DLS servicing consultants, llc.

Diligent Loan Solutions

THE HFA INSTITUTE

JANUARY 12 – 17 | WASHINGTON, DC

Presenter:

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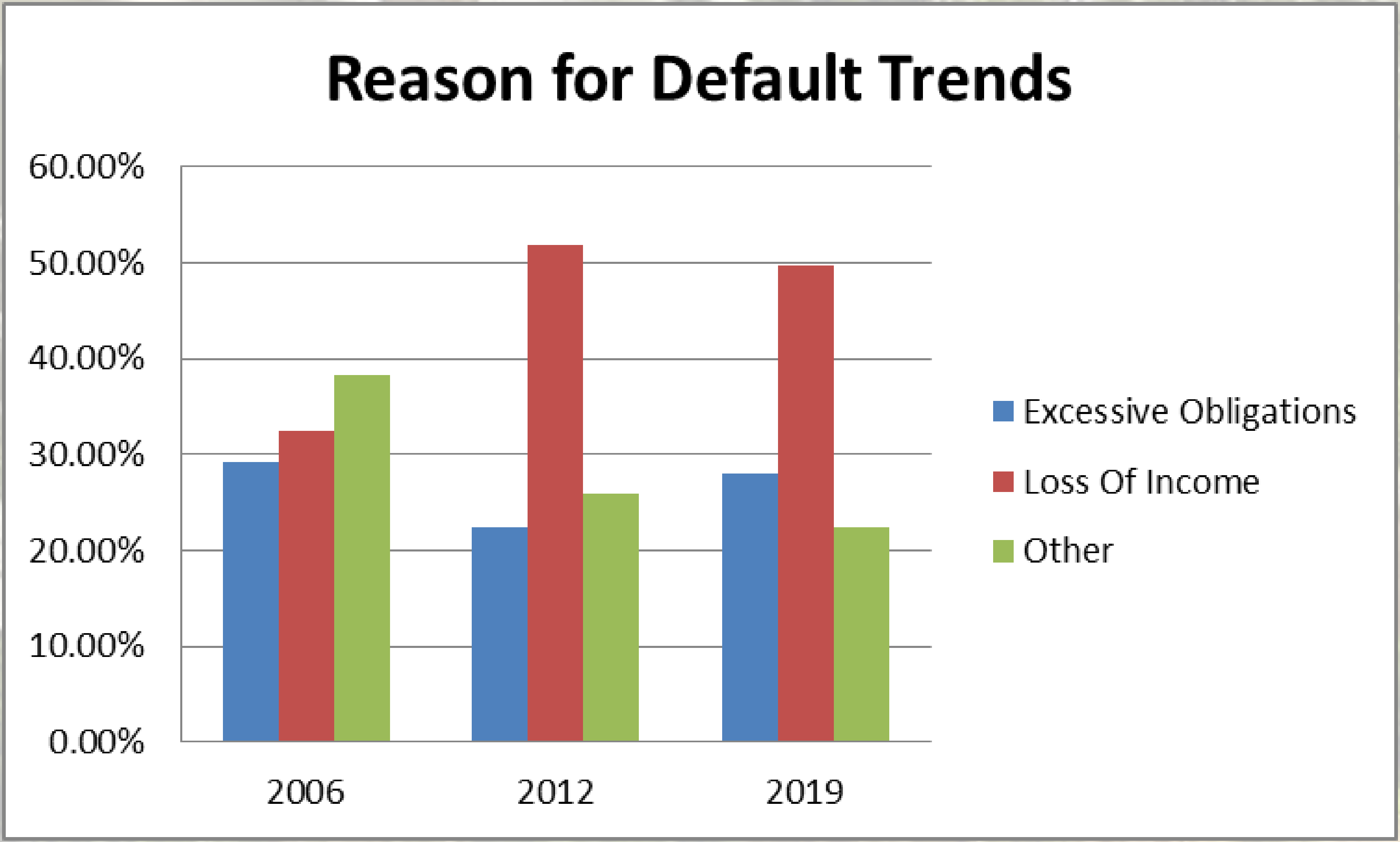
Controlling Defaults

History of Default Resolution

- One month down, two months down, three months down, you’re out.
- Repayment plans
- Evolution of Loss Mitigation
    - Investor savings on lost equity
    - Assist struggling borrowers

RFD Shift


Reason for Default Trends
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
2006
2012
2019
Excessive Obligations
Loss Of Income
Other

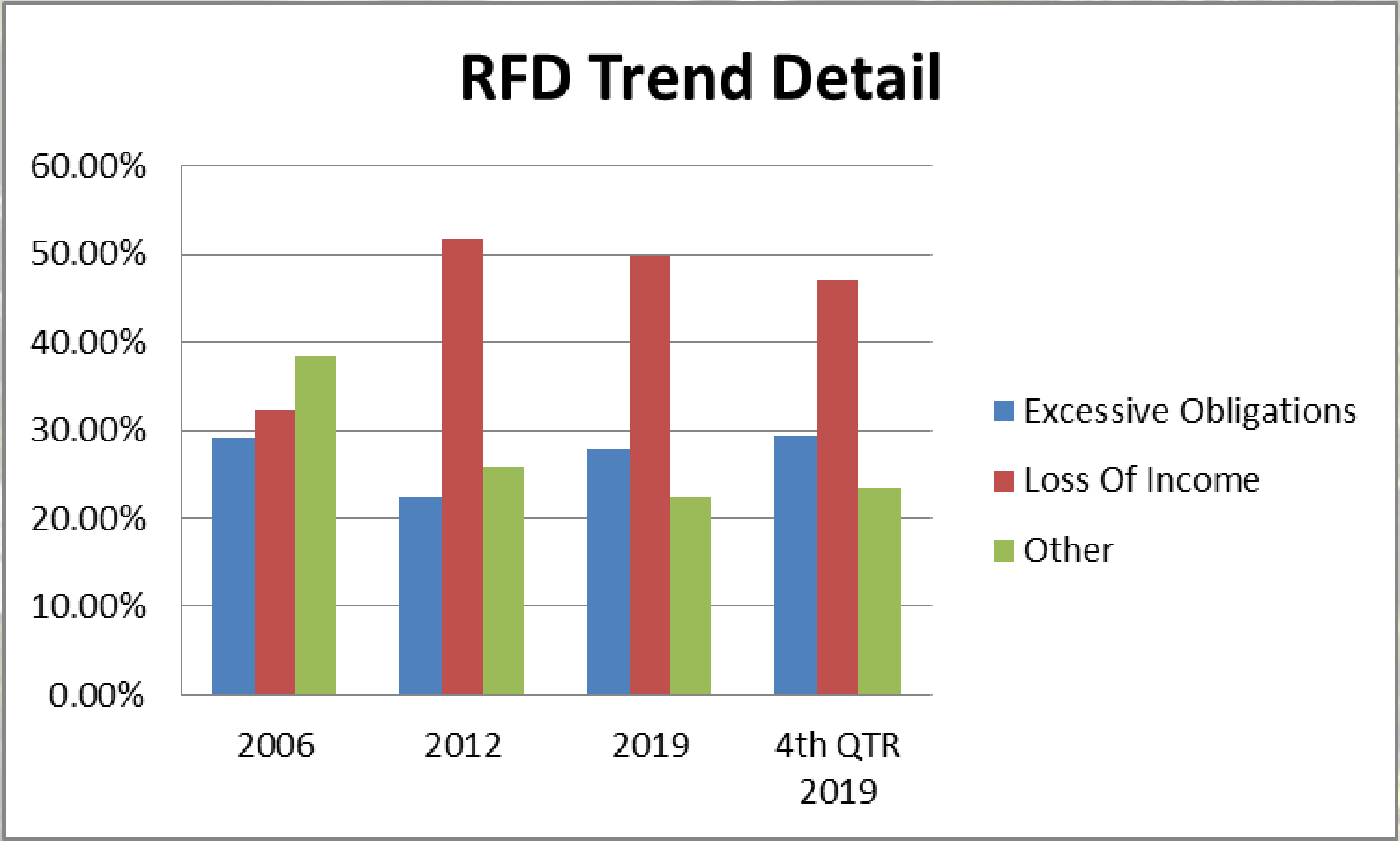
Trends are Normalizing

The trends prior to the housing crises we very stable and remained consistent for as long as records were being kept.

The housing crisis saw a dramatic shift towards income reduction RFDs. High unemployment and under-employment were major factors.

The shift back to historic levels has been slow but steady

Accelerating



Numbers People

	2006	2012	2019	4th QTR 2019
Excessive Obligations	**29.22%**	22.3%	27.9%	**29.4%**
Loss Of Income	**32.42%**	51.8%	49.7%	**47.2%**
Other	**38.36%**	25.9%	22.3%	**23.4%**

Fighting the Last Battle

Current Loss Mitigation Strategies are short-sighted:

- Designed to assist those borrowers experiencing a loss of income
- Disregard for projected budget after modification (VA exception)

Where is this heading

Analysts at Fitch have found that loans modified after 2014 have higher re-default rates. The data was published was part of the company's "Historical Modification Data Review" which analyzed Fannie Mae's dataset for modified single-family mortgages. The dataset contained 700,000 loans and a $135 billion balance. Of these, 448,000 loans were still active with an outstanding balance of $75 billion.

Based on the data being collected since 2009, there is a strong tie between new loan modification and higher re-default rates. Analysts found that loans modified after 2014 have higher re-default rates, with 2015 being the highest since 2010. The report cites weak credit attributes as a possible cause for the spike since the average FICO score was only 592. These loans re-defaulted quickly after modification. Seventy-five percent of them within the first two years alone.

-*Taken from DS News – "Risky Business" New Loan Mods Re-default at Higher Rates" – 2/9/2017*

Retooling Default Departments

- **Working within Current Guidelines**
- **Proactive Loss Mitigation**
- **Budget Counseling – through out the loss mit application process**
- **Utilize Budget comparison after loss mitigation offer**

Working within Current Guidelines

- VA is the only entity that requires the borrower support a positive cash flow after the modification is effective. Counseled early, these borrowers can make budget changes and requalify for assistance before foreclosure
- All other loan types allow a borrower to be qualified for a loan modification despite having significant negative cash flow projections after the modification. The risk of re-default is extremely high.

Re-defaults hurt FHA tier ranking scores, and drains default department resources.

Proactive Loss Mitigation

- Early Intervention is critical
- Review the borrower’s bank statements and formulate a budget based on what the borrower actually spends their money on
- Compare the actual budget with what the borrower submitted – this may require creating a budget form that has more detail than industry standard

Budget Counseling-Prior to Offer

Budget comparison should be mailed to:

- Every borrower denied an option
- Every borrower approved for a home retention option other than a Forbearance or Repayment Plan

Explain your findings to the borrower – you are trying to help them make adjustments that can save their home.

Budget Counseling-After Offer

The budget comparison prepared as part of the Loss mitigation application should be available to Loan Counselors/Collectors to be used in discussions with modified borrowers to ensure they keep their loans current.

It cannot be a judgemental discussion – just

"If you want to stay living in this home, you will need to make these adjustments."

Thank you from

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