



Loan Servicing

InSight

Earlier this year, executives gathered at The Homestead resort in Virginia to discuss the state of loan servicing.

SourceMedia was there to hear first hand the opportunities and challenges facing loan servicers and to discuss future directions in product support technology.

This publication captures the collective experience of the executive participants. Inside, you will discover how new products are impacting loan operations and how technology-savvy servicers are streamlining their operations.

GMAC Mortgage

Diane Bowser

Graystone Solutions

Emile Coulon

FISERV | Lending Solutions

Thomas Gorman

Associated Bank
associatedbank.com

Brad Northcraft

TD Banknorth

Charles Roux

Sovereign Bank

Wendell Scull

Nationwide Advantage Mortgage
On Your Side®

Paul Swan

Supplement to:

AMERICAN BANKER

BANK TECHNOLOGY NEWS
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Participants



Bruce Morris President, Banking and Corporate Groups, SourceMedia

Welcome to the 2006 Loan Servicing Summit. As everyone in this room knows, the current business climate has made the servicing asset more important than ever. There has been an explosion of products and I am sure that has impacted your servicing operations. Will 2006 go on record as the year of the option ARM or HELOC? Let's get started by having everyone describe their portfolios and product expansion plans.



Diane Bowser Senior Vice President, GMAC Mortgage Corporation

GMAC Mortgage services prime, sub-prime, HELOCs, option ARMs, interest-only, piggy-backs and a number of other products. We also sub-service 287,000 accounts in a private label capacity for other organizations, and those accounts span the spectrum of products and asset grades.



Emile Coulon President, Graystone Solutions

Graystone Solutions serves a national client base of commercial banks and mortgage companies. Using the Fiserv Loan Servicing Platform, we provide our clients with comprehensive sub-servicing, outsourced services and access to technology in a shared services environment. More and more of the products are sub-prime and HELOCs. As our client institutions add product, we will support it.



Thomas Gorman President of Loan Servicing Systems, Fiserv Lending Solutions

Over the past year we have seen our financial institution clients support a greater array of real-estate secured products than ever. Our clients servicing mortgages, home equity products and unsecured lines of credit together are benefiting from reduced technology costs and enhanced ability to cross sell. Within the year, our servicing platform will also support installment and indirect consumer products to enable all mortgage and retail loans to be serviced on a single system.



Brad Northcraft Senior Vice President, Associated Bank

Associated is a \$21 billion commercial bank in the upper Midwest with a conservative lending philosophy. The mortgage servicing portfolio is mostly conventional prime product that we deliver to the secondary market. We keep ARM products on the balance sheet, but almost everything else is sold on a service-retained basis to the agencies. On the consumer side we delve deeper into the credit spectrum for HELOC and closed-end products.



Charles Roux President, TD BankNorth Mortgage

Being based in Maine and New Hampshire, TD BankNorth is a traditional lender. Our move south into Massachusetts, Connecticut, and now New Jersey and New York, has generated demand for non-traditional products. To that end, we are going to continue to expand what we do, how we do it, and where we do it.



Wendell Scull Senior Vice President, Sovereign Bank

Sovereign Bank is a lender of mostly A paper. As a result of having many bank acquisitions, we have also acquired some Alt A products.



Paul Swan President, Nationwide Advantage Mortgage Company

Nationwide Advantage Mortgage is primarily a prime lender with some sub-prime and Alt A product. We support every type of customer, because we want to make sure that we are reaching all segments. To that end, we are in the process of expanding our product offering, but will not be adding option ARM loans.

InSight

Questions & Answers

Bruce Morris *What have your institutions been experiencing over the past year?*

Emile Coulon The capital market has a voracious appetite and there is a shift away from the GSEs as the ultimate investors. In addition to non-prime products, companies are looking to expand Alt A and prime products. We're also dealing more and more with brokers aggregating loans by providing interim servicing until the loans are sold on the secondary market. Inquiry is definitely up from financial institutions that lack the back office technology necessary to support today's product mix.

Diane Bowser During the past year ARMs have been very popular, as have interest-only loans. GMAC Mortgage also supports a variety of innovative home equity products. We are able to offer fixed-rate loans within the lines of credit, and are working on fully utilizing the Fiserv Loan Servicing Platform to tie a home equity line to a money market account, so that borrowers can make withdrawals from the money market and then deposit payments against the line into the account.

Brad Northcraft The emphasis in our company has been consumer lending because the spreads are better and we're finding there's still an appetite in the marketplace for equity lines of credit and closed-end equity products versus traditional mortgages.

Wendell Scull Sovereign acquires portfolios and in some cases we acquire loans that actually defy explanation. We have been seeing some really interesting Alt A loan products but not many new A products. We want to add more loans to the books, but as a corporation we are always cautious of increased risk.

Charles Roux Creative is the right word to describe loan officers—now that the easy money from the refinance boom is gone. But, the most momentum is coming from HELOCs. We've had a fixed-rate loan option HELOC product for several years which keeps gaining in popularity. It's a product where an individual can take out a \$100,000 equity line and end up with a 3-year amortization on his car and a 2-year amortization on his snowmobile. We are also seeing more sizeable equity loans from our expansion into Connecticut and New Jersey.

Paul Swan Demand for loan products depends on the market. The Midwest wants traditional mortgages while interest-only and the various stated income/value products are sought after out West. As rates move up, we're identifying customers with adjustable-rate first and second mortgages, so that we can offer them fixed-rate products that might be a better option for them.

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Emile Coulon
Graystone Solutions

Bruce Morris *Does the back office provide input on the product offering and pricing before new products are rolled out?*

Paul Swan All three production channels, servicing, finance, operations and our services group sit down together to create products. Since the marketplace is fighting hard for every deal, we will be offering products like the 40-year loan, although our analysis says that the product will generate small volumes. We've gone through these cycles before and the irrational pricing will continue because the big shops have to keep feeding their servicing machine.

Diane Bowser Our product development group will let us know in advance about new product initiatives. We have a good working partnership with our internal departments, and being competitive means you need to get to market quickly and work hard to deliver faster and faster.

Emile Coulon We communicate with our clients to make sure we understand their programs. But, they're dealing with the broker community that may provide them with something that slips through their fingers and then we get it.

Wendell Scull We're not really concerned about adding new products because we are usually able to configure computer enhancements using Fiserv technology. But, we do have a prioritization process. We ask production which products will generate the most business and profit. From a cost perspective, we don't want to spend time, effort and money to configure support and then only make 100 loans.

Bruce Morris ***Is there agreement on product pricing between the front and back office in your shop?***

Brad Northcraft From a pricing standpoint, we have a tight apparatus in place for new loans. But we get some ambiguous results when a customer walks in and says, "I've got an ARM loan that's going to reset in 6 months and I've been offered a deal and I'm going elsewhere unless you match it." From the back room perspective, it can look like undisciplined refinance pricing because negotiation is common in our retail bank network.

Bruce Morris ***Are you doing any type of quantitative analysis that looks at what that change in rate does to your profitability?***

Brad Northcraft Associated's Treasury Management Group manages the spread for the bank's assets. Our goal is to retain 75 percent of all the ARM loans that are adjusting. Now, if

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Wendell Scull
Sovereign Bank

the customer walks in and he or she says, "Hey, you know my loan is going to adjust in 3 months to 7 1/2 percent and I've been just offered 6 1/8 percent," that would be a loser—unless the customer is also a substantial depositor and we want to retain the relationship. So, yes, there is an analysis done in terms of profitability to the bank.

Bruce Morris ***How do acquired portfolios impact your operations?***

Charles Roux We struggle with acquisitions in pools. Especially with the new SOX issues. I'm finding that as we acquire portfolios, the ownership all of the sudden transfers to us in the back office. We have found that we do not always have sufficient time during the due diligence process to dig deep

enough to find all the issues that may be in loan portfolios. During data mapping and the conversion process we find out what the issues are and then decide how we are going to handle them.

Diane Bowser I've seen acquired loans that were two years delinquent with missing tax payments. It should be a smooth hand-off with a good bye and hello letter instead of having customers calling with unresolved issues related to the former servicer. It's hard to price to compensate for the back office work you have to do. Therefore, being productive and lowering costs is a significant challenge, I think, for all of us.

Bruce Morris ***What about production channel quality?***

Diane Bowser Two years ago we implemented Defects-by-Channel. Our new loan group monitors the hours we expend managing product from each channel. This process has allowed us to tighten and improve efficiencies to ensure we have accurate names, addresses, and insurance, tax, and legal information.

Emile Coulon How did you do it?

Diane Bowser We generated report cards for each of the channels and we presented the scores at executive committee meetings, so there was awareness of what's going on. The

channels didn't want to have low scores on that report card. Now, they help us to reduce the servicing cost and that reduces the cost that they can go to the market with.

Brad Northcraft It's best to tie it back to compensation. In some cases we hold variable compensation back.

Bruce Morris ***Let's talk about interest-only loans. How are you planning to manage the payment adjustments after interest-only periods expire?***

Diane Bowser Depending on the product, interest-only loans start amortizing at 5, 10 or 15 years. Our hope is to mitigate borrower payment shock by educating borrowers about their loans in advance of the payment change date. We will also be prepared to assist borrowers with our wide variety of flexible collection and loss mitigation options.

Paul Swan This isn't the first time we've had this kind of thing happen; back in 1974 there was a product called the Canadian roll over. I remember that in 1979, 1980, and 1981 balloons were adjusting from 5 ¼ to 16, 17, even 18 percent. Anyone that has been through that will be able to handle those interest-only loans as they convert into amortization.

It's also a question of whether the product has been sold to the right customer. Interest-only loans were designed for a more sophisticated borrower looking for the only tax deductible option. With those customers there will be no problems. The issue is who are they really selling these products to?

Bruce Morris Especially when you look at what's going on in California. I'm not sure those deals are all to the sophisticated investors you're talking about.

Bruce Morris ***That moves us to the next question. What strategies and methods are you using to manage delinquent accounts?***

Brad Northcraft We're fusing our late stage collections with loss mitigation. Some studies indicate that 6 out of 10 customers delinquent to 59 days just don't want to talk to collectors anymore. So, we are attempting a variety of strategies to make contact with our customers to provide assistance. Another proactive strategy is to track the credit ratings on your portfolio loans over time. Accounts with deteriorating credit can be prioritized, because you know that customer is experiencing a hardship.

Wendell Scull Knowing when to call is a factor, too. By using the servicing software, you can evaluate customer payment patterns to best determine when to intervene. For example, maybe they always pay on the 8th day, so it doesn't make sense to start calling before then. Knowing payment behavior and whether the credit rating is deteriorating helps target accounts for special collection activities.

We have approximately 40 percent of our mortgage customers paying in branches. If we had a batch processing lag, a collector might still be calling a customer even if they made a payment the day before. The Fiserv Loan Servicing Platform is uniquely suited to preventing unnecessary calls on current accounts, because the system updates with every transaction.

Brad Northcraft
Associated Bank

Bruce Morris ***What is the impact of real-time processing versus batch processing on delinquent payment status? With batch processing there can be a delay of 48 hours before you are aware that the payment has posted.***

Brad Northcraft We have approximately 40 percent of our mortgage customers paying in branches. If we had a batch processing lag, a collector might still be calling a customer even if they made a payment the day before. The Fiserv Loan Servicing Platform is uniquely suited to prevent unnecessary calls on current accounts, because the system updates with every transaction. It is unlikely we will ever return to a batch processing system.

Wendell Scull Remember the servicing managers' workshops at the MBA where you could compare with your servicing peers and judge whether you had the best servicing system or not? I think Fiserv is the only game in town these days, because the system is real-time and we have to have that functionality.

Emile Coulon I agree, real-time is critical. We have a client out in Colorado that's basically buying delinquencies or deficiencies from banks and putting that information on our system. They can be effective, because they're using the Fiserv servicing system through us.

Bruce Morris *It seems you are all in agreement that technology can help manage delinquency, but can it help uncover opportunity?*

Diane Bowser It can. We cross sell at the point of the contact by using the servicing system in tandem with a database to formulate campaigns. When a customer calls, depending on the reason they are calling, an offer screen appears. We can look at their current rate and the market rate, and determine if the customer might benefit from refinance or be eligible for a home equity loan or line of credit. We also offer a variety of optional products to our customers through third-party service providers.

Wendell Scull How does that impact talk time per call? Is it a concern?

Diane Bowser Because the technology is driving the decisions of what to offer, it's very efficient. Once a customer indicates an interest, we do a hot transfer to a call center loan officer or a third party.

Bruce Morris *Paul, I read that your company has achieved some significant productivity gains in the past year.*

Paul Swan We have. We're using the servicing system's business process scripting tools to enhance productivity. Last year, we were able to increase loans serviced per FTE by 20 percent. This initiative is aligned with our goal to use technology to reduce the efficiency differential between our institution and the mega servicers. Technology will enable us to have similar efficiency in our servicing operations.

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Paul Swan
Nationwide Advantage
Mortgage Company

Charles Roux I think we've done well with the servicing platform as well. I feel we can compete with the majority of servicers and even some of the mega-servicers using the Fiserv platform.

Bruce Morris *Have you also experienced productivity improvements that you can attribute to technology and best practices?*

Diane Bowser Prior to using the Fiserv Loan Servicing Platform, we used three servicing platforms and a plethora of ancillary systems. We reduced the number of ancillary systems by 22 and revamped processes, and in turn, have dramatically increased our productivity. Today we continue to use the servicing platform to our advantage, as we have a fully dedicated team of 15 people using

the scripting tools to automate tasks from escrow to collections.

Thomas Gorman I bet you are all very pleased that the servicing platform is now being enhanced with meta-data tags on all the data fields, so that as we release new versions of the software you can more easily identify the impact of data changes on your business process automation scripts.

Brad Northcraft The meta-data will make us more self sufficient because the servicing system will be aware of what is impacted by a new software version. Add-on scripting tools are not always data-aware and so we would have to make process-by-process modifications every time something changes.

Diane Bowser We welcome the meta-data because in the past, when there was a software update, we had to re-tool 100 percent of our business process scripts. Meta-data should eliminate that.

Thomas Gorman Another efficiency boon will be the graphical wizard interface and rules engine enhancements rolling out this year. Because of all the non-prime and HELOC products you need to support and securitize, we've started with the investor functionality. A question and answer user-interface wizard will step you through the investor contract and let you configure your own support.

Diane Bowser Wait until you see the investor wizard—you're going to love it. We believe that our investor set-up team will become more productive because they just need to walk through questions, select answers and the system automatically configures reporting. I think it's going to be a huge win.

Thomas Gorman It's our goal to create technology to help you focus your attention where it belongs—on your customer. The wizard interface and rules engine will make the software even more efficient to use. In addition to that efficiency, we are expanding product support functionality to go beyond mortgages and home equity products to include unsecured credit lines, installment loans, indirect loans and leases. You'll be able to service virtually every consumer and mortgage loan on a single platform, using one workforce and one workflow.

Bruce Morris *Will servicing mortgage and consumer loans on one system be a benefit?*

Paul Swan Nationwide has expanded our charter as a thrift, and the mortgage company will be feeding product to that thrift. So, we're very interested in a technology platform that provides the ability to service consumer loan products alongside the first mortgage product.

Emile Coulon Servicing all of a borrower's loans on one system will enable financial institutions to become customer-centric. The financial institutions that outsource loan administration to us are very focused on their core competencies, which includes serving the customers. Having a single system for all loan support will facilitate cross sales and portfolio loan retention strategies.

Diane Bowser There is definitely a customer service advantage to having multiple loan products on one system. With one phone call or visit to our web

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Diane Bowser
GMAC Mortgage Corporation

site, our customers can find out about their mortgage and home equity products. Soon, the same could be true for their other loan products.

Charles Roux Consolidating consumer and retail loan support will be a big benefit. We have already moved several hundred consumer loans to the Fiserv Loan Servicing Platform because of missing functionality on other systems. Having multiple systems that handle different product lines creates reporting issues that a single platform would eliminate. For many of us, a single platform would recapture the efficiencies we experienced before today's product mix and the drive for portfolio growth caused us to outgrow less robust loan accounting systems.

Paul Swan I think it's absolutely the way to go. In today's competitive environment, the entities that recognize business should be based upon the customer's needs rather than some internal focus; those are the entities that will win.

Bruce Morris *Any additional thoughts?*

Paul Swan In the world today, the consumer is much more educated and knowledgeable than ever. They have the ability to shop, to know what's going on and what's best for them. To keep the customers you have and to attract new ones, servicers must be able to support the loan products that meet their changing needs.

Consolidating consumer and retail loan support will be a big benefit. We have already moved several hundred consumer loans to the Fiserv Loan Servicing Platform because of missing functionality on other systems.

Charles Roux
TD BankNorth Mortgage

Bruce Morris *Thanks to everyone for sharing their best practices and industry perspectives. From what we've discussed today, it seems as if non-prime mortgages and consumer loans, including HELOCs, may well be the biggest products next year, too. ■*

One Loan Leads to Another

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With the Loan Servicing Platform Focused on Retention, Cross Sales and Profitability

Imagine having all of a borrower's loans on a single system.

Our Loan Servicing Platform does it all: manages home equity lines, consumer loans and mortgages; facilitates promotional campaigns; streamlines business process management; accelerates collections; and mitigates default loss. It frees your enterprise from redundant data entry, replaces multiple accounting, default and workflow systems, and simplifies adding new product lines to your loan portfolio.

To learn how single-platform servicing can make your institution more flexible and more profitable, call 800.748.2572, ext. 4224 or send an email to info@fiservlendingsolutions.com.

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1 System
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