Redirecting Human Resources

In 2010 the California Housing Finance Agency found itself fighting for its survival against a tsunami of delinquent loans and foreclosures. The sixty-plus day delinquency rate in its conventional mortgage portfolio had skyrocketed from 0.5% in 2006 to 11.7% at year end in 2009. Conventional Real Estate Owned (REO) sales had ballooned from 2 in 2006 to 1,081 in 2010. It was clear that the Loan Servicing and Portfolio Management divisions needed a massive, rapid increase in staffing to keep up with the even-more-rapidly changing portfolio.

Fortunately, the Agency had been redirecting and redeploying its human resources over a three year period to position itself to manage these potential disasters. Working within the civil service system and a very challenging state fiscal crisis, these two divisions of CalHFA re-trained and transferred 23 staff members, promoted five additional staff, and hired 14 temporary staffs. The results of this resource shift were clear: CalHFA helped 229 homeowners save their homes with loan modifications and saved bondholders more than $20 million. In addition, the extra staffing allowed the Agency to treat more REO sales and single loans individually, saving bondholders an additional $20-$30 million when compared with what would have happened had the Agency executed the sales on the bulk market.

In the fourth quarter of 2008, with a dramatic increase in potential REO units in the foreclosure pipeline and a rapidly growing inventory of delinquent loans, CalHFA added what amounts to a new division: Single Family Portfolio Management, which had historically been the responsibility of Loan Servicing. It would have been impossible to hire a new division director with attendant salary implications, so these responsibilities were added to the duties assigned to an existing division director, re-titling the division as Mortgage Insurance and Single Family Portfolio Management.

This enhanced division recruited an officer from Homeownership to oversee loan modification programs and a Deputy Program Manager from Multifamily to oversee the officers managing the Loan Modification Unit, the REO Unit and the Loan Servicing Examination Unit. The Agency's Executive Director then changed the Chief of the Mortgage Insurance division's responsibilities to focus on developing and implementing a process for reviewing modification proposals, specifically from the viewpoint of the mortgage insurers and the Agency's bond investors.

In this new role, the Chief worked with the above newly-titled personnel to develop a loan modification model that would calculate various modification elements and produce a qualifying modification that met the stringent requirements of both insurer and investor. This group also developed a new, secure electronic communications system with the mortgage insurance fund's reinsurer and negotiated unique underwriting criteria to be applied to the modification proposals.

The Division Manager assigned individual officers to review each modification from the viewpoint of one of the following parties of interest: the primary mortgage insurer; the primary mortgage reinsurer; the GAP mortgage insurer; and the bondholders. This made it more likely that the modification would meet the fiduciary requirements to manage the disposition of bond indenture assets and to minimize the exposure of the primary mortgage insurer and GAP mortgage insurer to claims

Additionally, the existing REO and loan modification system was inadequate for the task of tracking and managing the growing portfolio of troubled loans and properties. To address this immediate need, the Division undertook an accelerated implementation process to adapt an REO module from the MortgageFlex system. Subject Matter Experts from Portfolio

Management met with programmers and analysts to develop, test and implement the new default management system in a matter of months. To leverage the benefits of enterprise-wide technology solutions, the REO module was designed to be fully integrated with CalHFA's loan origination and database system.

CalHFA also converted from a paper folder system to a paperless approval system that allowed staff to obtain the necessary three management approvals electronically and normally respond within a few hours to offers. To expedite formal approvals the REO staff used an electronic signature system called Docsign to sign contracts, counter-offers, title and other miscellaneous documents electronically. CalHFA's speedy response to offers motivated real estate agents to devote their time to selling CalHFA properties—slow responses from other REO sellers would lead to lost sales.

Having put three new leaders in place, CalHFA then needed to find very capable specialists to execute the programs. For REO Regional Sales Managers, the Agency needed individuals who were aggressive yet fair, could read and understand appraisals and broker price opinions, price properties for sale, make property repair decisions and manage and motivate listing real estate brokers.

CalHFA quickly reassigned two mortgage insurance sales representatives who had also worked in Homeownership, and two Mortgage Insurance credit underwriters who had competitive sales attitudes. For the sixth and seventh regional REO Manager positions CalHFA was allowed to recruit two prospects from outside the Agency.

In addition to personnel changes in Portfolio Management, the Agency also made big changes in the Loan Servicing division's human resources to keep up with the changing environment. The entire Loan Servicing division was moved from cramped quarters in a century-old building to new, open space with new telecom and new equipment. The new space allowed for extended hours, even into late evening and the weekend. These new shifts led to issues with both staff and supervisor hours; employees worked new schedules and shifts to make sure CalHFA homeowners got the best possible service. Finally, personnel were shifted from other divisions to Loan Servicing and the Agency hired temporary labor possessing expertise in loan servicing; all these staff were given specific education regarding first-time homebuyers trying to save their homes.

The Agency's action to quickly identify and reassign skilled staff members and recruit additional temporary sales talent enabled the property disposition teams to effectively move properties from foreclosure to eviction, repair, listing, sale and ultimately to closing, thus significantly reducing the time off market and potential financial loss to the Agency.

An alternative option initially explored by the Agency was to arrange to sell foreclosed properties in bulk. There were several bidders who offered approximately 65% of a broker price opinion for the REO inventory or major portions of the inventory. Management at CalHFA compared this with the cost of marketing these properties individually and decided that it made more financial sense to increase the staff of the REO department and arrange for listing and sale through local real estate brokers.

The result was that the Agency sold properties at an average of between 100% and 105% of an independent appraisal. Coupled with an average of 12% in repair and sales expense, CalHFA saved approximately 23% on each property when compared with a bulk sale. With an average

REO sales price of $137,000, the difference to the Agency was $30 million of additional net sales proceeds for bondholders on the sales of 1,097 properties.

The newly reassigned Modification Program Officer needed staff with credit underwriting experience who could structure loan modification proposals that resulted in sustainable loans at a loss acceptable to (1) the mortgage insurers who were funding part of the cost of the modification program and (2) CalHFA who was funding the balance of the program. The Agency transferred two very experienced credit underwriters from the CalHFA Mortgage Insurance Division to work under the direction of the loan modification officer. With this level of experience and expertise in the modification structuring function, CalHFA was able to produce 692 approved modification proposals in the 18 month period from July of 2009 through December 2010, using a complex computer model while keeping the requirements for information from the participating servicers very simple.

CalHFA found that servicers would willingly gather income and credit information for a modification program, but were either incapable or unwilling to generate complex modification proposals. CalHFA's skilled staff had both the talent and attitude to put in the extra effort to work on just this kind of complex modification.

This talent and attitude paid off: the resulting approval percentage of the proposed modifications was over 95%, due of the quality level and consistency of the centralized expertise designed into the process and the reallocation of highly qualified underwriting staff to do the work. CalHFA projects foreclosure loss savings from the 327 loan modifications in 2010 at $20 million, based on a loss savings of $100,000 per cured loan and a 30% redefault rate on all modifications (i.e. 327 x 70% = 229 successful mods @ $100,000= $22.9 million less $2.9 million in expenses = $20 million net savings).

Many organizations make the claim that the strength of their operations is in their people. CalHFA has shown that its claim is true. Through its rapid redeployment of dozens of management and staff, CalHFA was able to develop effective programs to modify loans to keep people in their homes and minimize losses incurred due to foreclosures. When a modification was not possible due primarily to a lack of income, CalHFA deployed a specially-trained REO Marketing team, dedicated support personnel and upgraded systems to minimize losses and keep inventory low through quick sales.

The quick redeployment of personnel would have meant nothing without the hard work of Agency team members and their hard work paid off. The loan modification program saved the homes of 229 families in 2010 and saved CalHFA bondholders $20 million, helping to shrink the Agency's self-serviced delinquency rate from 16% to 10%. The REO Marketing program saved the Agency an additional $20 to $30 million when compared to selling the REO inventory on a bulk sale basis in addition to producing a net monthly reduction in inventory by December 2010. Loan Servicing's changes contributed to the reduced delinquency rate, shrank the backlog and improved productivity.

In a very tough real estate market like California in 2010 it takes flexibility and innovation to survive, and CalHFA's commitment to flexibility and innovation when it comes to human resources will continue to be an invaluable tool in the fight to preserve the Agency and support affordable housing for California residents in the future.

CalHFA Single Family Real Estate Owned (REO)												
	2007			2008			2009			2010		
	New	Sold	Inventory	New	Sold	Inventory	New	Sold	Inventory	New	Sold	Inventory
Jan	0	1	1	13	0	57	32	15	242	107	62	659
Feb	1	0	2	15	0	72	57	17	282	125	48	736
Mar	2	0	4	8	3	77	30	21	291	112	58	790
Apr	1	0	5	25	2	100	36	40	287	159	98	851
May	1	0	6	18	5	113	112	33	366	110	102	859
June	6	0	12	22	7	128	74	41	399	151	103	907
July	4	0	16	34	7	155	75	53	421	145	110	942
Aug	8	0	24	24	7	172	94	63	452	144	102	984
Sept	6	0	30	13	6	179	81	50	483	159	105	1038
Oct	2	1	31	24	6	197	116	72	527	104	102	1040
Nov	7	0	28	35	11	221	170	59	638	156	87	1109
Dec	4	0	42	22	18	225	52	77	613	92	120	1081
Total	42	2		253	72		929	541		1564	1097	