

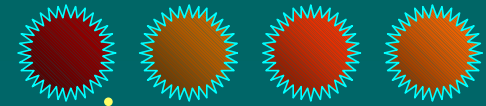
# *Outsourcing or Out of Our Minds?*

Alternative Servicing Models for  
Commercial Mortgage Loans

*Two Models of Outsourcing*



**Member**  
**Mortgage Bankers**  
**Association of America**



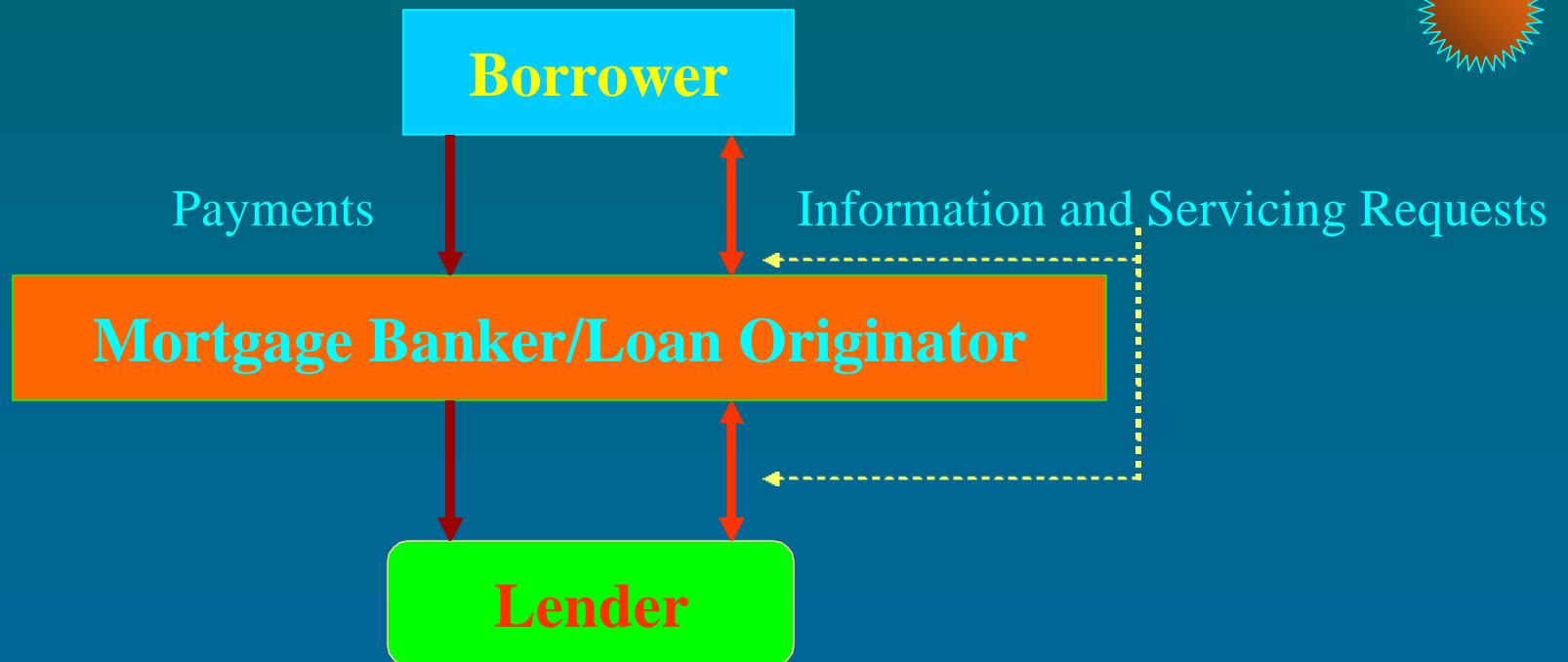
# Answer a Simple *and Burning* Question

- Can Mortgage Bankers and other loan originators play a meaningful role in servicing of commercial mortgage loans
  - **in face of:**
    - inclination of funding sources to centralize or simplify servicing
    - structures of securitization
  - How to answer: *describe, define and divine*
    - **describe the traditional servicing landscapes**
      - portfolio and securitized servicing
    - **define the terms:**
      - what we mean by Outsourcing
    - **divine the future:**
      - 2 models proposed for purpose of debate
      - from perspective of those with both portfolio and securitized servicing experience

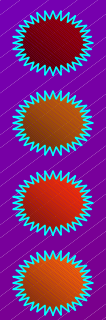
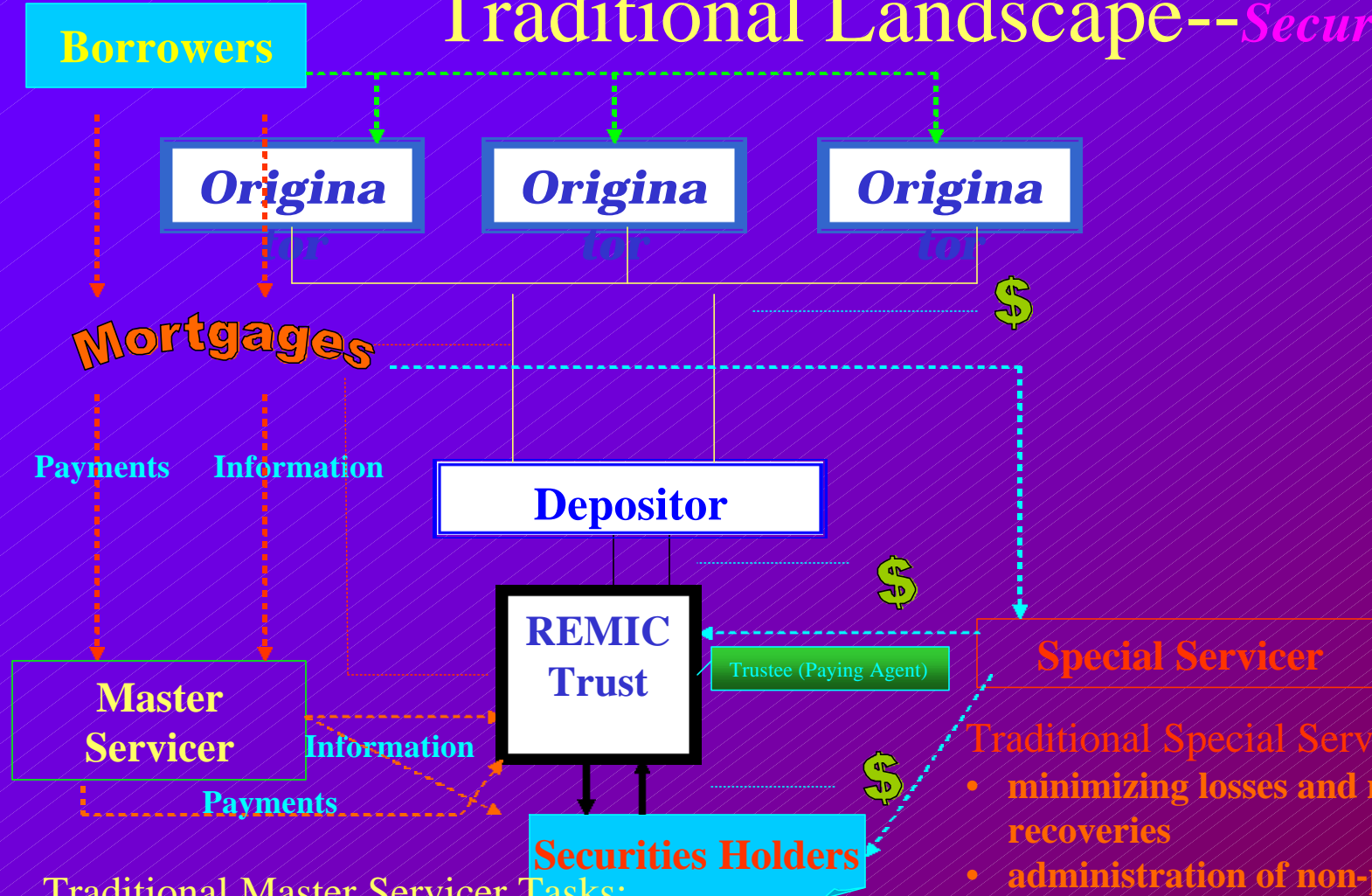
# Describing Traditional Landscape

Portfolio Lending

One Recognizable Model



# Traditional Landscape--*Securitization*



## Traditional Master Servicer Tasks:

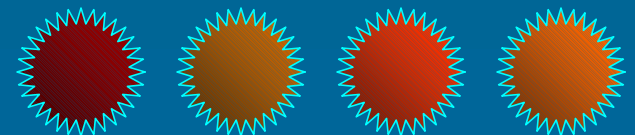
- collection of funds from borrower
- payment of funds to trust
- reporting
- administration of certain borrower requests on performing loans

## Traditional Special Servicer Tasks:

- minimizing losses and maximizing recoveries
- administration of non-performing loans
- modification of money terms of loans
- growing role in other key decisions

# Defining the Term:

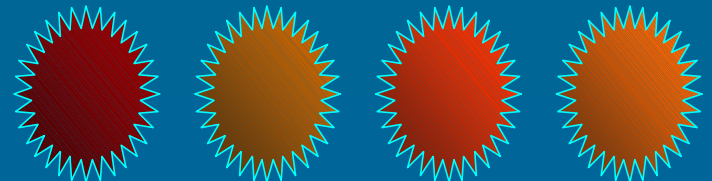
- **Outsourcing**
  - **Party responsible for servicing tasks retains another party to accomplish some or all of tasks**
    - Delegating Party
    - Appointed Party
- **Key Definitional Issue:**
  - **Who is delegating party; and**
  - **Who is appointed party**
- **Put another way: What role does Mortgage Banker play**
  - **Mortgage Banker as appointed party**
    - vendor, subservicer, primary servicer
  - **Mortgage Banker as delegating and participating party**
- **Recurring Theme and Question**
  - **What functions are delegated**
  - **To whom**



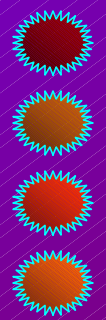
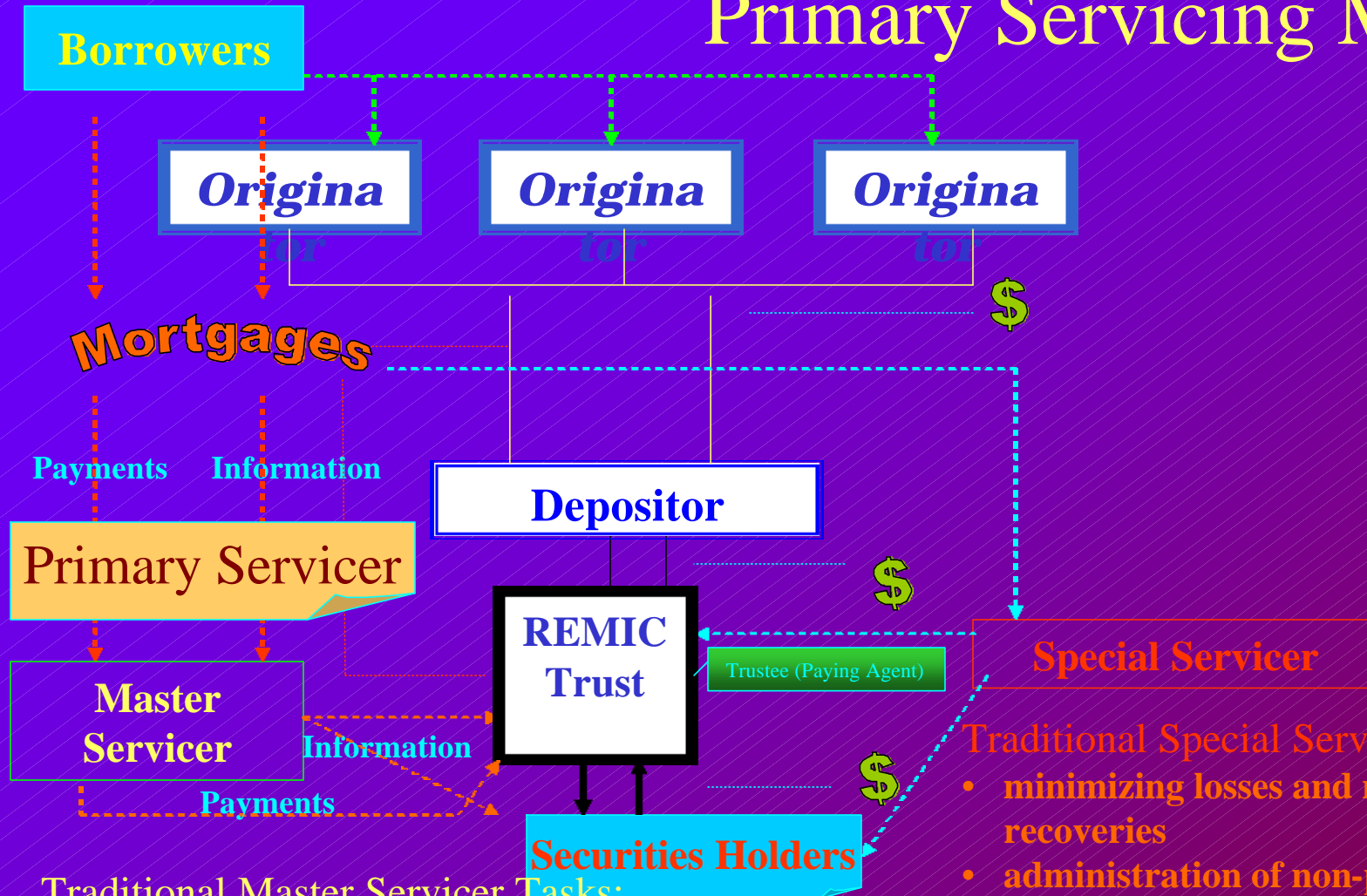
# Divining *and Debating* the Future

## 2 Models

- **Primary Servicing Model:**
  - **Mortgage Banker or loan originator as appointed party**
    - traditional role in portfolio lending
    - focus here on extension to securitized setting
- **Shared Servicing Model:**
  - **Mortgage Banker as delegating and participating party**
    - applicability to portfolio and securitized servicing



# Primary Servicing Model



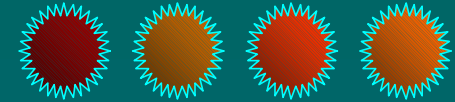
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# Primary Servicing Model



- **Responsibilities along spectrum from supporting to critical**
  - **Support: aid Master Servicer with support services:**
    - **Property inspections, collection of financial statements, compiling reporting information**
  - **Critical functions: assume certain tasks of Master Servicer for loans contributed to pool**
    - **Borrower requests, payment collections, escrow administration**
- **Responsibilities dependent upon:**
  - **Critical Mass**
    - **Size and reputation of organization**
    - **Size of contribution to pool**
  - **Knowledge of securitization structures and requirements**
  - **Legal and practical responsibility for decisions**

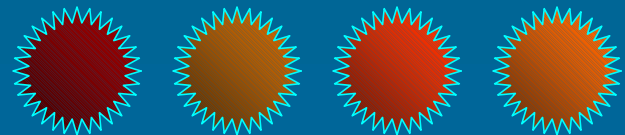
# Primary Servicing Model


- Advantages

- **Mortgage Bankers stay involved**
- **Fits within existing structure of securitization**
  - trustee and investors still look to master and special servicers
- **Flexible**
  - Sliding scale of responsibilities depending upon qualifications and ability of primary

- Concerns

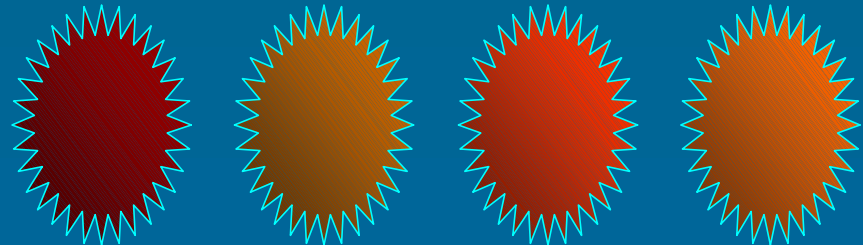
- **Potential for redundancies**
  - layers of approvals and fees
- **Possible inefficiencies**
  - need coordination among servicers
- **Rating Agency concerns about diffusion of responsibility and capability of servicers**



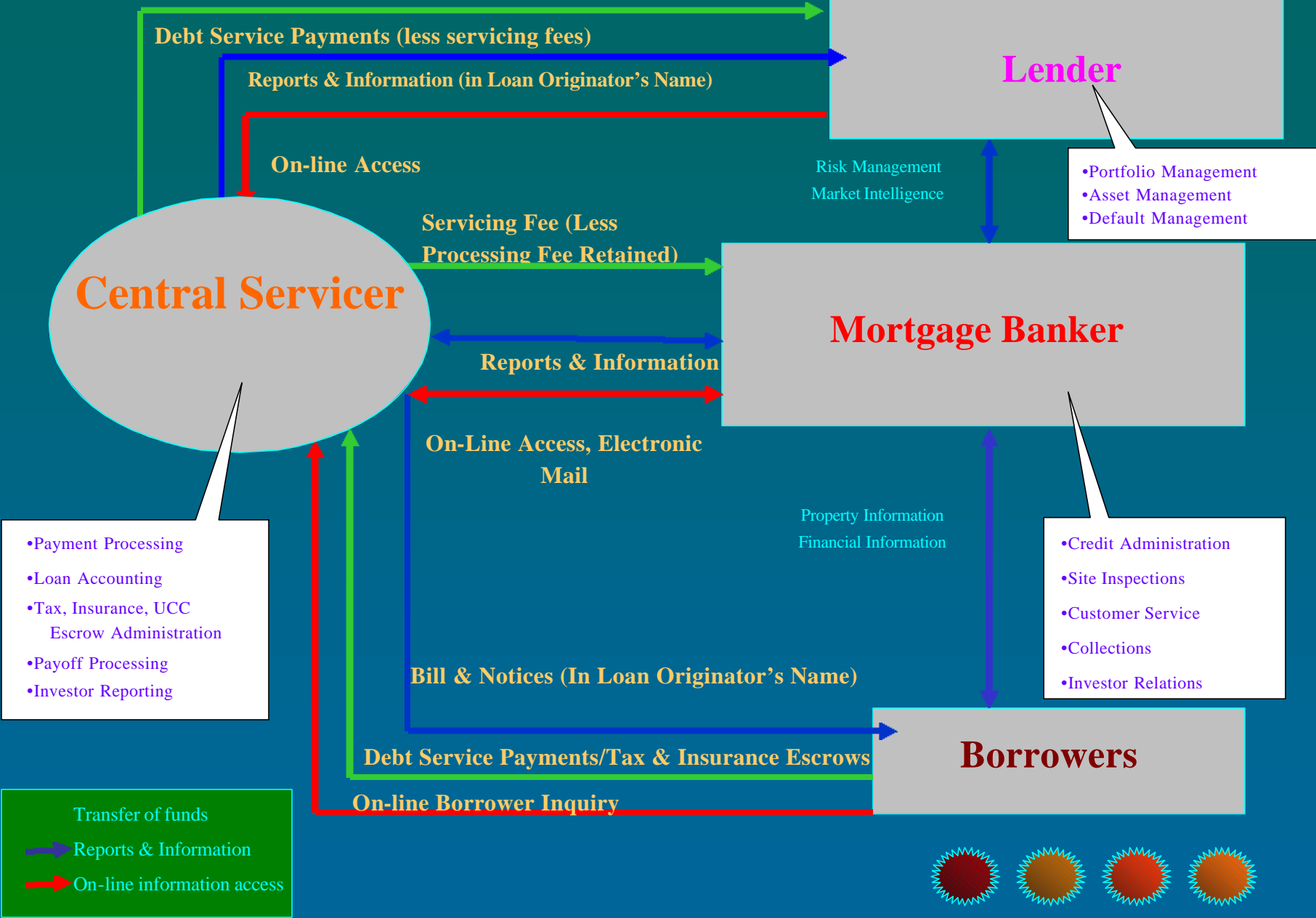


# Shared Servicing Model

- Lender and originator delegate critical servicing tasks to central servicer
- Central servicer acts as back office and centralizes:
  - payment collection
  - data collection
  - reporting
  - borrower requests
- Can be transparent to borrower
  - contact with borrower from servicer as if coming from lender or mortgage banker



# Shared Servicing Model



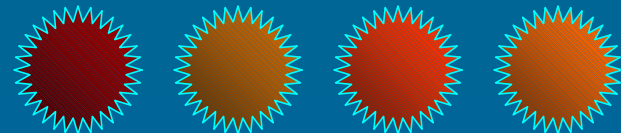
# Shared Servicing Model

- Advantages

- **Centralized collection and processing**
  - economies of scale
  - uniformity
  - consistency
- **Access to enhanced technology**
- **Greater availability of information**
- **Cost structure**
  - variable vs. fixed cost
- **Can be transparent to borrower**

- Concerns

- **Potential rigidity**
  - menu of offerings with deviation at a cost
  - discipline of scale
    - **bully factor**
- **Questionable solution in areas in which no economies of scale**
  - borrower requests
- **Rating Agency concerns about capability of central servicer**



# The Winning Model?

- One that is:
  - **cost effective**
  - **maintains confidence of the investor community**
  - **balances needs of lenders (issuers), trustees and servicers with those of borrowers**
    - Capitalizes on economies of scale and technology
    - But provides good customer service and response to borrowers in areas not as susceptible to improvements from scale and technology



