

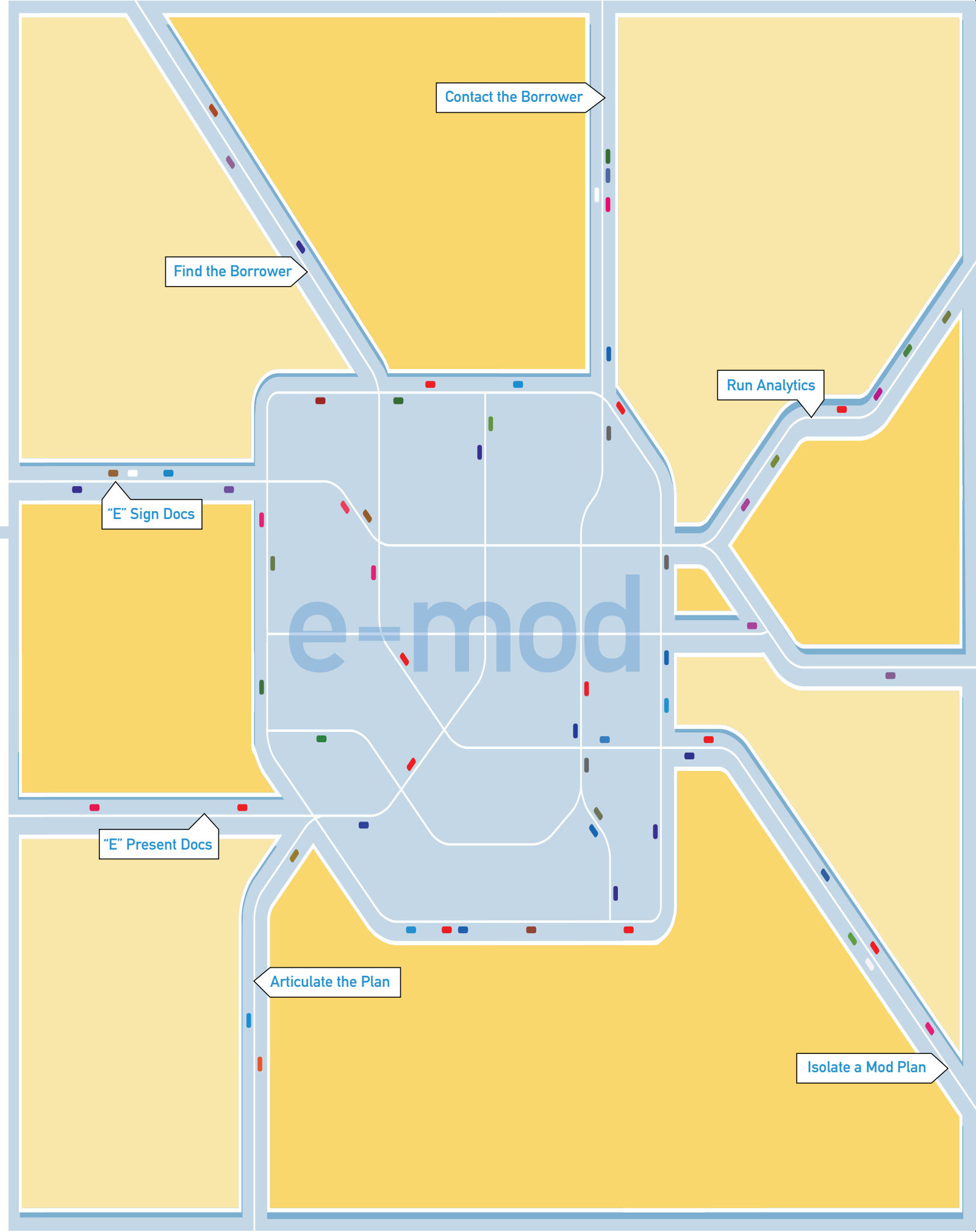
A ROADMAP TO AUTOMATING MODIFICATIONS

With loan modification volume at record highs, servicers need to automate to keep up.

The crisis is in full swing. The foreclosures are mounting. How do servicers get on the right path to successfully modify these troubled loans? Surely, automation has to be part of the answer here. And servicers are trying to keep up for sure.

Despite helping 244,000 at-risk homeowners with loan modifications and repayment plans in February of this year, the Hope Now alliance says the number of foreclosures continues to rise and foreclosures involving prime loans topped subprime by a significant margin.

by Anthony Garritano



The alliance composed of 28 servicers reported that foreclosure sales increased to 87,000 in February of this year, up from 68,000 in January. Meanwhile, foreclosure sales involving prime loans jumped to 55,500 in February from 30,400 in January. Good news, foreclosure sales involving sub-prime loans fell to 31,800 in February from 37,700 the previous month.

The February report also shows that servicers modified more mortgages as opposed to placing troubled borrowers in repayment plans. Loan modifications totaled 133,800 in February, compared to 110,600 repayment plans.

nered with the World Wide Notary. The two companies have integrated their platforms to support e-signatures and e-notarizations for any mortgage document or document set. The integration of data, from the core systems through MERS registration, aims to eliminate errors that might result from fragmented paper-based systems.

The resulting blend of capabilities allows lenders essentially to avoid printing documents requiring signatures by borrowers, so mortgage transactions can remain electronic from start to finish. Borrowers can review and click-to-sign the majority of documents at

mods outside of the GSEs, who have a track record of accepting e-signatures? "Speaking with investors, I can tell you it can be easily worked out. UETA and ESIGN are established," answered Mr. Shiller. "Discuss this with attorneys and compliance officers because it makes sense. Will there be litigation involved? Maybe, but that will be there with any document if it's paper or e-signed."

Internally Wingspan has a servicing system to run the modification. The company does an XML feed to SigniaDocs from there. It's an open database, scalable and tailored to Wingspan's unique process. It also gives the special servicer an audit trail so the company knows the homeowner got the document, opened it and e-signed it. Wingspan can also send paper if the borrower opts not to e-sign. The main advantage to automating in this fashion is that it's customized to Wingspan's business rules and the service providers can tweak the technology to work with the enduser's rules.

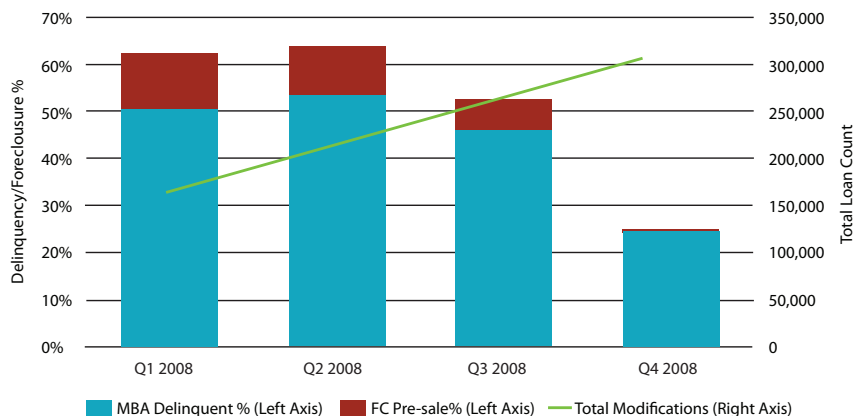
"We implemented in two weeks to a month. As fast as you can get around to building your rules, it can be up and running," added Mr. Shiller. "You have to direct the vendor how you want the modification done. The e-mod will allow you to do more mods every month because you don't have to wait for paper.

"Remember, you have to put the borrower into the correct modification. With that said, once we find that match we push it out to our e-mod partner. You have to look case by case before delivering any modification. I'm not going to speculate if 4 million mods can be done this year without some electronic process, but I guarantee a good portion of those mods will be done electronically because the industry sees a need."

In offering servicers advice on how to get started with e-mods, Nancy Alley, vice president, product manager of the eSign Transaction Management

Delinquency/Volume by Quarter Modified

As of January 2009 Month-end



Source: Lender Processing Services

But capacity is an issue, which is why innovative servicers like Wingspan Portfolio Advisors are choosing to automate. "Technology simplifies the process," stressed Robert Shiller, director of loan resolution at Wingspan. "You have a paper process and you throw people at it, but that's not the answer. Technology is power. We put the rules into our servicing system here and the data is at that point pushed to SigniaDocs and they do the SMART Doc. It's compliant, they do the e-signatures and e-vaulting. It's very simple."

To make the process even simpler, workflow and process automation vendor SigniaDocs has recently part-

nered their leisure and then the few that need to be e-notarized or witnessed by a notary are passed to World Wide Notary's DigaSign system.

"We decided to automate our loan mod process because the volume of modifications is becoming more prominent," noted Mr. Shiller. "A lot of people will be adopting e-signing, e-vaulting and e-note processes for this going forward. With the cramdowns the trustees will require a more electronic process. If you wait 30 days to do a paper process you may lose the borrower on the modification. With an e-mod it's done in a day and you're gaining that borrower's trust."

But are investors responsive to e-

Suite of e-signing and e-vaulting vendor Wave eSignSystems, said that e-mods boil down to basically four steps. "It's not as complicated as it sounds. And now that we're getting more details from President Obama, it's clear that the incentives are there. Servicers, investors and lenders are incented under the plan, so there is a reason to do this," she said.

"First, ask who are all the impacted borrowers out there? There are decisioning engines that can target people for both modifications and refinances. The other part of the Obama plan includes targeting borrowers that are current, but may struggle in the future. The good thing is there are analytics tools from companies like Overture, DRI, Commerce Velocity and others. AVMs can also be used under the plan to get at the home valuation.

"Step two, you need to reach out, inform the borrower and perform counseling. This used to be done by mail, but you need to do a combination of phone and technology contact. There is Web technology that can help the servicer lay out the plan with the borrower on the phone. You want to set the stage when you have the borrower on the phone.

"Step three," continued Ms. Alley, "would be about selecting the plan and completing the transaction. The goal is to complete a clear and concise loan mod, which was missing prior. So, this approach will cut down cycle time. Now I can integrate to an e-document provider and deliver those documents electronically to sign. You can hook this into the Web demo in step three and lock that borrower in. That's huge because this is usually where you lose the borrower doing a paper mod.

"The final step will depend on the transaction. Some investors may require recording of the mod. You need to work with a technology that includes e-recording. Also, e-notarization and acknowledging. So you want technology that will take you full cycle."



We're excited about the opportunity to do e-docs and e-signing around mods. The technology is there.

—Mark Rogers, Residential Credit Solutions

Nonetheless, servicers still may need convincing. But Ms. Alley doesn't think moving to e-mods will require much arm twisting at all. "Why would servicers want to do this without automation? Early modifications done with paper have not been successful. You need to have the right plan and get to those borrowers as quickly as possible. I don't know why you wouldn't use technology.

"Also, there's a revenue stream to do this with the incentives. The servicer can make up to \$4,500 for a successful modification. The borrower can also get \$1,000 for the first five years, so I'm more incented as a borrower to do this as well. The environment is ripe. We're getting clear direction from the government. Also, every party is incented, so I have a reason to do it."

And more and more vendors are stepping up to help servicers get their fair share of the financial incentives Ms. Alley alluded to. Decisioning vendor Overture Technologies launched Mozart for Special Servicing, an automated decisioning system for servicing distressed mortgage assets. The tool allows servicers to manage and apply a more robust set of alternatives to borrowers in distress, and more quickly yield a "best-fit" modification that can reduce repeat default rates and preserve the value of mortgage assets.

Overture has coupled its decisioning capabilities with SigniaDocs e-signing capability to complete the e-mod life-cycle electronically. Now Overture is rolling out a borrower portal so the borrower can read and e-sign documents while on the line with the servicer. This will also allow all parties

to see into the modification to track where it is and what's going.

Overture senior vice president, Linda Simmons pointed out, "The jaw dropper behind a borrower portal is the ability to add e-documents. To do a borrower portal right you need to offer every possible tool there for the borrower to do everything they need to do. This begs for anything 'e' for the borrower to complete the transaction.

"All of the decisioning and decision history is available and transparent through our engine. From there, going to e-docs is timely and it takes out a lot of possible error. It seems like it's a marriage made in heaven."

But how do servicers know which vendors have fully baked technology in this very new area of the mortgage business? "You need to ask if the vendor is fully integrated with an e-doc provider. You also need a seamless integration vs. the hard-coded style done in the early '80s," answered Ms. Simmons. "From there, you need to know what their repertoire of e-docs are and what data they need to complete the transaction.

"If you think of doing loan mods the way everyone else does, I don't know where you start. With automated decisioning you get the right modification for that borrower and it goes hand in hand with having e-docs. We have gone through a complete implementation in four weeks with all the industry policies in it including an interface to e-docs."

As servicers embrace automation, the whole mortgage process is transformed. Tim Anderson, president at SigniaDocs explains this process as

“loan origination for servicing. However, you can’t do the qualifying things like APR and TIL in a servicing system. It’s not built for that. Plus, you have more data elements that neither the LOS or the servicing system captures.

“This is where the pain is and this is where everyone is going to be putting all their dollars. For servicers looking to get started on e-mods there is no mess and no fuss. We give them a secure sign in to the vault and the signing room and they’re up and running in five days.”

Services, echoes the need for servicers to migrate to doing e-mods. She notes that using analytics and decisioning engines can be powerful. “I’d tell servicers to run analytics. I’d want to identify the risk on the portfolio if I were a servicer. I’d want a default score on my portfolio. Is this a customer that is eligible for a modification or a refinancing based on the plans out there?”

“From there, you want to determine the best-fit workout and a contact strategy. I’d leverage analytics here, too, to

“From a fulfillment standpoint, we’ll finalize the terms and update the servicing system,” continued Ms. Brasington. “We also have capabilities around e-signatures. We think e-signatures make a lot of sense. There’s huge improvements in return rate when you can get the borrower to e-sign when you have them on the phone.”

And servicers like Residential Credit Solutions that have opted to automate can’t see doing this any other way. “We started the company in December of 2006. We bought an existing platform and started purchasing our own book of business in May of 2007,” reported Mark Rogers, the EVP and chief administrative officer at RCS. “Now we have a billion in servicing rights. We had a tool that we were working with, but it didn’t go far enough.

“Our new technology gives us the ability to take a borrower’s information and look at various solutions for that borrower. If the borrower still can’t afford that home, that’s in the automated conclusions. Companies have done mass, blanket mods and basically threw it all on the wall and hoped that it stuck. That’s not going to work. We wanted a tool that would give us various options.

“Also, we’re excited about the opportunity to do e-docs and e-signing around mods. The technology is there. Certainly, President Obama’s policy has thrown the challenge out to the industry to automate. This will help volume. We’re bullish on it.” **MT**

Why Automating Loan Modifications Is Crucial

The White House wants to see **4 to 5 million** loan mods.

Servicers will be paid **\$4,500** for every successful mod.

RealtyTrac shows **290,631** properties in foreclosure.

Credit Suisse predicts **8.1 million** foreclosures by 2012.

In addition, SigniaDocs will private-label the technology to take on the look and feel of the servicer. The misconception behind doing e-mods is that you need installed software that costs a lot, said Mr. Anderson.

“Also, this isn’t the servicer’s customer, they’re servicing for someone else. So the financial incentives offered by the Obama administration change everything. Servicers need to quit throwing people and paper at the problem. Automate the process.

“An originator knows that if they can get someone qualified and sign that document the chance of success is great. Everyday the docs aren’t signed the chance of success diminishes. We’ve found that if you can present the docs electronically while the borrower is on the phone 50% will e-sign right there and 80% of those that didn’t e-sign on the spot will come back and e-sign the next day. Those are huge numbers. Those numbers are coming from a top five servicer. The proof is in the numbers.”

Grace Brasington, EVP, strategic consulting services at Lender Processing

get that best-fit, which might be interest rate reduction, extending the term, or possibly principal reduction. You also want to isolate good loans for a streamlined process. You want to know which loans have the best chance of closing and being successful.

“Dynamic scripting is very powerful. Vendors like us and others can personalize the scripting to each borrower, which really helps new agents who are on the phone with the borrower trying to do a mod. We also route calls to the right processor. You also want to track the calls and what happened.

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