



FUTURE OF MORTGAGE SERVICING: MARKET SURVEY RESULTS



APRIL 2018

This document is a summary of survey responses from market participants. This document is not a recommendation by Fannie Mae, Freddie Mac or the Federal Housing Finance Agency.

INTRODUCTION

At the direction of the Federal Housing Finance Agency (FHFA), Fannie Mae and Freddie Mac (the Enterprises) conducted a mortgage servicing market survey in 2017 with the aim of identifying:

- Current challenges facing the servicing industry, and
- Opportunities to support a deep, liquid, and stable servicing market

The servicing industry has changed dramatically since 2008 with the costs of servicing having risen due to:

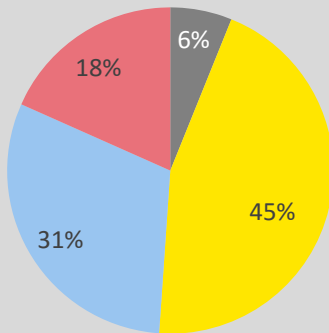
- A surge in delinquencies,
- Increased regulatory oversight, and
- Required new investment in technology to comply with new regulations

The survey is the first step in a multi-year effort to improve liquidity, efficiency, and the borrower experience in the servicing industry.

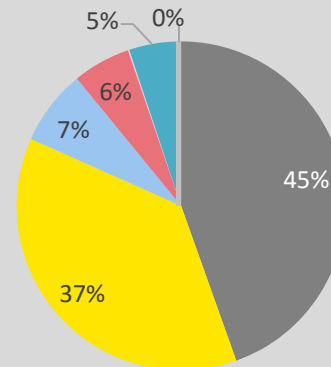


ELECTRONIC SURVEY RESPONDENTS DEMOGRAPHICS

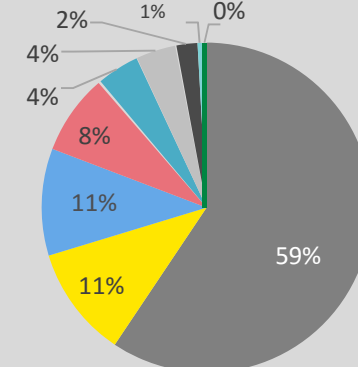
Survey respondents by servicing portfolio size



Survey respondents by organization type



Survey respondents by function



- Small (5,000 or less)
- Medium (5,001 – 100,000)
- Large (100,001 – 999,999)
- Mega (1,000,000 and above)

- Bank
- Investor
- Other

- Nonbank
- Credit Union
- Housing Finance Agency

- Finance
- Legal
- Capital markets & investment
- Other
- Risk

- Technology
- Servicing operations
- Production and sales
- CEO

- Over 220 individuals participated in the survey.
- Medium-sized servicers were the most represented, as were depository bank servicers.
- The majority of individuals who responded were in the finance division of their company.



RESPONDENTS: PROFITABILITY IS A KEY CONCERN

SERVICING FEES

Servicing Fees - 75% of respondents indicated that a flat-fee structure is appropriate for performing loans, but the current fee of 25 basis points needs adjustment.

- Most servicers emphasized that costs have significantly increased in the last 5 - 6 years and the current fee should be increased after taking into account the increased cost per loan.
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Non-performing loans - 82% of respondents indicated an alternate compensation model should be evaluated for non-performing loans.

- Servicers recommended alternate compensation structures, such as a differentiated fee-for-service and a standard monthly fee-for-service that better reflect the higher cost to service during delinquency.
 - Servicers recommended a tiered fee structure that focuses on incentives for servicers based on their portfolio performance, while promoting fair treatment of borrowers.
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Timeframe for fee structure change - 74% of respondents selected 2 – 3 years as their preference on a timeframe to change the compensation model.



RESPONDENTS: PROFITABILITY IS A KEY CONCERN

SERVICING COSTS

Biggest driver of increase in servicing costs - 93% of respondents confirmed that cost of regulatory compliance has been the biggest contributor to increases in servicing costs.

- The majority of the respondents stated that the volume, complexity, and frequency of regulatory changes has been the biggest driver of increasing costs.

Impact of regulatory compliance on Servicer operations - Respondents stated that they have increased their compliance staff by 2 to 3 times and have added layers of quality checks across the default processes to ensure compliance.

- Servicers continue to maintain different sets of processes, procedures, staffing, and reporting to accommodate different requirements by regulators and investors.

Potential changes to reduce servicing costs - Respondents recommended simplification of the claims process to reduce the turn around time of reimbursement requests and adjusting reimbursement levels to reflect industry standards.

- Respondents emphasized the importance of reimbursement of expenses when incurred, or at least on a regular basis.
- Paperless processing was identified by servicers as a change that would significantly shorten the timelines and reduce delays.



RESPONDENTS: EFFICIENCY IS A CONCERN

DATA STANDARDS & TECHNOLOGY

Defining servicing data standards - 60% of respondents highlighted a lack of alignment and high variance in data requirements of regulators and investors as the biggest barrier in defining and implementing servicing data standards.

- Many respondents stated that the Enterprises may be in the best position to take the initiative in defining and implementing uniform servicing data standards that can be followed across the industry.

Servicing transfer data - Approximately 60% of respondents indicated the key challenges for servicing transfers are ensuring data accuracy and completeness, and minimizing borrower impacts.

- Respondents stated that varied data and document standards followed by different servicers leads to data inconsistencies and gaps during the MSR transfer process.
- Respondents also expressed that system limitations inhibit the ability to effectively execute MSR transfers.
- Servicer transfer processes can be manual and time consuming with the need to map every data field, even when transferring to the same servicing system.
- 50% of nonbanks also highlighted document custody as one of their top three challenges in transferring servicing.

Adopting new technology - 69% of respondents indicated that costs associated with implementation is the biggest challenge in adopting new technology.

- Competing priorities in the overall business – particularly compared to originations – was also identified by 60% of respondents.
- 43% of small servicers stated legacy technology was a concern.

