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Why Performing Loans Were Sold Out of a REMIC

STREET SMARTS
By Bonnie Sinnock

A securitization servicer's controversial decision to sell a chunk of performing mortgages along with nonperforming ones at a loss underscores why investors want to better understand actions affecting their returns.

Last summer, SN Servicing Corp., based in Baton Rouge, La., sold an undisclosed number of loans at a loss from a real estate investment conduit created back in 2002. The company says it sold some performing loans along with bad ones to get a better price for the package, mitigating the loss to investors.

But selling current loans out of a REMIC is generally considered a no-no that could jeopardize the trust's tax breaks, barring certain circumstances. Moody's Investors Service recently withdrew its ratings for the deal, saying SN Servicing failed to respond to requests

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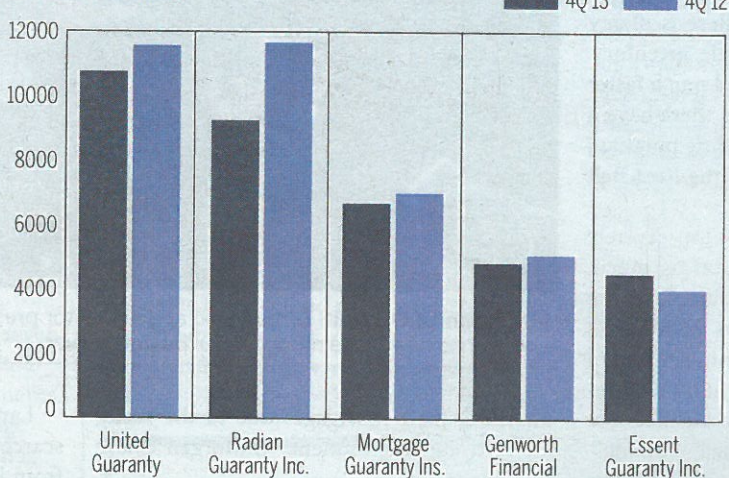
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PMI Ranked by New Policies Written in 4Q 2013

(Dollars in Millions)



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How the Industry Powered Through Winter Storms

By Brad Finkelstein

MORTGAGE ORIGINATIONS AND closings largely went on during this winter's freakish snowstorms, even when companies' main and/or local offices were forced to shut.

Lenders and service providers credit the business-interruption plans they put in place after previous disasters—such as Hurricane Sandy in 2012, when power outages on the East Coast affected many lenders' operations and closings were put on hold.

Such plans can make the difference in keeping a company from permanently closing its doors. Almost one quarter of all businesses affected by a major disaster such as a hurricane fail to reopen afterwards, according to the Insurance Information Institute.

"Every day a business is not up and running it is losing revenue," says Loretta Worters, a vice president at the institute.

"Business owners are busy build-

ing their businesses, but they need to invest the time and money to develop a disaster recovery and contingency plan."

New Penn Financial, which is located in the Philadelphia suburb of Plymouth Meeting, Pa., learned its lesson after Sandy disrupted its operations, says Brian Simon, the lender's chief operating officer. It put in place a disaster recovery plan after that storm, including the purchase of a backup generator for its headquarters. It is a nationwide business, but the email servers and origination system servers are at its headquarters.

"I can't have the people in California not be able to work because we have a snowstorm here," Simon says.

Equity Loans in Atlanta implemented its contingency plan when its hometown was struck by two winter storms within a two week period starting in late January and February.

Both storms closed its headquarters, which originates in the retail, correspondent and wholesale channels, says David Abrahamson, executive vice president of operations.

The first storm shut down the major highways in the area when it arrived at midday. About a dozen

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Banks' REO Maintenance Lacking?

By Brian Collins

THE NATIONAL FAIR HOUSING ALLIANCE is accelerating efforts to force mortgage lenders, servicers and trustees to do a better job of maintaining foreclosed properties in minority neighborhoods.

The nonprofit group claims too many African-American and Hispanic communities have been hurt by mass foreclosures and are deteriorating because of neglect by the banks and their servicers.

As a result, it has begun filing fair housing complaints against institutions it feels need to improve their practices. Its most recent complaint came Feb. 25 against Deutsche Bank, but more are in the offing. The group is due to file six complaints against lenders and servicers over the next six months, according to Shanna Smith, its president and chief executive.

The alliance issued a report in 2011 warning the mortgage industry that maintenance of foreclosed homes would become a big issue, but so far it has seen few changes.

"Freddie Mac was the only one that stepped up and changed their business model," Smith said in an interview. "Wherever we go, we still check out Freddie properties and they are the nicest properties in the neighborhood. If Freddie Mac can do that, there is no reason the other banks can't do it."

By filing an administrative complaint with the Department of Housing and Urban Development, the group hopes banks will have an incentive to agree to a settlement to address the issue. If the bank and the group do not come to an agreement, HUD has the power to take an administrative action, file a lawsuit or dismiss the complaint.

The practice has come under fire from critics, who charge that NFHA and HUD are working together to squeeze banks with little to no evidence of actual wrongdoing.

Industry attorneys say the prob-

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Battle Over Mortgage Debt Relief Brewing

By Brian Collins

THE FATE OF A MEASURE THAT PROVIDED key tax relief to distressed homeowners is hanging in the balance as Congress debates a larger package of tax extenders.

Lawmakers allowed a law to expire last year that prevents the Internal Revenue Service from taxing mortgage debt forgiven or canceled as a result of modifications and short sales.

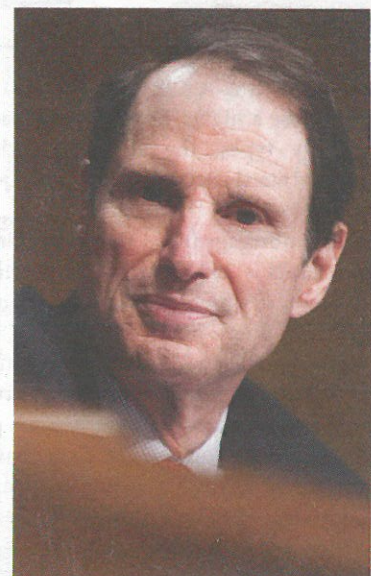
But industry analysts expect Congress to retroactively extend the measure if lawmakers can pass a larger bill that includes roughly 50 tax provisions important to many businesses.

"As long as the extender package moves, which might be in a few months, we would anticipate this being included," said Edward Mills, a policy analyst for FBR Capital Markets.

House Ways and Means Committee Chairman Dave Camp, R-Mich., prepared a draft of his tax reform bill last week.

Senate Finance Committee Chairman Ron Wyden, meanwhile,

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Sen. Wyden says that extending mortgage debt tax relief is critical.



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ELOISE MILLS CFO
WILLIAM MILLS AGENCY
300 W WIEUCA RD NW STE 300 BLDG 1
ATLANTA GA 30342

How the Industry Powered Through Winter Storms

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people ended up spending the night in the office. Abrahamson, whose commute is normally 20 minutes, left Equity Loans headquarters at 10 p.m. and didn't get home until 5 a.m.

But it implemented its contingency plan on Day Two and the work got done. By the time the second storm came, "we were pros at that point" at working offsite, he says. Parts of Atlanta had an inch of ice on the ground from the second storm, and as a result the city was shut down.

The company's plan to keep the business functioning involves having its underwriting, processing and closing staff work remotely from their homes. That kicked in in this case, although some people lost power because of the ice storm.

Things were not functioning at 100%, but Equity was able to continue underwriting, closing and funding loans. "We didn't miss a beat," Abrahamson says.

The one area where Equity was most affected was in post-closing. The nature of that business, which is still heavily paper-intensive because mortgage documents need to be scanned before being shipped to investors, is best done from the corporate offices, Abrahamson points out. The original notes need to be sent to the purchaser, whether it is an aggregator or Fannie Mae.

Three years ago Atlanta was hit by another winter storm, which Abrahamson pointed out was not as bad as the two recent ones. But that was impetus for Equity Loans to create its plan. Business came to a halt during the 2011 storm. So the firm put into place the technology needed to allow people to work from home, including establishing a virtual private network for document security purposes.

When Equity activates the plan, it sends a companywide voicemail and posts the news

on the website so the people in its branches are aware of the shift in workflow.

No mortgage loan closings were delayed as result of the shifting of work to off-site locations this winter. If anything, the situation allowed its workers to be more productive than they normally would if they had come into the office, Abrahamson says. Without the commute, people were putting in more time to make sure the work was completed.

In the absolute worst-case scenario, where its offices are damaged and information needs to be recovered, Equity Loans has two offsite data storage facilities.

Ice and snow are unusual in Atlanta, and the municipal infrastructure to deal with them is limited. "A lot of our branches are in the Northeast, so they got a good chuckle out of us," Abrahamson says.

Even vendors need to have plans in place to keep things going. Williston Financial Group, in Portland, Ore., is the parent company of a title insurance underwriter and a settlement services provider. The company was formed in 2010 and published its first information technology disaster and recovery plan the next year. That has been updated a couple of times since and is now known as WFG's disaster recovery and business continuity plan, says president and CEO Patrick Stone.

WFG created the program partly out of "inherent paranoia on my part," Stone says. "But also a lot of it has been driven by the large lenders, [whose] vetting and auditing standards are requiring better and better detail and more and more planning to ensure there is continuity of services" from vendors.

There is also a pandemic response plan at WFG which was written in 2011 at a client's request.

Those large lenders have responded to the Consumer Financial Protection Bureau's statement on holding them accountable for vendor actions quicker and in a more encom-

Private Mortgage Insurers Ranked by New Policies Written in 4Q 2013 (Dollars in Millions)

RK	ORGANIZATION NAME	LOCATION	NEW INS. WRITTEN IN 4Q 13	NEW INS. WRITTEN IN 4Q 12	% CHANGE	MARKET SHARE	MKT SHARE % PT. +/-
1	United Guaranty	Greensboro, NC	\$10,752	\$11,565	-7%	29.07%	+0.77%
2	Radian Guaranty Inc.	Philadelphia, PA	9,252	11,663	-21	25.01	-3.53
3	Mortgage Guaranty Ins.	Milwaukee, WI	6,691	7,011	-5	18.09	+0.93
4	Genworth Financial	Raleigh, NC	4,843	5,089	-5	13.09	+0.64
5	Essent Guaranty Inc.	Radnor, PA	4,528	4,027	12	12.24	+2.39
6	CMG Mortgage	San Francisco, CA	926	1,513	-39	2.50	-1.20
Industry Total			36,992	40,869	-9	100	

Source: NMN/Quarterly Data Report.

Questions? Email Deartra.Todd@SourceMedia.com.

passing way than Stone expected.

"And bless them for doing it," he says. "They've come out and vetted companies like ours. We've been vetted extensively by three major national lenders—policies, procedures, data backup and data security. We actually had to hire an outside firm to hack us."

WFG has a principal data center in Seattle and a backup data center in Plano, Texas. Information is backed up from Seattle to Plano every 15 minutes. It has gone from having a second backup data center to using a secure website for access to its data via a system provided by Amazon, the online retailer.

WFG's local offices share responsibility for disaster planning. Each one has a person in charge of declaring a disaster and notifying the main office. The system allows the main offices to take over the functions of a local office to the point of preparing documents, replicating files and using a national notary network to have documents signed, so services are not interrupted, says Stone.

The plan also includes provisions for secured storage of paper documents.

Besides the Amazon system, which utilizes a web services cloud, WFG maintains a VPN for its employees. "We use two geographically disparate Amazon web services data centers, one in California and one in Virginia, so we're replicated a couple of different ways. We can access almost everything from an alternative site very quickly," Stone explains.

WFG has incorporated into its own systems data security, data replications and backup technology pioneered by companies in other industries.

Stone is a 40-year veteran of the title business. When he started in the industry, if a company had its headquarters damaged during a storm, it was out of business. It would take weeks or months to replicate files.

Now, with multiple data centers and secure systems, firms can be up and running in 15 minutes to two hours; six hours at the most, he says.

Genworth Mortgage Insurance Co., in Raleigh, N.C., has a business continuity team, which for years has maintained plans for disaster recovery or crisis response to help ensure that its infrastructure, buildings and employees are prepared and safe, says spokesman Alfred King.

During the mid-February winter storm its cross-functional weather teams monitored and assessed weather and road conditions around the clock, regionally and locally.

"Decisions about whether to close offices or implement other elements of the business continuity plan are based on the circumstances of the moment," explains King.

Genworth's investment in technology and remote work capabilities, including the ability to re-route customer phone traffic, allowed the mortgage insurer's business teams to manage daily work volume. ♦