



Clearing Loss Mitigation Processing Hurdles In Unprecedented Market Conditions

Current volatile housing and economic conditions are driving servicers to navigate previously uncharted territory. As increasing numbers of borrowers find it difficult to make their mortgage payments, the need for effective loss mitigation solutions is now more urgent than ever. Servicers must quickly deploy efforts to avoid foreclosures and avert the high costs of maintaining and disposing of REO properties.

The current volume of loss mitigation activity is expected to keep escalating as a result of the government-sponsored Home Affordable Modification Program (HMP) announced by President Barack Obama on February 19 this year. The HMP program is designed to help stabilize the U.S. housing market and, as a result, the economy as a whole. The two-pronged effort aids at-risk homeowners who are in danger of losing their homes to foreclosure. As a result of the program, servicers are expected to process as many as 4-5 million refinances and 3-4 million loan modifications between now and the program's expiration in December 2012.

The new HMP program and the level of processing volume it will generate present a serious challenge to servicers, whose servicing platforms are neither equipped to handle the volume nor the complexity of processing these loans. Although many servicing systems were designed with some loss mitigation functionality, no one could have forecast the current housing crisis, the government's decision to intervene and the processing requirements that have emerged as a result. Modifying existing technology to meet the urgent need for complex, high-volume loss mitigation processing isn't feasible, while wrap applications and spreadsheets are cumbersome and inefficient solutions.

Fortunately, there is an alternative to manual processing and tracking. Since President Obama announced the HMP program, LPS has been working tirelessly to incorporate HMP processing requirements into LPS Desktop's™ Loss Mitigation application. On June 5, LPS released HMP functionality into production, and LPS Desktop Loss Mitigation now fully supports both Home Affordable Refinances and Home Affordable Loan Modifications.

The LPS Desktop Loss Mitigation application delivers a wealth of benefits to servicers facing a high volume of loss mitigation activity. The power behind the application is its comprehensive rules engine, which automates the entire loss mitigation process. Rules-based

automation saves time and money by helping servicers route and process files much more quickly than manual processing. This reduces backlogs and allows servicers to contact at-risk borrowers sooner, which should result in reduced foreclosures and associated expenses.

The application's rules engine also incorporates client-configured approval parameters and hierarchies to push completed files through the proper approval channels and drive them back to the home retention specialist, who can generate documents through the system, and have them executed online or via mail.

The process begins with client-configured assignment rules that direct files to a specific person or workgroup. The engine automatically places those files in work queues for ready access. Files can be assigned by investor, loss stage, terminal digit and other parameters.

The application includes net-present-value (NPV)-based decisioning tools, which use present value and future cash flow to determine the best loan workout solution for the borrower. The system can handle any loan modification/workout solution currently at use within the market, including HMP refinances and modifications. The NPV-based decisioning tool is critical to improving a servicer's loss mitigation results, as it helps home retention specialists make better decisions on larger populations of loans.

LPS Desktop Loss Mitigation also handles batch modifications. Servicers can use analytic tools to isolate loans that require loss mitigation and send them in a loan file with loan-specific modification instructions, such as extending the rate change date, extending the loan term, capitalizing delinquencies or reducing the interest rate. Hundreds or even thousands of files can be processed overnight.

Servicers need to act quickly to protect their assets. Swift implementation of loss mitigation capabilities for at-risk borrowers will be critical to servicers as the next round of ARM resets in 2010 is expected to start a new wave of delinquencies. Automating the loss mitigation process to handle delinquent and at-risk loans more quickly and effectively will be the key to avoiding foreclosures, reducing costs and stabilizing the market.

For more information regarding the LPS Desktop Loss Mitigation application, click here or contact Pam Beck-Janssen at 651-234-3698 or via email at Pamela.Beck-Janssen@fis-lps.com.