

Emerging Issues in Mortgage Servicing

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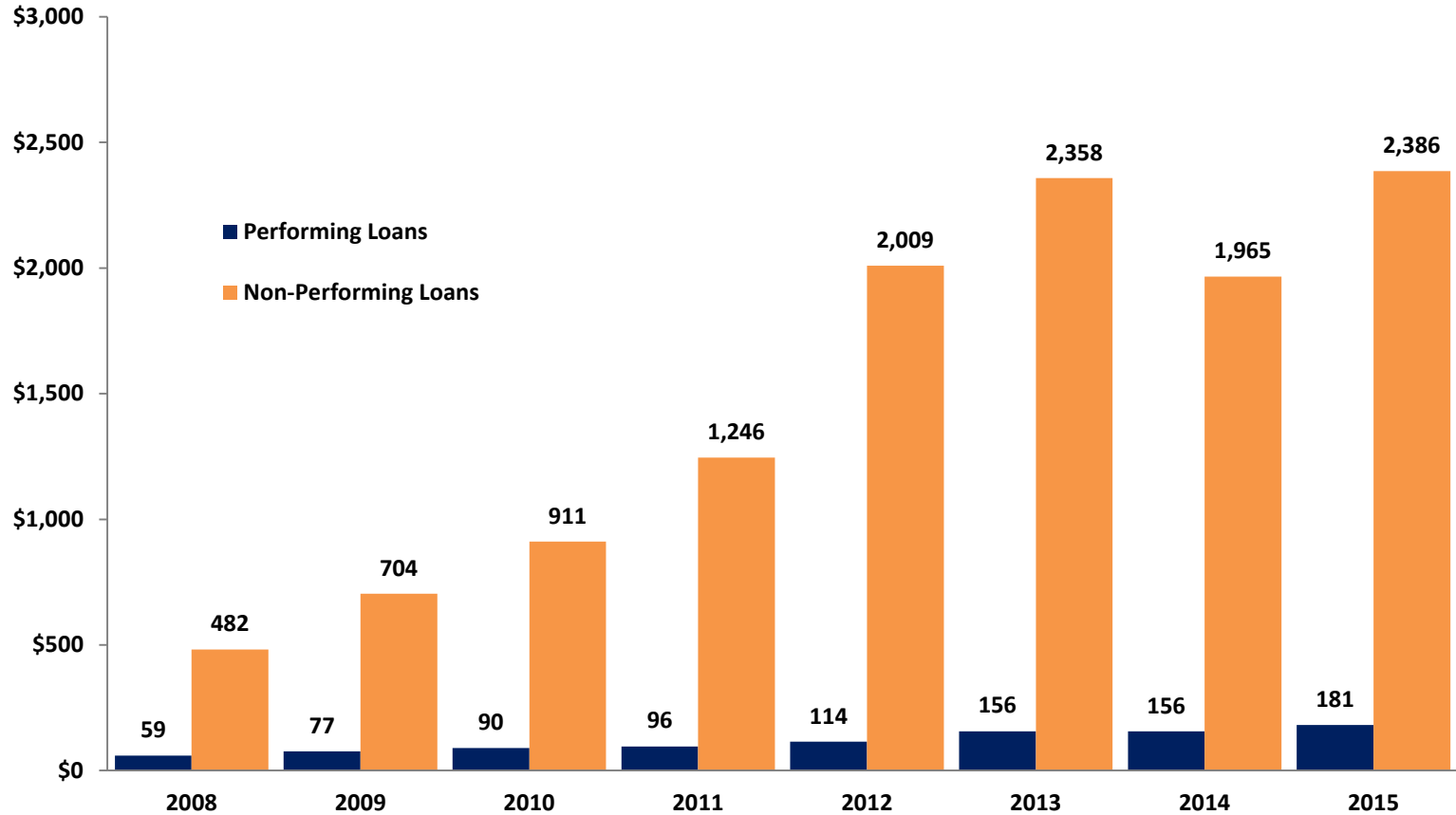
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August 17, 2016



Fully-Loaded Servicing Operating Costs (\$ per Loan) of Performing and Non-Performing Loans*



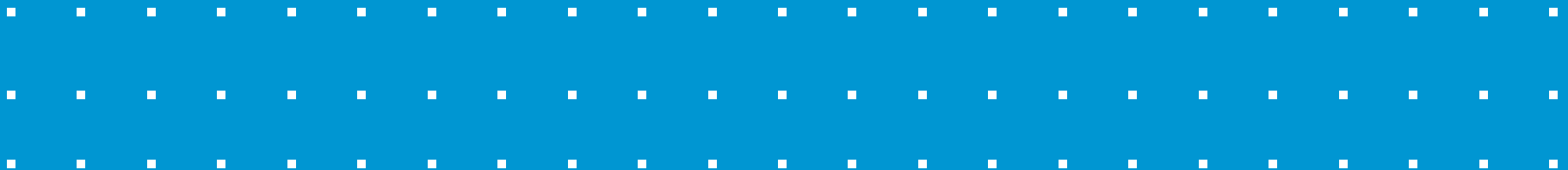
* Includes direct costs as well as corporate overhead and unreimbursed FC and REO costs



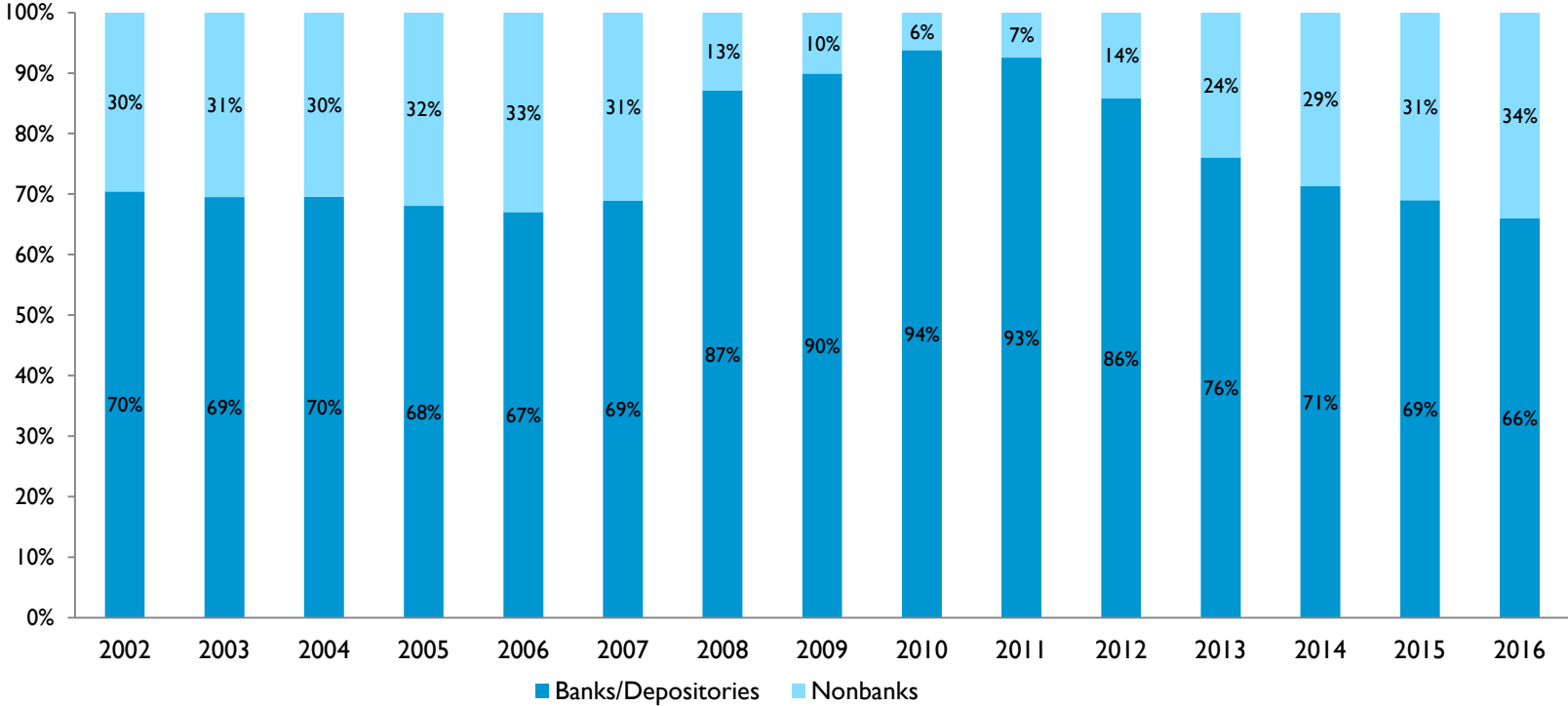
Sunset Seminar

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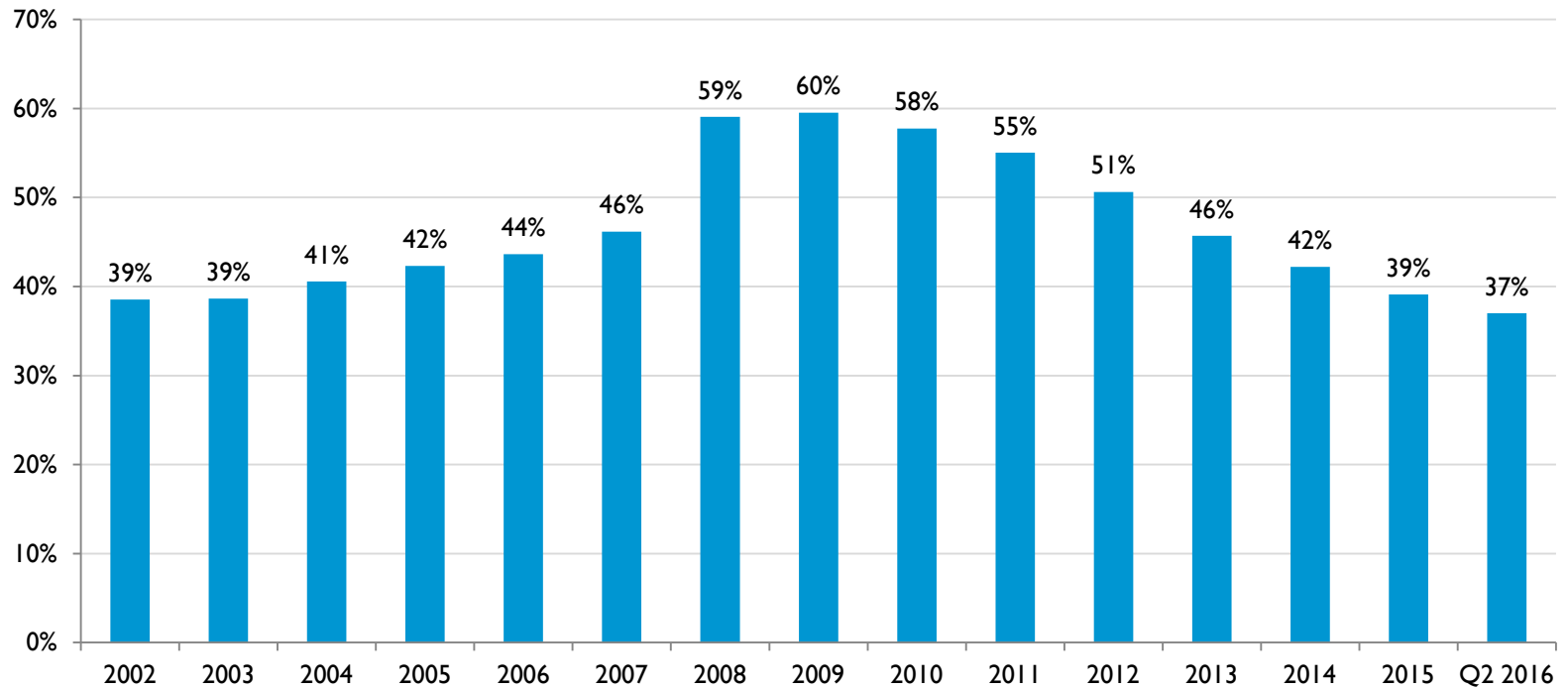


Bank/Nonbank Split Based on Unpaid Principal Balance Serviced, 2002-2016

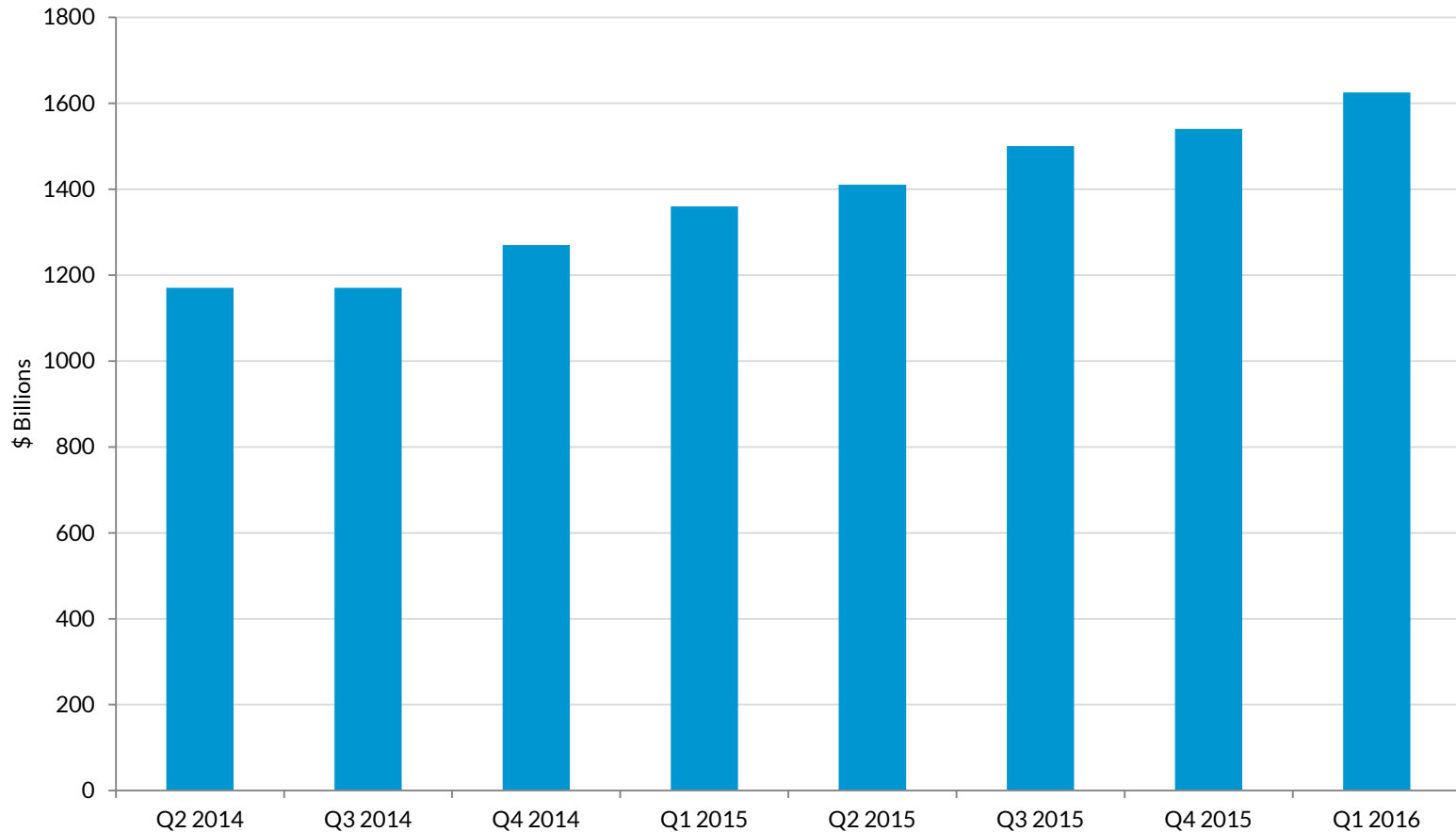


Source: IMF data and Urban Institute Calculations, 2002 to 2004 shares based on top 30 servicers, 2005 to 2007 based on top 40, 2008 onwards top 50

Top 5 Servicers--Share of Outstanding UPB



Total UPB of mortgages serviced by subservicers, 2014-16



Cost of Servicing, Gross Revenue from Servicing

Servicing Costs per loan (2015):

Performing loans: \$181/ year

Non-Performing loans: \$2386/ year

Gross Revenue from Servicing:

25 bps x \$215,000 loan = \$538/year

- Compensation structure is misaligned; relative to gross revenue, it costs way too much to service non-performing loans, and way too little to service performing loans.
- 25 bps fee has been used since the mid-1980s, ignoring the fact that average loan size has gone from \$70,200 to \$215,000 over the period.
- Technological advances have bought down the cost of performing servicing.

Mortgage Servicing Rights (MSRs) Held by the Largest Public Banks and Nonbanks, Q3 2015

	MSRs owned (\$ millions)	MSRs (% of total assets)	Shareholders' equity (% of total assets)
Largest banks			
Wells Fargo	13,055	0.7	11.0
JP Morgan	6,716	0.3	10.2
Citi	1,766	0.1	12.2
Bank of America	3,043	0.1	11.9
US Bank	2,397	0.6	11.0
Largest nonbanks			
Nationstar	3,242	19.0	10.0
Walter	1,753	9.3	5.0
Ocwen	1,153	14.4	13.5
Penny Mac	1,307	34.3	25.9
PHH Corporation	927	24.0	38.3

- Non-bank servicers hold considerably more mortgage servicing rights as a percent of total assets
- They are not consistently better capitalized

2011 Suggestions for Revamped Servicing Compensation Model

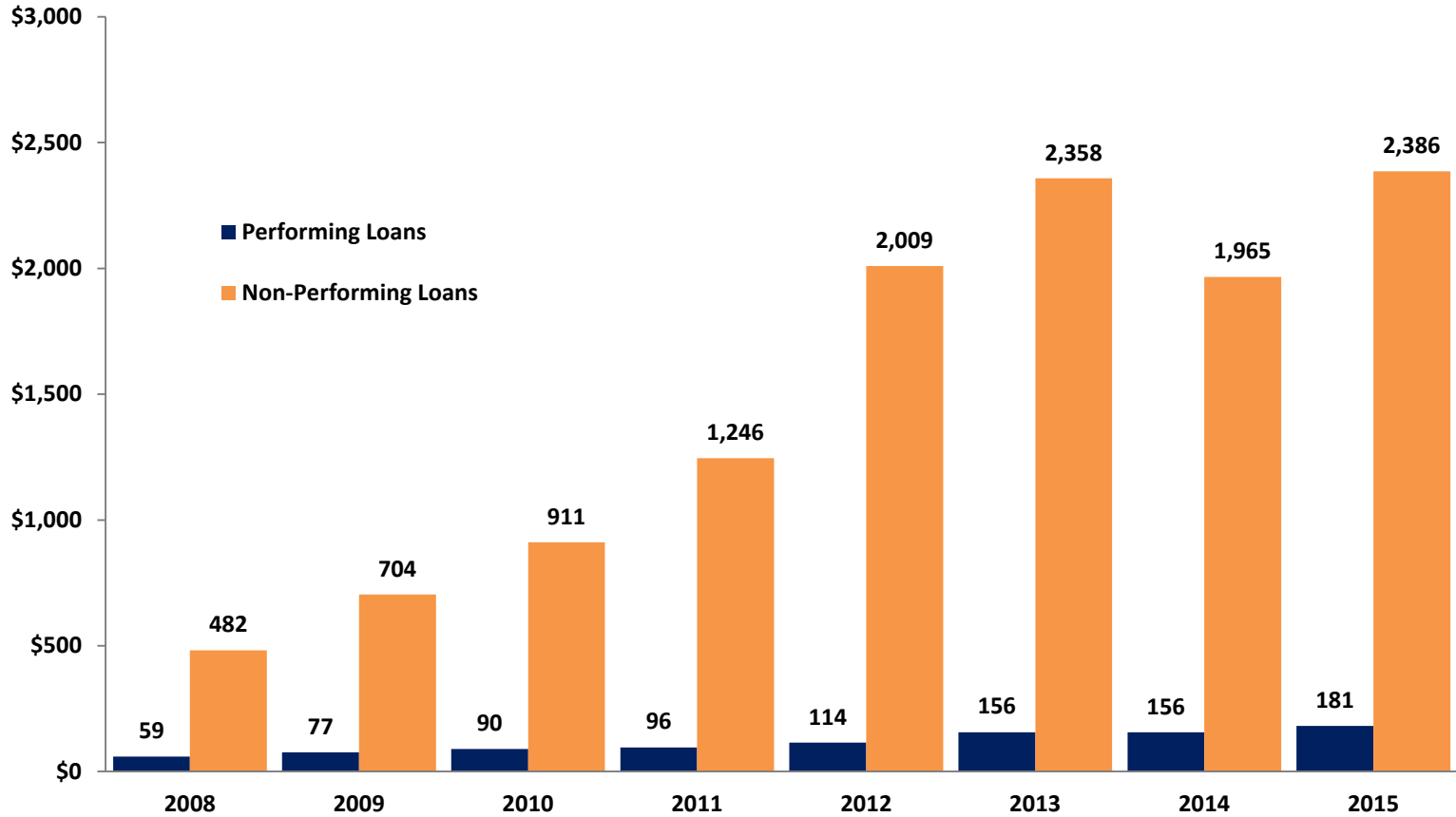
Modest change: Reserve Account

- Out of the 25 bps servicing fee, 12-18 bps is passed through, and there is a reserve fund for servicing non-performing loans.
- If the loan is transferred, so is the reserve fund.
- The reserve fund can be released under pre-determined circumstances.

More fundamental change: Fee for service approach

- Guarantor pays a set dollar fee per loan for performing loan servicing.
- The guarantor will collect a master servicing strip from the P&I payments made by the borrower to fund the dollar fee per loan payment to servicers.
- The guarantor has the credit risk and pays the servicer on a fee for service basis for non-performing loan servicing.
- The servicer may elect to retain additional IO.

Fully-Loaded Servicing Operating Costs (\$ per Loan) of Performing and Non-Performing Loans*



* Includes direct costs as well as corporate overhead and unreimbursed FC and REO costs