CMG MI Signals
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Brave New World?

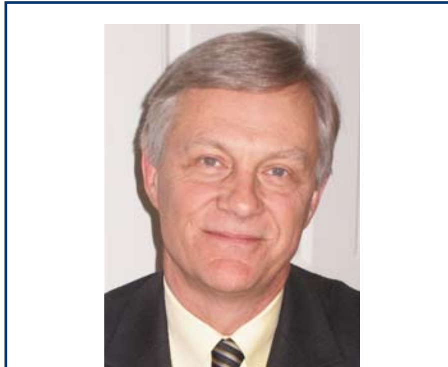
Loss Mitigation in the 21st Century

By Chris Eckenroad, Manager, Loss Mitigation and Customer Service

"Foreclosure proceedings were initiated on some 1.5 million U.S. homes during 2007, up 53 percent from 2006, and the rate of foreclosure starts looks likely to be yet higher in 2008." Federal Reserve Chairman Ben Bernanke included these sobering statistics in a recent speech at a Columbia University Business School function (May 5, 2008).

Credit Unions made only a small portion of these troubled loans. According to CUNA data released in May 2008, delinquency rates on residential mortgage loans made by Credit Unions are about 65% less than delinquency rates on residential mortgage loans made by banks. But Credit Unions are impacted because the overall residential mortgage market is in trouble. The fallout from these loans continues to saturate the real estate market — pushing values down in many regions of the country impacted by distressed sales. ARM resets and 100% LTV/high debt-to-income loans are real problems for many borrowers. Moreover, the National Association of Realtors' May 2008 data project a U.S. decline of nearly 20% in resales over 2007 and average resale prices falling over 8%.

Many cases of fraud and misrepresentation are surfacing, particularly investor loans that were closed as owner-occupied. The industry is experiencing a wave of walkaway borrowers — homeowners who are able to pay, but are electing to drop off the keys because they can no longer refinance the equity. In fact, there is a whole industry of "walkaway.com" Websites that have sprung up to "counsel" borrowers on schemes to escape their mortgage obligations.



Chris Eckenroad is CMG MI's Manager for Loss Mitigation and Customer Service. In this capacity, he supervises the company's claims and loss mitigation services on CMG MI-insured mortgage loans. Prior to joining CMG MI in 2008, Chris served as a Sales Manager with Chase Home Finance, where he supervised a wholesale team of 10 Account Executives. Prior to Chase, Chris worked at Cendant Real Estate division and at PHH Mortgage/Asset Management, where he managed the Real Estate Owned (REO) group that provided mortgage default, loss mitigation and REO management services. Chris' teams provided contract default servicing to Freddie Mac and FDIC/Resolution Trust Corporation during the last major real estate market decline during the 1990s.

Although Credit Unions have seen comparatively few delinquencies of this kind, they feel the sting of the collection/loss mitigation/REO process very deeply. Helping their Members through these tough times is an important value for Credit Unions. But there's some good news. As a mortgage insurer, CMG Mortgage Insurance Company (CMG MI) also has a vested interest in keeping Members with CMG MI-insured mortgage loans in their home. A key element in increasing your success rate in preserving that homeownership is handling some of the defaults through CMG MI's policy servicing team. Through my years of experience with lenders, I have seen many Credit Unions successfully do loan workouts to keep Members in their homes.

You have the ability to contact and engage your Members much more effectively than a large mortgage lender or servicer overwhelmed with subprime delinquencies. And our team at CMG MI, including our loss mitigation experts, supports the Credit Union market exclusively — a significant advantage for you.

Get Ready for Workouts

Facilitating loan workout and loss mitigation success at your Credit Union requires policy and procedures. Here are a few considerations:

1) A **Time Line** should be developed for key stages. An initial phone call on the 16th day past due is a good place to start. At 60 days past due, you should update the Member's credit, income and property valuation.
2) Create a "**Call Script**." Knowing what to document and establishing the tone of the first call are crucial

to the success of the long-term outcome.

3) **Training**. Share cases weekly with your team. Work with GSEs, your mortgage insurer or other investors/ vendors to cross-train your staff. (For example, CMG Mortgage Insurance Company is creating a special "Claims and Loss Mitigation Best Practices" Webinar to help Credit Unions develop their own programs for coping with delinquencies.) Build your team's confidence for the long process involved in reinstating a delinquent loan.
4) **Assess Risk**. Tiering risk will help to mitigate losses. One way to do this is categorizing by credit scores, debt-to-income and LTV to isolate the highest-risk loans. It will also enable you to be proactive with potential defaults, particularly in distressed geographic markets.
5) **Initiate Alliances**. Getting the GSE, mortgage insurer, real estate broker, appraiser and property preservation contacts working with you is crucial. Build your best practices to communicate and engage them at all levels. The very best workout, improperly reported internally and externally, is likely to fail.

The goal is not collection. The goal is to have the loan performing and the borrower continuing to stay in the home. Therefore the need to focus on the reason for the delinquency is paramount. Extracting one payment to move the loan to the "cure" ledger is not healthy for the Credit Union or the Member, long-term. In fact, there is a significant danger in a large number of modifications being done by major mortgage servicers today. The Congressional Budget Office delivered an estimate in April 2008 stating that 35% of the subprime workouts will revert to foreclosure — suggesting that the existing workout strategies are just Band-Aids.

For the Credit Union market a far higher ratio of homeowners, despite their difficulties, are salvageable — with the right strategy. If your Members have even average credit and are employed, they are in a position to pay and, in these circumstances, your loss mitigation specialist can move quickly to a modification or forbearance.

In all cases with CMG MI-insured loans, work closely with the CMG MI claims representative to make sure your loss protection is not compromised due to late filing, reporting or other issues. For example, allowing a temporary no-payment or reduced payment (forbearance) as a way to allow time to sell the property could jeopardize your claim. It may appear to be a good quick fix, but you need to consider the whole picture in loss mitigation. Always consult your CMG MI claims representative first.

What's Next for the Mortgage Industry?

According to industry experts, the current mortgage cycle is expected to last around another 18 months. To help mitigate the worst of its consequences, Congress is reported to be near agreement on Foreclosure Prevention Act HR 3221. This proposes providing tax credits to stimulate sales of distressed property, implementing reform of the GSEs, and authorizing $300 billion in funding to the FHA to refinance "underwater" loans. The Congressional Budget Office estimates this will assist 325,000 borrowers.

Why invest so many resources and efforts in preventing actual foreclosure? In Bernanke's words, "Because foreclosures impose high costs, including legal and administrative costs as well as the costs of leaving the property vacant for a possibly extended period, both the borrower and the lender often are better off avoiding foreclosure. Moreover, it is important to recognize that the costs of foreclosure may extend well beyond those borne directly by the borrower and the lender. Clusters of foreclosures can destabilize communities, reduce the property values of nearby homes, and lower municipal tax revenues. At both the local and national level, foreclosures add to the stock of homes for sale, increasing downward pressure on home prices in general."

Currently we're in a tough market. Credit Unions are facing challenges that in many cases are unfamiliar and deeply unsettling. But Credit Unions are in a better position to meet these challenges than many major banks and servicers. They made mortgage loans to a relatively small group of borrowers with good credit profiles, who therefore may be in better financial shape than other borrowers. By implementing best practices and working cooperatively with their mortgage insurer and other key vendors and investors, Credit Unions have the potential of becoming a great success story over the next two years — building a larger share of high-quality mortgage origination and creatively working through this distressed market.

CMG Mortgage Insurance Company (CMG MI) is the leading provider of mortgage insurance products and services to Credit Unions. What are the challenges your Credit Union is facing – and how can we help? Let us know what you think and what we can do for you by contacting your CMG MI Account Executive or sending an e-mail to CMGMortgage.InsuranceCo@cmgmi.com.

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