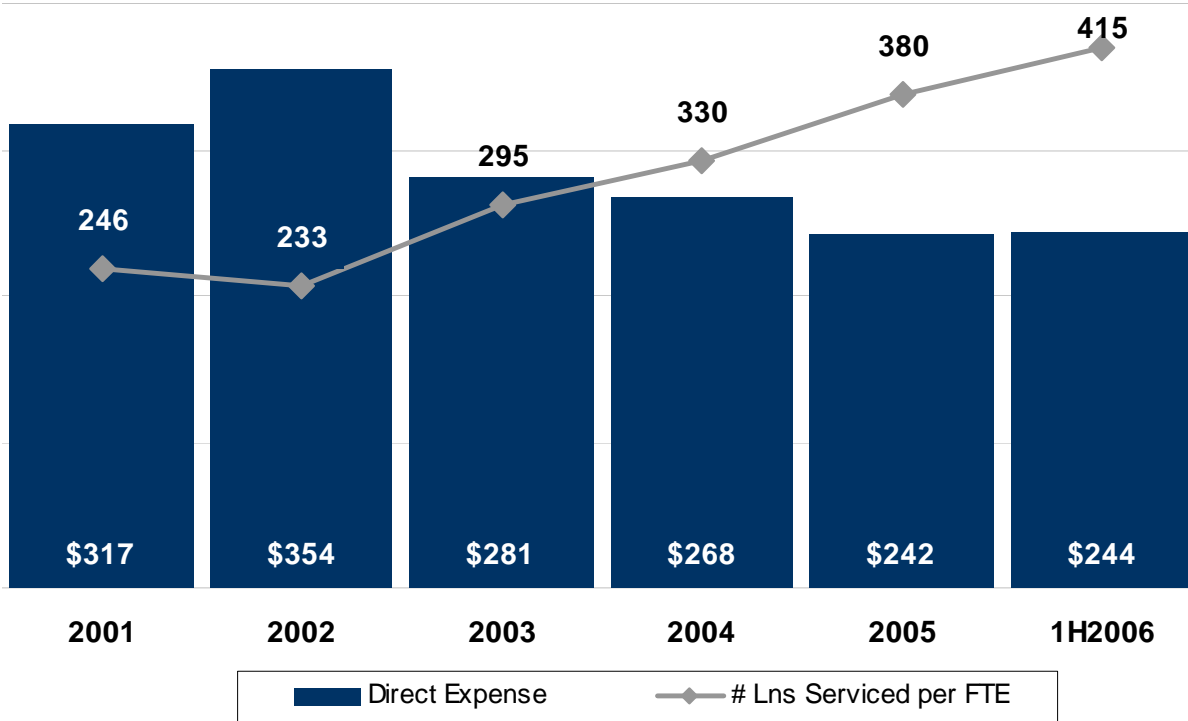
Source: MBA/STRATMOR Peer Group Survey

Servicing Direct Expense and Productivity – Prime



Source: MBA/STRATMOR Peer Group Survey

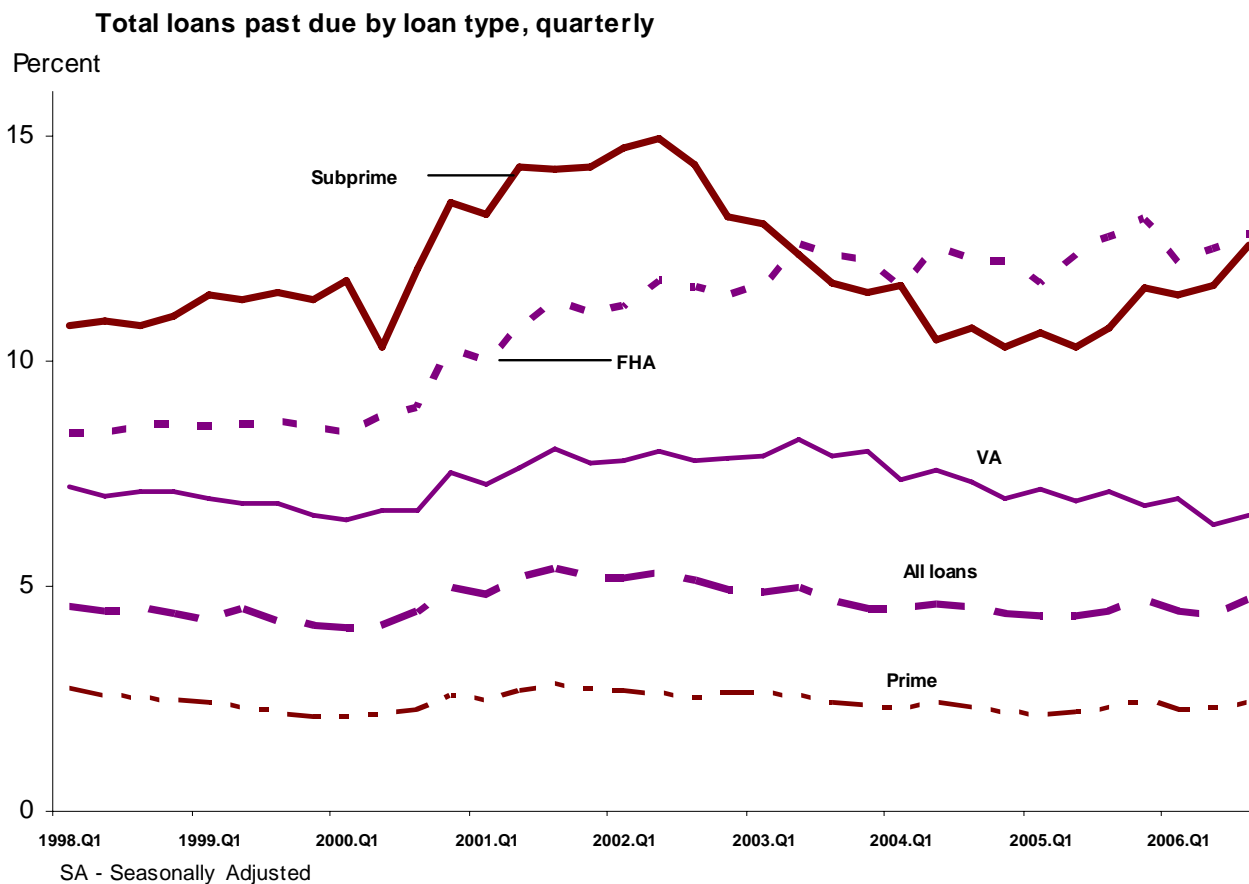
Servicing Direct Expense and Productivity – Subprime



Source: MBA/STRATMOR Peer Group Survey

MBA Delinquency and Foreclosure Trends through 3rd Quarter 2006

Total Loans Past Due by Loan Type

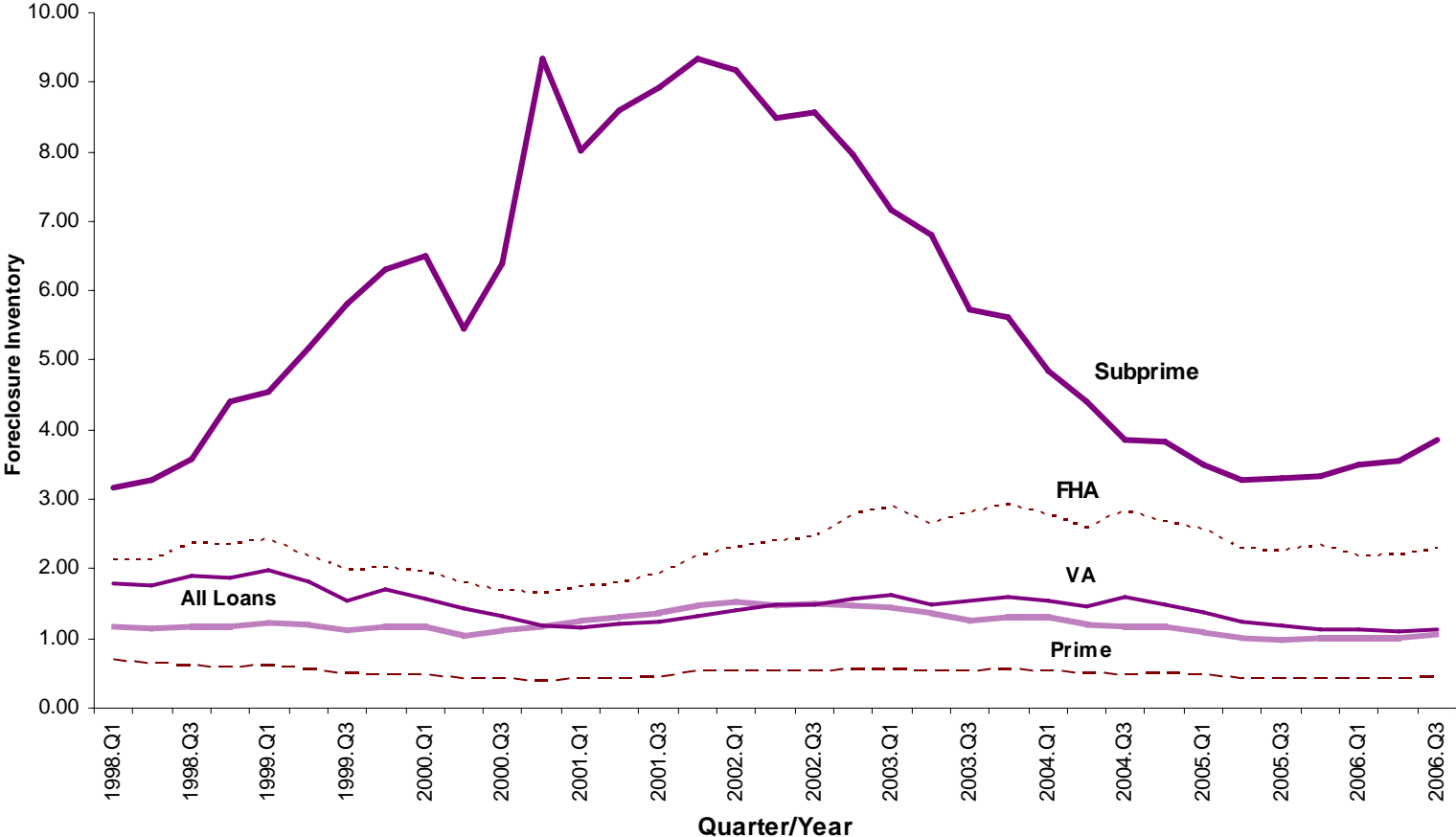


Source: MBA National Delinquency Survey

Foreclosure Inventory by Loan Type



Foreclosure Inventory by Loan Type, quarterly

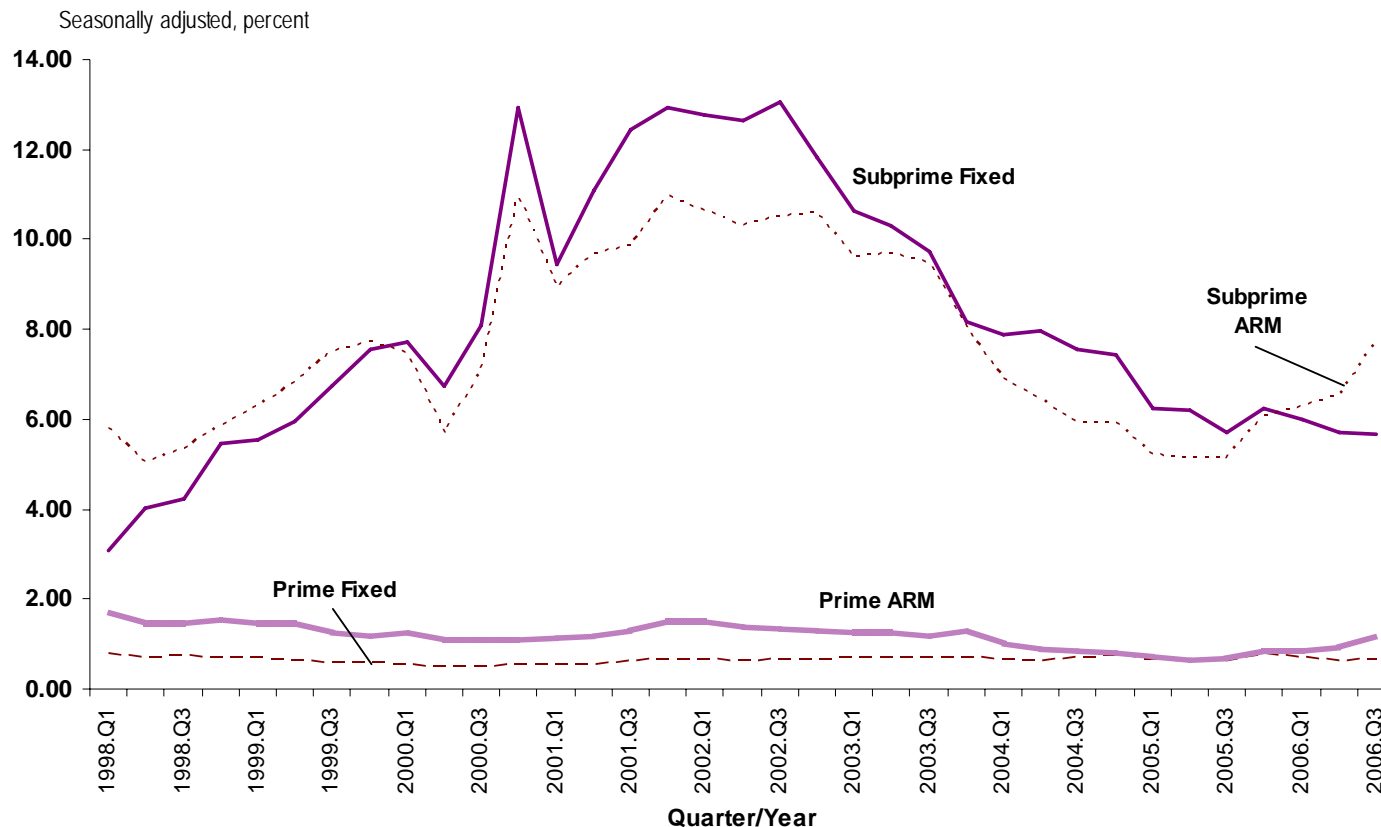


Source: MBA National Delinquency Survey

Seriously Delinquent Rate by Loan Type



Seriously Delinquent Rate for U.S. by Product Type, 1998 to Present



Source: MBA National Delinquency Survey

Mortgage Serious Delinquency Rates by Loan Type 2006 – Q3

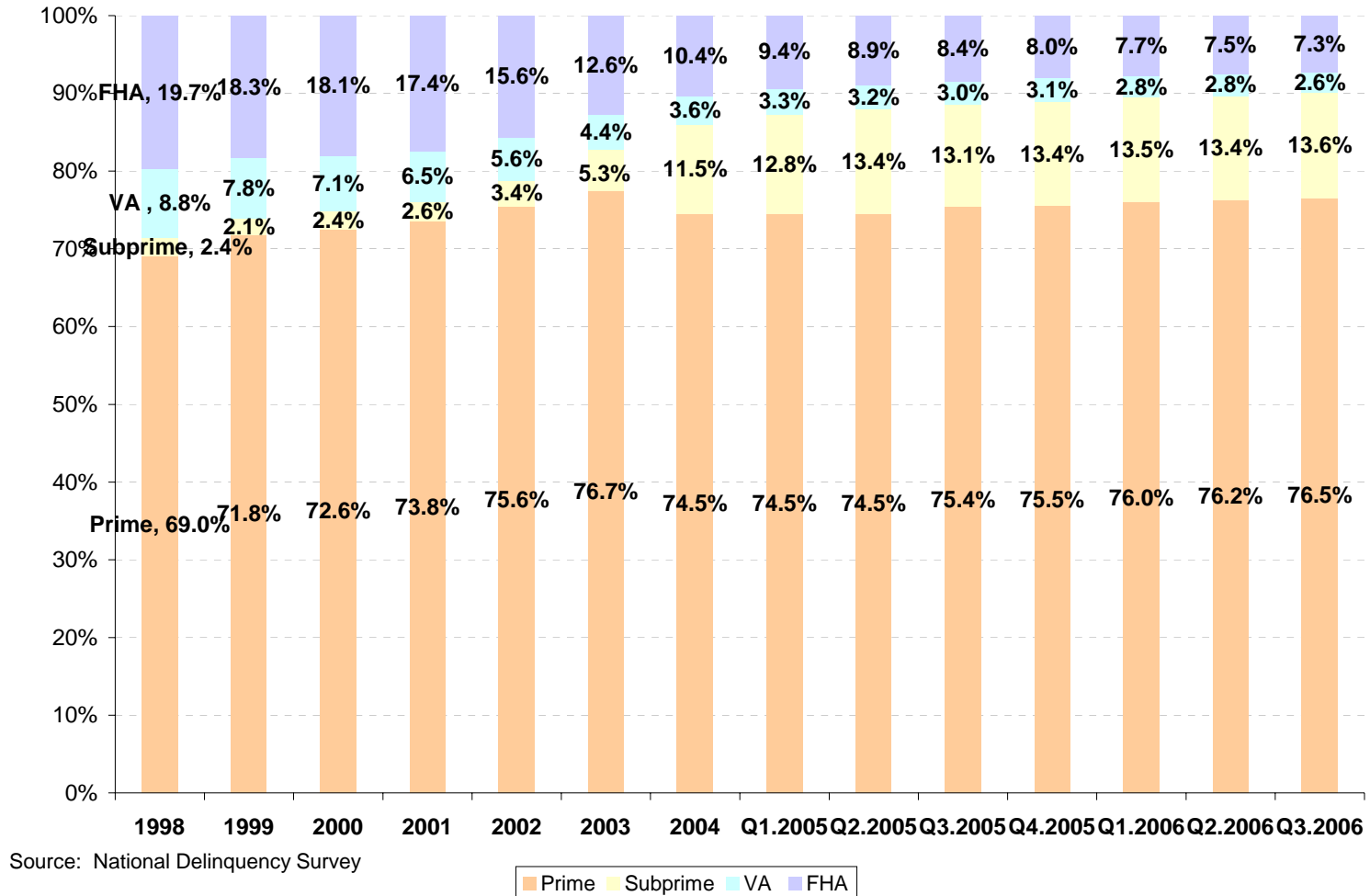


Subprime ARM		Subprime Fixed		Prime ARM		Prime Fixed	
<i>Highest Five:</i>							
Ohio	16.78	Ohio	13.44	Ohio	3.48	Ohio	1.87
Michigan	15.11	Indiana	10.50	Oklahoma	3.22	Indiana	1.74
Indiana	14.82	Michigan	9.90	Indiana	3.16	S. Carolina	1.25
Iowa	13.23	S. Carolina	9.34	Michigan	2.94	Michigan	1.17
W. Virginia	11.39	Pennsylvania	8.74	Iowa	2.52	Kentucky	1.16
US Total	7.72		5.65		1.14		0.65
California	3.99		1.76		0.56		0.13
<i>Lowest Five:</i>							
Virginia	3.76	Wyoming	1.87	Virginia	0.50	Montana	0.20
Nevada	3.58	California	1.76	Oregon	0.47	Arizona	0.17
Oregon	3.34	Arizona	1.58	Idaho	0.43	California	0.13
Hawaii	3.15	Hawaii	1.30	Hawaii	0.41	Hawaii	0.10
Arizona	2.02	Alaska	1.27	Arizona	0.34	N. Dakota	0.08

Serious Delinquent loans defined as 3 or more payments late plus loans in foreclosure
Excludes Louisiana and Mississippi

Source: MBA National Delinquency Survey

Share of Outstanding Loans by Type 1998 - 2006



Servicing Operations by Function

- **Drivers of Default Costs:**
 - » Portfolio Composition
 - » ARM vs. Fixed;
 - » Subprime vs. Prime;
 - » Average Borrower FICO;
 - » Loan Age
 - » The available loss mitigation strategies:
 - » Investor specifications
 - » Lender appetite/ability to repurchase loan
 - » Calls per collector (inbound and outbound)
 - » Default management systems used
 - » Success of payment plans
 - » Adherence to default procedures per servicer guidelines
 - » Timeliness in terms of default resolution
 - » State-by-state legal requirements
-

Default Function: Other “Indirect” Costs

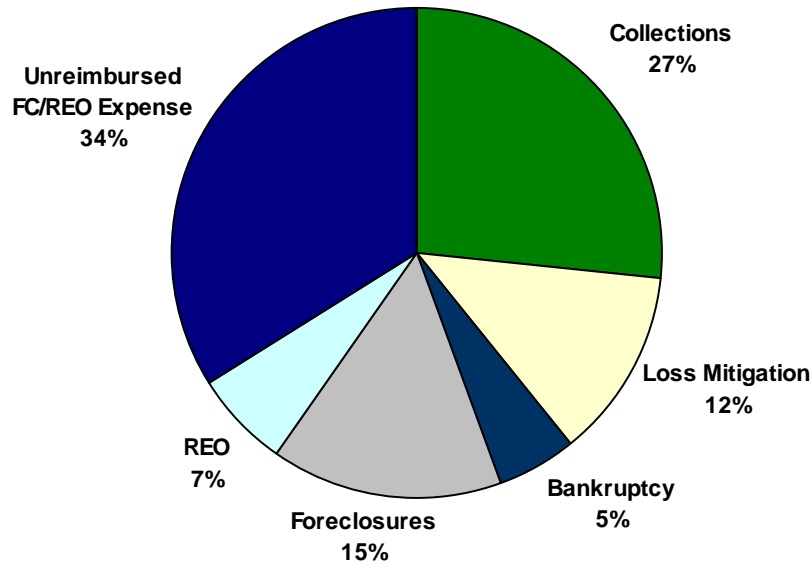


- » Loss of servicing income stream
- » Decrease in MSR value
- » Interest expense:
 - » Advances to security holders
 - » Advances to third parties for attorneys fees, property taxes, insurance, etc.
- » Unreimbursed costs after claims are filed with guarantors
- » Credit-related losses for portfolio servicer

Default Function: Personnel and Other Direct Costs

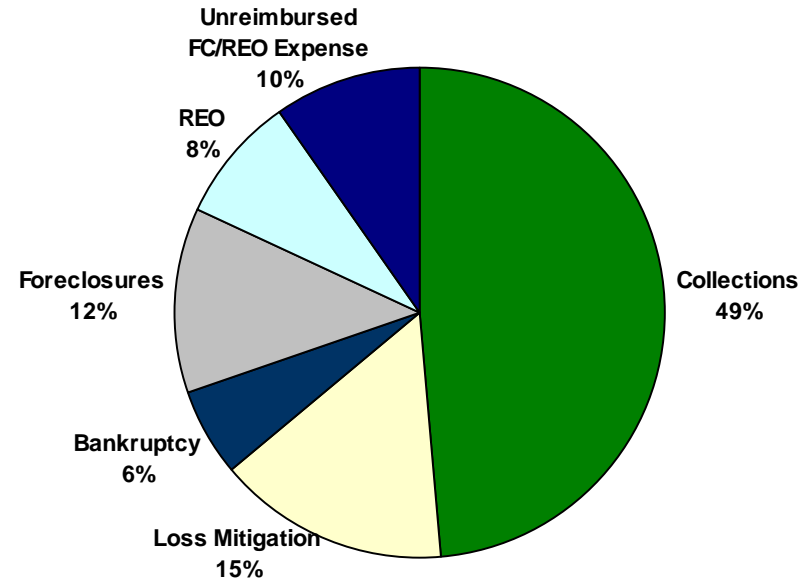


Prime



- \$19 per loan serviced
- \$466 per loan in default

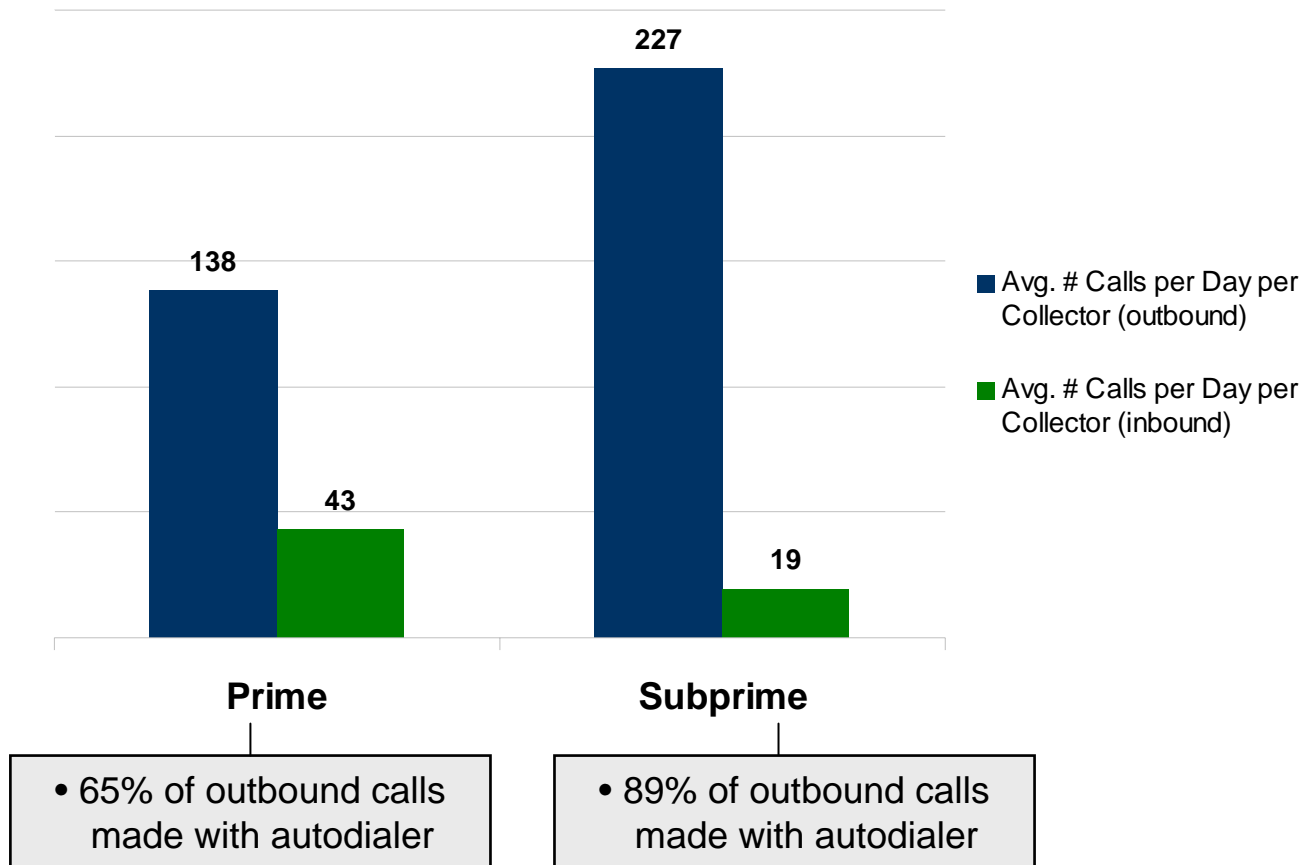
Subprime



- \$89 per loan serviced
- \$804 per loan in default

Source: MBA Servicing Operations Study and Forum, 2005 data

Default Function: Collections Calls per Collector



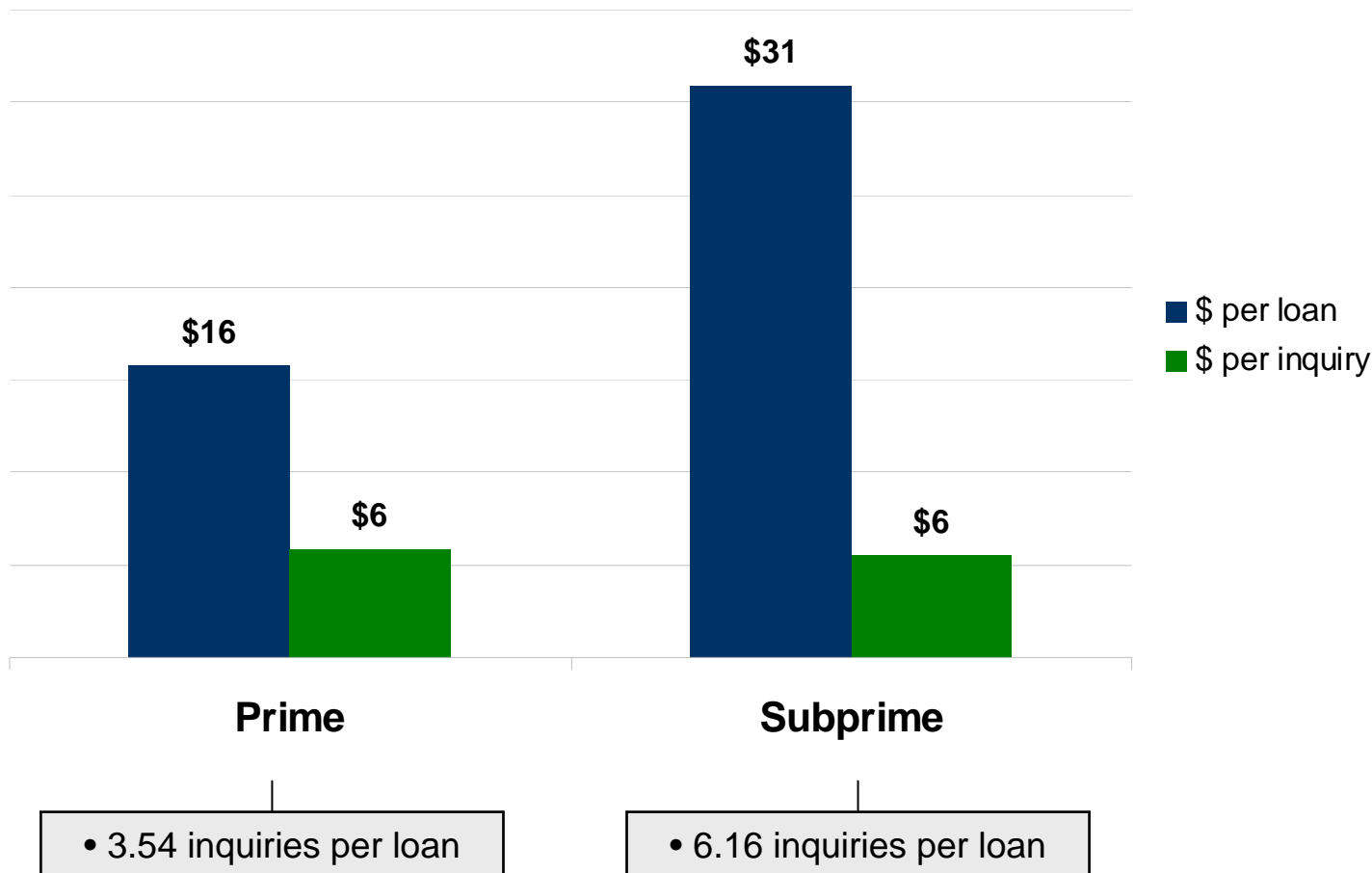
Source: MBA Servicing Operations Study and Forum, 2005 data

II. Customer Service Function



- » **Drivers of Customer Service Costs:**
 - » Portfolio characteristics:
 - » Churn factor (set-ups and payoff activity)
 - » Product type
 - » Inquiries per loan
 - » Types of inquiries (call center; web; written; email)
 - » Effectiveness of IVR system
 - » Call center handling and time required
 - » Use of automated response or “self-serve” response
 - » Billing methods and frequency
 - » Statement methods and frequency
 - » # of call centers and coverage
 - » Use of outsourcing vs. in-house
 - » Cross-sell / other product promotions

Customer Servicer Function: Personnel and Other Direct Costs (2005)

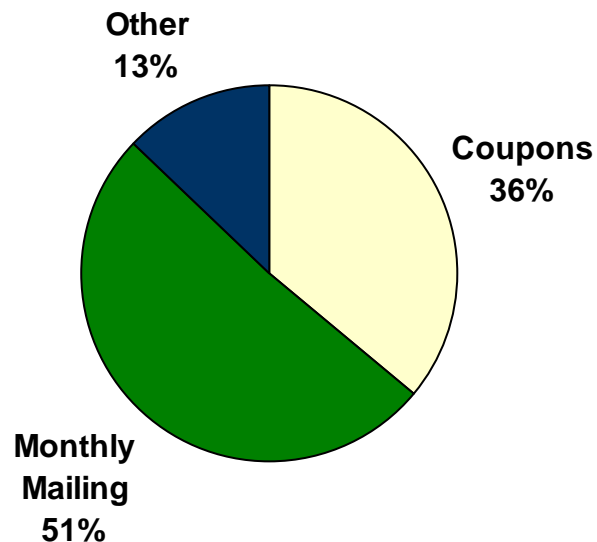


Source: MBA Servicing Operations Study and Forum, 2005 data

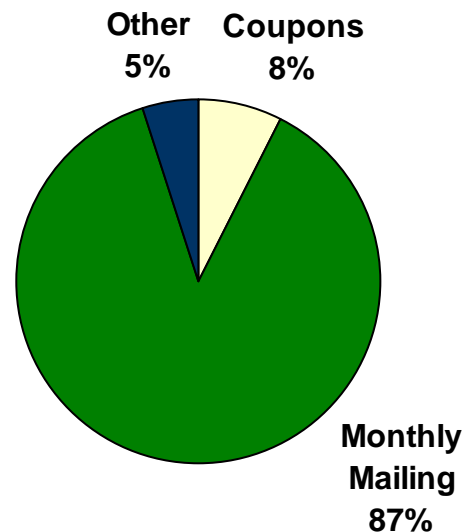
Customer Servicer Function: Billing Methods (2005)



Prime



Subprime



Source: MBA Servicing Operations Study and Forum, 2005 data

III. Processing-Intensive Functions



- **Processing-Intensive Functions Include:**
 - » Escrow
 - » Cashiering
 - » Payoffs
 - » Investor Reporting
- **Cost Drivers:**
 - » % of borrowers with escrow accounts
 - » Frequency and/or efficiency of escrow analysis
 - » Payment processing methods (lockbox vs. in-house vs. electronic)
 - » Borrower choice for remittance of payments
 - » Payoff release errors/penalties
 - » Servicer policies on payoff shortages
 - » Investor requirements
 - » Manual vs. automated investor reporting
 - » Use of outsourcing vs. in-house

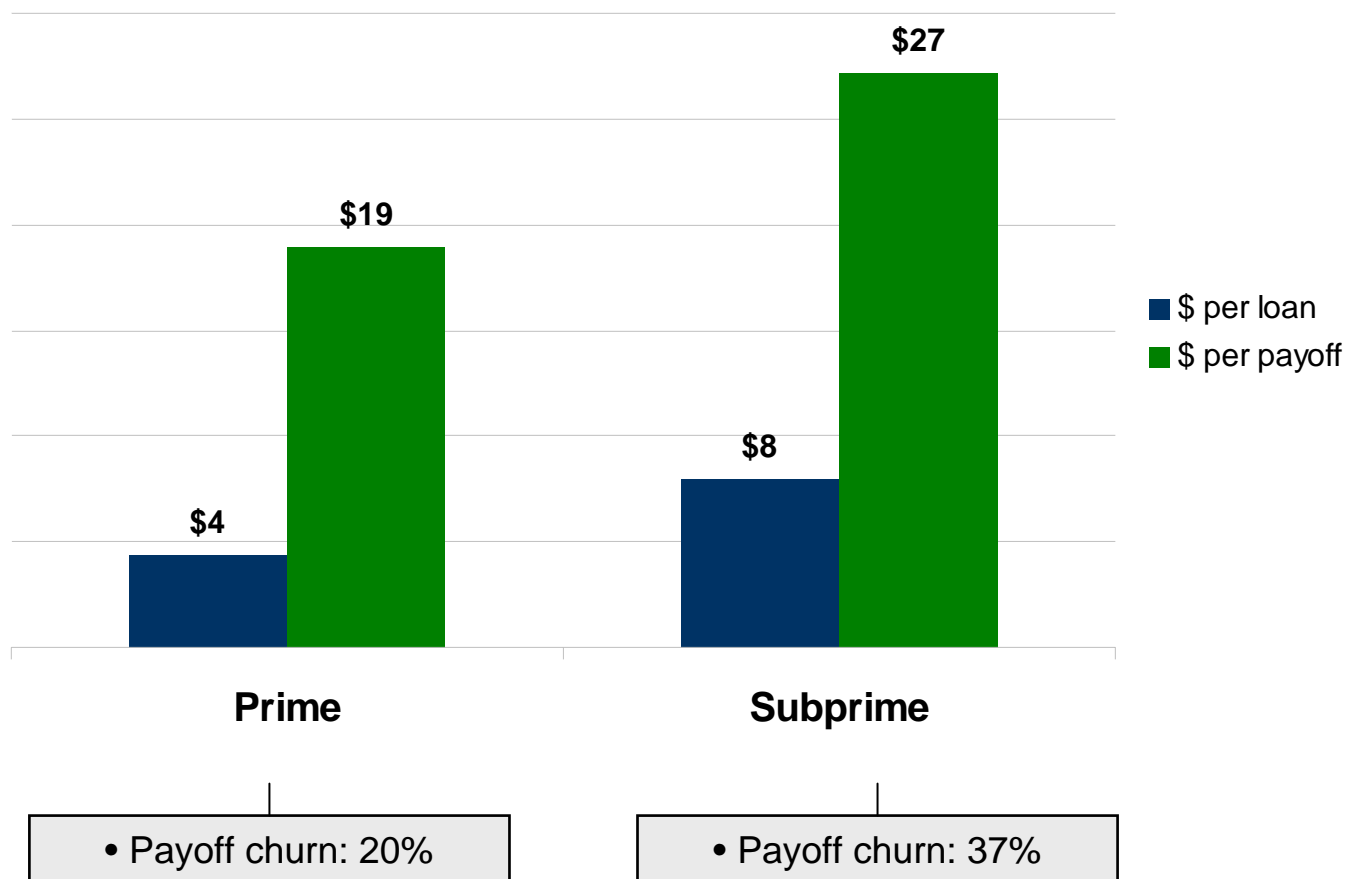
% of Companies Reporting Some or All Outsourcing:

	Prime	Subprime
Escrow	83%	100%
Cashiering	72%	82%
Payoff/Lien Release	50%	54%
Investor Reporting	0%	8%

- Despite outsourcing, prime average for processing functions was \$19 per loan vs. \$32 per loan for subprime.
- Economies of scale and degree of portfolio churn play bigger factors in cost equation.

Source: MBA Servicing Operations Study and Forum, 2005 data

Payoffs/Lien Release Function: Personnel and Other Costs

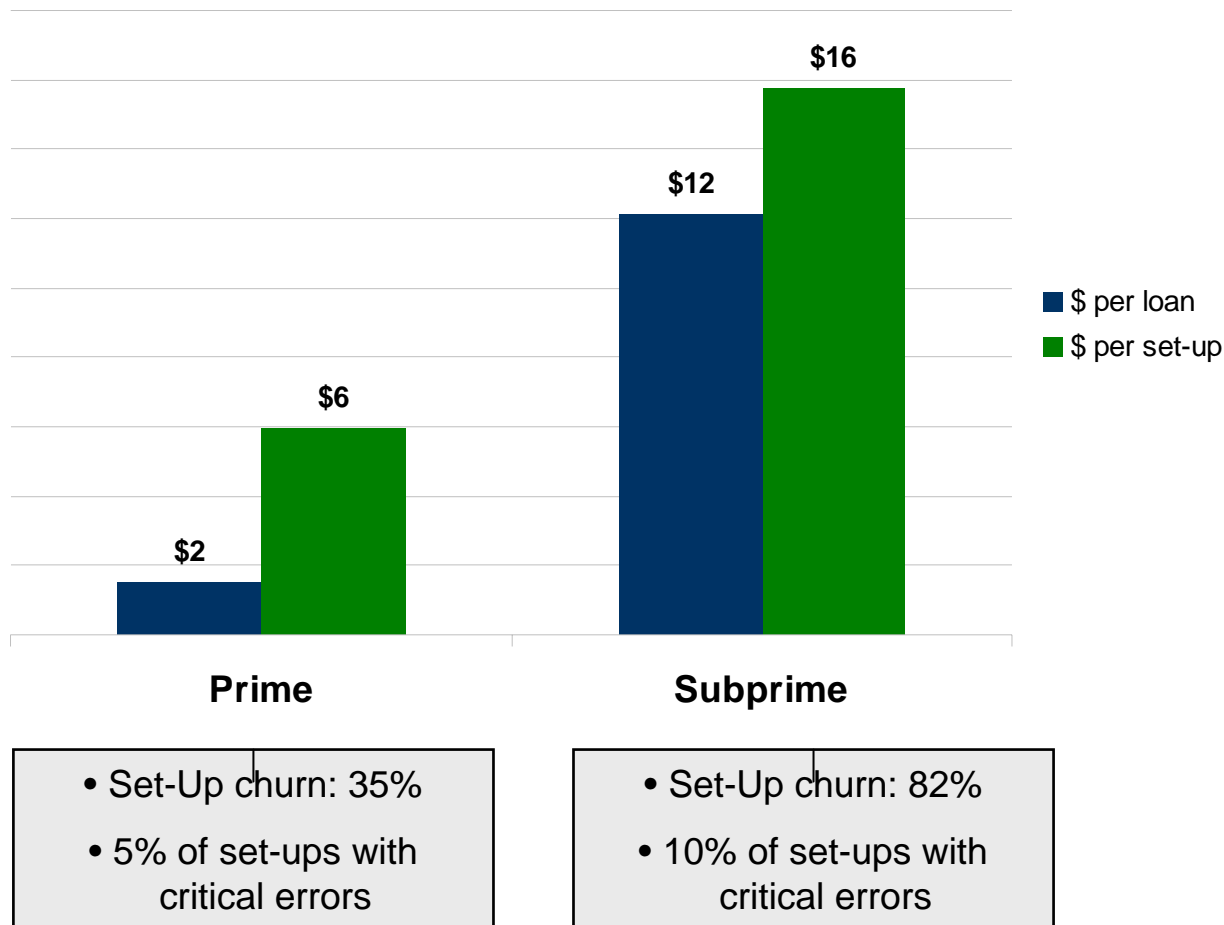


Source: MBA Servicing Operations Study and Forum, 2005 data

- **Servicing Systems Include:**
 - » Service Bureau costs
 - » In-house servicing system costs and depreciation
 - » Personnel time dedicated to the upkeep, maintenance and/or enhancement to servicing systems
 - » **Cuts across all functions of servicing and can be considered the “backbone” for a servicing operation**
- **Cost Drivers:**
 - » Capability and/or ease in incorporating new loan types and products
 - » Functionality and “fit” with management structure
 - » Degree of “customization” required
 - » # of servicing systems used
 - » Tech personnel (corporate vs. servicing-specific vs service bureau)
 - » Corporate structure of technology support
- **Food for Thought:**
 - » 75% of mortgage servicers in MBA servicing study relied on service bureaus in whole or part to perform their servicing functions

- **Other Functions Include:**
 - » New Loan Set-Up
 - » Records
 - » Servicing Admin and Management
 - » Other Functions
- **Cost Drivers:**
 - » Regulatory and compliance requirements
 - » Servicing churn and sources of loan originations
 - » Extent of imaging use vs. document storage
- **Prime vs. Subprime:**
 - » Historically, subprime costs in this bucket have been 3-4 times higher than prime costs. Why?

Loan Set-Up Function: Personnel and Other Costs



Source: MBA Servicing Operations Study and Forum, 2005 data

Panel Discussion

- MBA has collected performance data through the first half of 2006. Can you provide us with a “sneak peek” of your servicing operations bottom line, productivity and cost to service in 2006 compared to 2005?
- Describe what you view as the biggest operational challenge that your servicing department faced in 2006.
- What do you expect in 2007? What are some of the underlying budgetary assumptions you are using for the upcoming year ?
- As a way of managing costs, do you have best and worst case servicing management scenarios in place?
- If you intend to grow your servicing portfolio, what steps are you taking to achieve this?
- What is more important to your organization – Market share? Total customer relationship? Simply profitability of mortgage servicing operations? Company reputation?
- What is your servicing group doing differently now compared with five years ago? What do you intend to change in terms of servicing operations going forward ?
- What other risks and challenges are weighing heavily on you as a servicing manager? (plug for top 7 in '07...the following session)

MBA Study Contacts

Marina Walsh
Mortgage Bankers Association
(202) 557-2817
mwalsh@mortgagebankers.org

Stephanie Giannori
Mortgage Bankers Association
(202) 557-2879
sgiannori@mortgagebankers.org