



THE TRUE VALUE OF SERVICING:

A Fair Portion or Leftovers?

In 1992 I was contacted by a large, nationwide FHA Title I (home improvement loan) lender in New York who was working on a securitization with one of the Wall Street firms, and he said to me, “We need a servicer for a securitization of about 5,000 Title I loans and we are willing to pay you 75 bps. We need an answer right away.”

I told him I would have to think about it because proper servicing of this product required 150 bps, to which he responded, “I need to clarify something. I am in a room with over 15 people who are signing documents as I speak and we cannot go any further without you accepting our offer. Oh, and 75 bps is all that is *left over*.”

All that is left over?

I foolishly said yes, and I am still servicing what was “left over” from that transaction to this day. I say foolishly, because the expectations were for Nordstrom level service at Dollar Store prices, and nobody in that room cared a bit because it was all about sealing the deal. This deal was made

with little or no thought to what would happen to that portfolio as it aged. This is not an article about securitizations nor is it about the economic valuation of mortgage servicing rights as one might have assumed when reading the title. It is about the very real and mostly intangible benefits that define quality servicing of reverse mortgage portfolios. (Note: For the purposes of this article, the word ‘servicer’ means subservicer as well.) In looking at the flip side of a quality well-run servicing operation, you will be able to determine rather easily what could happen to a portfolio if it was poorly managed by a servicer.

Valuation of a lender or investor’s servicing rights is directly linked to the *value the servicer brings to bear on the portfolio*. In fact, they fit together like the proverbial “hand in glove”. There are various economic valuation models that determine mortgage servicing rights (MSRs) and they are provided to those who engage in the practice of buying and selling them. To the best of my knowledge, none of these models take into any consideration the quality of servicing. Quality of servicing is all too often assumed - and we all know what happens when one assumes.

Let's now translate this lead-in to define quality reverse mortgage servicing. In the 24+ years in the business of servicing loans, *I have not experienced anything like this product*. On the forward side of loan servicing operational performance benchmarks revolve around delinquencies, defaults, cure rates, loss mitigation results, etc. Few of those come into play with reverse mortgages so the reverse industry had to develop a whole new set of benchmarks in determining what quality servicing actually means.

What do you think most people say when they hear about reverse mortgage servicing? Their assumptions sound something like this: "You guys have it made! All you do is keep track of accounts and disburse money when the borrowers want it, right?"

Nothing could be further from the truth.

Much is written about the origination process of reverse mortgages, and appropriately so. Counselors, loan officers, processors, underwriters, and closing/title agents are the first point of contact for the borrower. These first points of industry contact form and frame the reverse mortgage experience for every borrower. Therefore, it is the responsibility of these individuals to ensure that everything is timely and properly executed, and that everyone is working hard to ensure the borrowers have a pleasant and informed experience.

At present time, there is much scrutiny around and about this front-end process from both state and federal levels, and this is appropriate too. Those individuals involved in the origination process work directly with the borrowers, the family members, friends, and trusted advisers. Additionally, these same individuals will reap the first and largest portion of the revenue from the reverse loan product.

Let's now move forward in the typical life cycle of the reverse mortgage as it is passed to the servicer. The application to closing process of a reverse mortgage generally takes 30-60 days, though from time-to-time it may take longer. When the servicer receives a loan after closing, it is being entrusted with an investor's valuable asset that will be in its possession an average of seven (7) years. While there are multiple "touch-points" that frontline industry professionals will have with borrowers in the origination process, they number far less, and pale in comparison, to the touch-points a servicer will have with the borrower over the life of the loan.

These touch points begin with the servicer's initial contact with the new borrower. On forward loans the first call to the new borrower may be as brief as 45-60 seconds. Not on the reverse side! In the reverse world, that first borrower call averages 4-5 minutes and it is not uncommon for these calls to go on for 20+ minutes. The average senior borrower requires more explanation, more patience, and those of us who service this product understand and accept this responsibility willingly.

Every month, shortly after statements are mailed, the incoming calls are simply off the charts. The senior borrower is much more attentive to detail and they will ask about anything they do not understand, and at length. Servicers have to explain the servicing fee set-aside every month, month-after-month, and often to the same borrowers. (On a related, but separate note: Who was it that first thought a servicing fee set-aside was a good idea? Can we talk?)

As we continue working through the life cycle of a reverse mortgage, there are additional touch-points between the servicer and borrower. After the first year of the loan, the borrower will be required to certify residency. This may seem like a simple process: mail a letter out and get a signed certification back. Our experience demonstrates that certifying residency can be anything but simple at times. Some borrowers perceive the contact as an intrusion; >>

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Stricter RESPA rules, lower principal limits, a more complex FM1009 and other changes pose a serious challenge to our industry. Lenders will take on additional responsibilities and need to be meticulous while working with brokers. Brokers will lose all or most of the YSP and any mistake made in the GFE could cut into their origination fee as well.

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some react in a downright hostile manner; and some (every year) question the validity of our request. Each of these exceptions consume considerable amounts of time: explaining the reason behind the request; reminding them of the fact that they agreed to this during the closing process; and reiterating that it is required for HUD insurance to remain in place.

If the borrower has required repairs from closing, there is a significant amount of time spent educating the borrower on the process and their obligations under the Repair Rider. Frequent phone calls and letters are generated back and forth between the borrower, the contractor, and HUD-certified inspectors – all in an effort to assist the borrower in completing their repairs while, at the same time, trying to protect the borrower from unscrupulous home improvement contractors. It is not uncommon to find a remodeling company attempt to talk the borrower into additional (and possibly unneeded) repairs, nor is it uncommon for a repair invoice to come in higher than the quoted bid. In each of these situations, the

reverse servicer is responsible for working with the contractor along with the borrower, to resolve these issues amicably.

When the borrower has no money for taxes and insurance, a servicer is faced with a very complex and delicate situation. Some borrowers have family members who can help them and some have financial reserves outside of their reverse mortgage. Unfortunately there will be approximately 2-3% of any reverse servicing portfolio that represents borrowers who have little or no additional resources. They may have only social security income to live on and their reverse mortgage has been fully drawn and spent. Regardless of how you feel about these situations (i.e., foreclose or ride it out), servicers must work diligently with these borrowers to resolve the defaults. Throughout the process, a servicer must respect the borrowers' dignity, and there is nothing easy about coming to resolution in these cases.





The death of a borrower or his/her spouse is, without a doubt, the most difficult and traumatic situation a servicer has to deal with on a daily basis. Servicers will be working with grieving family members who run the gamut of needing gentle but guiding “hand-holding”, advising them of their responsibilities regarding the loan, all the way to working alongside them for the next year to properly dispose of the property if the last surviving borrower has passed away. Servicing staff who manage this process require the patience of a saint, the calm presence of a Tibetan monk, and the sensitivity and compassion of a funeral director.

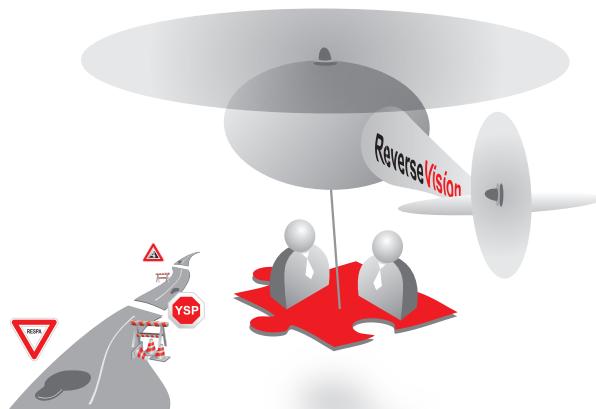
From the investor’s standpoint, servicers appreciate the need for return on investment, just as we understand the need for multiple investors in the reverse mortgage space. The difficulty, as we see it, is a potential new investor’s lack of understanding around servicing the unique needs and demographics of reverse mortgage borrowers. Investors must come to the deeper understanding that putting together a reverse mortgage securitization is far more than the structure of the transaction. In other words, it is not simply determining “who gets what” - with the servicer getting whatever is “left over.”

It is tempting to commoditize the reverse mortgage servicing process and the loans without understanding the very “high touch” aspects of the reverse mortgage product. The truest value of servicing extends above and beyond the cost of processing paperwork, and in fact it is a gross injustice to all reverse mortgage servicers to think that all we do is keep track of accounts and disburse money when the borrowers want it.

When a servicer takes on each and every new loan, and for the life of the loan thereafter, it becomes the calm, reassuring voice of reason for the lender; the monthly point of contact for all things financial; the helpful hand to hold during grief and transition.

Reverse mortgage servicing warrants fair portions, not leftovers.

The RESPA Opportunity



ReverseVision's international team of software engineers, attorneys and mortgage specialists turn these challenges into opportunities. They build the tools that give their customers a competitive advantage. This is why over 6000 reverse mortgage specialists in over 600 companies rely on ReverseVision every day.

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