

# Reinventing Our Industry

BY PAUL FISCHER

**T**he magnitude and severity of the mortgage crisis has been nothing short of stunning to many in our industry. As we progress into 2009, the threat of foreclosure continues to loom for millions of American homeowners. But the news, while grim, also brings an unexpected opportunity to create a new model for the mortgage industry—one based on collaboration, coordination, communication and creativity, and that brings together diverse partners who share the same goal of keeping as many homeowners in their homes as possible. ■ As one of the nation's largest mortgage insurance companies, Radian Guaranty has been on the front lines of the fallout, hearing from our servicing clients and their customers (beleaguered homeowners) that these turbulent economic times require bold, innovative solutions designed to assist mortgage servicers, mortgage holders and communities. ■ In our leadership position, Radian has considerable expertise in loan workouts and loss mitigation—skills that are in high demand today by many servicers. So, late last year, Radian unveiled a new program designed to bring the full weight of our experience to the country's top 25 mortgage servicers. ■ Our Servicer Advocacy Program assists mortgage servicers in offering tangible relief to distressed homeowners. Our goal is to help keep as many homeowners in their homes as possible by offering servicers a number of creative tools, partnerships and services to help their borrowers.

**A leading mortgage insurer has responded to the current mortgage crisis with an action plan that relies on industry collaboration, coordination, communication and creativity. Here's a report card on its success to date.**

Components of the effort include:

- Working closely and directly with mortgage servicers to offer more options to enable distressed homeowners to remain in their homes, rather than proceeding with stressful and costly foreclosures.

- Monitoring lender performance to improve underwriting standards and to reduce default levels.

- Placing loss-mitigation representatives directly in mortgage servicers' offices to personally assist and review borrowers' financial packages and determine appropriate workout solutions.

- Training servicers' employees in skills such as loss mitigation, negotiations and workout programs.

- Partnering with one of the most highly regarded, independent, non-profit counseling services in the nation to provide borrowers with access to independent counselors who can assist them in sorting through their financial options.

- Enhancing the functionality of our MI Online™ Web-based system for mortgage insurance ordering, servicing and claims submissions, and enabling clients to review their claims 24/7.

- Joining the HOPE NOW Alliance and conducting an aggressive outreach service to inform borrowers of the program.

- Launching a borrower Web site designed to supply homeowners having difficulty paying their mortgages with helpful information about the various workout options and solutions that may be available to them.

Together with our servicing partners, we have been seeking to rebuild borrowers' confidence by giving them the tools they need to understand their financial options. In addition, the Servicer Advocacy Program works directly with our loss-mitigation specialists, who are located in our corporate offices, to source, propose and close workout transactions with an emphasis on retention workouts.

A structured regional approach is being applied to the unique real estate needs of affected communities, organized into three regions: Western, Eastern and Central. These regions are supported by three regional servicer advocacy representatives who work directly with servicers to implement a custom-designed "Servicer Solution Set"—a set of loss-mitigation tools conceived to meet each servicer's specific needs.

Here are details of the components of our Servicer Advocacy initiative, along with data on progress to date.

### **Radian FastAdvance**

Because there is no single solution that will help every borrower, Radian is advancing funds to servicers so they can take the specific action required to keep borrowers in their homes. The Radian FastAdvance<sup>SM</sup> program delivers quick, partial advances of up to 15 percent of potential claims to residential mortgage servicers. They, in turn, can use the funds to offer solutions directly to homeowners by modifying the terms of

loans—such as lowering interest rates, reducing the principal or structuring customized repayment plans.

One of the widest uses of the FastAdvance program is to buy down payments over a specified time frame. In some cases, using Radian FastAdvance to customize repayment options allows delinquent homeowners who have encountered temporary financial setbacks to catch up through installment plans.

Our goal is for all of our mortgage servicers to make use of Radian FastAdvance so that borrowers with the desire and ability to work through their situations are able to stay in their homes.

Jim Davis, executive vice president with Irving, Texas-based American Home Mortgage Servicing Inc., one of the servicers taking advantage of Radian FastAdvance, says,

"The program is one of the tools we have been talking with borrowers about to get them back on a current basis. FastAdvance has been very beneficial to some of our borrowers who are experiencing short-term financial difficulties. It has allowed us to work with them to get them back on their feet and paying their mortgages in a timely manner."

He adds, "We have used the FastAdvance funds and applied them to modifications we have been working on, or to a borrower's delinquent payments to bring them up to date. This has enabled us to assist with short-term and longer-

term solutions, such as using the funds to help lower the borrower's interest rate."

American Home Mortgage is not alone. In 2008, seven servicers tapped \$1.7 million in partial claims advances, in the process helping 214 homeowners in need. In 2009, Radian hopes to help at least 1,200 homeowners in need.

### **On-site loss-mitigation representatives**

A second tool in the Servicer Advocacy toolkit is the physical placement of Radian loss-mitigation specialists directly in mortgage servicers' offices, enabling servicers to personally assist and review borrowers' financial packages and determine appropriate workout solutions. The on-site program presents the opportunity for Radian representatives to be inside of servicers' shops and to understand the processes, staffing, technology and challenges they face, as well as which programs would fit best.

Although servicers may share similar challenges, they are utilizing very different servicing systems—especially with all of the merger-and-acquisition activity in the industry that has taken place.

Servicers have found this benefit especially helpful in situations where loan modifications may fall outside traditional guidelines.

As Davis observes, "Radian has been sitting side-by-side with our agents who are working with borrowers on modifications and to resolve delinquencies. The on-site representatives have

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been especially helpful in those situations where we've had to go outside of our guidelines to make a deal work for a borrower. Radian gets involved immediately and gives us the ability to make changes in a certain program to make it work. They are right there with us making the call, rather than us having to contact Radian, provide them with the information and then wait for a decision. This greatly reduces the time needed to get approvals for those deals that go outside the normal guidelines, allowing us to arrive at a solution for the borrower that also is in the best interests of our investors and maximizes recovery for them."

### **Radian-sponsored servicer training**

Another on-site program to be offered this month by Radian is delivering training to servicers' employees in skills such as loss mitigation, negotiations and workout programs. The training assists servicers in becoming more familiar with tools that can help homeowners keep their homes, such as FastAdvance.

A number of employees in servicers' shops are fairly new, as many loss-mitigation departments have expanded to address the current economic environment. Also, loss-mitigation techniques are new to some servicers, who traditionally were set up to collect and process mortgage payments rather than dealing with a deluge of delinquencies.

Radian is working with the Mortgage Bankers Association's (MBA's) CampusMBA to provide loss-mitigation training, and is scheduling servicer negotiation training sessions for later this year as well.

### **Integrating FastAdvance with Early Resolution**

Mortgage servicers are facing an avalanche of defaults, bankruptcies and foreclosures that are straining both resources and operations. Furthermore, servicing technology is in a catch-up mode to keep pace with the rapidly changing requirements and the innovative policies being generated in response to the mortgage meltdown.

Radian recognizes that with every new loss-mitigation technique, an additional operational burden is placed on mortgage servicers' operations, so that execution is as important as innovation when it comes to implementing a new loss-mitigation program. Particularly in the larger servicing shops, if the new idea is a process-exception, its rollout will be protracted and its effectiveness will be severely limited.

To avoid that result, Radian is working with Falls Church, Virginia-based Computer Sciences Corporation's (CSC) Web-based loss-mitigation application, Early Resolution® (ER), to imbed the FastAdvance business rules into ER's decision engine.

Soon, ER users will be taking Radian's FastAdvance program into account on each Radian-insured default they service in their normal course of using the ER application, thereby avoiding the dreaded and oftentimes deal-killing

process-exception effect.

In short, by integrating Radian's business rules into a mortgage servicer's desktop application, an innovative loss-mitigation technique is seamlessly introduced at the point of sale—the initial interview with a delinquent borrower—without asking the servicer to conduct an offline and out-of-process review to implement a home-retention workout for an eligible borrower.

### **Consumer Credit Counseling Service**

One of the more creative tools in the Servicer Advocacy program is a partnership Radian has established with the Philadelphia-based Consumer Credit Counseling Service of Delaware Valley (CCCSDV), one of the most highly regarded, independent, non-profit counseling services in the nation.

Radian has enjoyed a long history of working with this organization in our hometown of Philadelphia; we have now expanded our relationship so that CCCSDV is assisting our borrowers across the nation. Through this initiative, borrowers are contacted by telephone by CCCSDV and offered access to third-party counselors who can assist them in sorting through all of their options, including comprehensive consumer-credit education, counseling, asset-building and debt-reduction programs. Radian covers all counseling costs for participants.

The motivation for this program grew out of the simple recognition that struggling borrowers are far more likely to take phone calls from non-profit, accredited counselors than they were to speak with their lenders.

The numbers have proven the success of the strategy: As of November 2008, Consumer Credit Counseling Service has realized a contact rate of 27 percent, compared with the tepid contact rate of roughly 1 percent that most default-outreach programs realize. Equally fulfilling is the fact that more than 400 counseling sessions have been conducted since March 2008.

As Patricia Hasson, president of CCCSDV, notes, "As a result of this unparalleled economic downturn, CCCSDV has handled more consumer calls and requests than at any other point in our history. This partnership with Radian allows us to reach homeowners when they can still 'get ahead of the problem,' offering them tangible assistance and information that can save their homes. It's a win-win program for lenders and consumers alike."

### **MI Online Web site**

Radian has enhanced the functionality of our MI Online Web-based system for mortgage insurance ordering, servicing and claims submissions. Designed to streamline the claims process and create an improved online experience, the upgrade allows clients to view their claims 24/7. In addition, it enables the review of outstanding documentation requirements, access to a more detailed explanation of benefits, and access to real-time information on payment status.

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The expanded Web site minimizes the need for calls and e-mails to Radian, streamlines processes for clients and saves them valuable time. Ninety-five percent of all claims are now submitted electronically to Radian.

#### **HOPE NOW Alliance**

Radian is a member of the HOPE NOW Alliance, a national consortium of mortgage servicers, counseling agencies, government-sponsored enterprises (GSEs), private and government mortgage insurers, the Treasury, Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve, dedicated to providing national solutions to the mortgage foreclosure dilemma.

There has never been a collaborative effort of this magnitude by the entire lending industry to address the challenge of preserving homeownership in the midst of this unprecedented financial crisis.

Many of the current and forthcoming initiatives spearheaded by HOPE NOW include aggressive borrower-outreach programs conducted on a regional basis; leadership in sculpting streamlined modification programs; an improved Web site, featuring enhanced educational information and assistance to borrowers facing foreclosure; policy and process innovations to help servicers manage increasing workout volumes; improvements in loss-mitigation metrics; and technology improvements that facilitate joint loss-mitigation efforts between consumer counselors and mortgage servicers.

Radian has launched an aggressive outreach service to inform borrowers of the program and to direct them to the HOPE NOW Alliance's Web site, where they can find information to aid them in making educated decisions. The company has sent about 9,000 letters each month, and that number's been growing. Radian also uses the mailers to inform borrowers about, and invite them to, HOPE NOW events being held in their region. These can result in a few hundred invitations being mailed out per homeowner event.

Mortgage servicers helped prevent approximately 2.2 million home foreclosures during 2008 by modifying loan terms or securing new repayment plans, according to the HOPE NOW Alliance. The alliance is expecting that number to double in 2009 by enhancing and expanding its efforts.

In addition, there were approximately 950,000 loan modifications made in 2008 through the efforts of HOPE NOW Alliance members. The increasing reliance on modifications, rather than payment plans, is expected to continue, as changing the terms of a loan is an increasingly appropriate way to keep homeowners in their homes in this troubled economy, according to the alliance.

To date, HOPE NOW has sent nearly 3 million letters to homeowners nationwide who may be at risk of losing their homes. About 18 percent of homeowners receiving the HOPE NOW-coordinated letters have contacted their servicer. That is six times the typical response rate servicers receive when

they send their own mailings.

In 2008, HOPE NOW connected more than 20,000 homeowners with their lender and/or a Department of Housing and Urban Development-certified (HUD-certified) housing counselor at workshops held throughout the United States.

The Homeownership Preservation Foundation, a HOPE NOW member, operates the Homeowner's HOPE™ Hotline, which is available 24/7. The hotline receives an average of more than 7,000 calls daily—or 1 million total calls from homeowners in 2008.

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#### **Borrower Web site**

Our improved and expanded borrower Web site is designed to give homeowners having difficulty paying their mortgages helpful information about the various workout options and solutions that may be available to them. While the site is primarily intended for borrowers with Radian-insured loans, any borrower may find the information useful.

The principle behind the borrower Web site is that many people under financial stress are reluctant to talk about their finances without

first doing some homework on their own—similar to searching a medical Web site for more information about possible health problems. The borrower Web site empowers homeowners with the tools they need to determine whether they want to explore further assistance.

In 2008, Radian attracted more than the 5,000 visits to the site and has sent more than 30,000 mailers to borrowers inviting them to visit the Web site for more information.

In addition, Radian is improving the functionality of the Web site so borrowers encountering financial difficulties can submit personal financial information to see how a potential workout could resolve their delinquency or create a more affordable monthly payment. These user-friendly enhancements will also improve our contact and response rate with borrowers.

#### **Homeowners will be the big winners**

The broad array of programs for servicers, homeowners and their communities is having a significant impact in reducing the rate of foreclosures and accelerating the number of loan modifications and workouts. Although the economy remains challenging, we are vigilantly collaborating with mortgage servicers and the mortgage lending industry to explore new ways to keep more people in their homes.

With a new attitude of collaboration and creativity, our industry enjoys a unique opportunity to reinvent itself on behalf of homeowners across the nation. **MB**

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