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## THE FRONT LINES OF PROPERTY PRESERVATION

### DS News speaks to property preservation experts

about how they're navigating economic challenges, a shifting industry landscape, and an exodus of vendor partners as they attempt to maintain strong boots-on-the-ground service.



#### CALIFORNIA COURT OF APPEALS INVALIDATES DEFAULT INTEREST PROVISION

Here's what the First District of the California Court of Appeals recently found in *Honchariw v. FJM Private Mortgage Fund, LLC*.

#### BANKRUPTCY COURT WEIGHS IN ON CHAPTER 13

Attorney Joel Jensen discusses a recent proceeding involving violations of a bankruptcy rule. Learn the latest and how it could impact the industry.

#### PROBATE-FORECLOSURE KNOT UNTANGLED?

It's not often that a modern-day court relies on case law from 1896, but a recent case did exactly that, examining longstanding friction between Illinois probate and foreclosure law.

#### 5 THINGS YOU NEED IN A NON-QM PORTFOLIO MANAGER

Here are the factors investors must consider in this rapidly changing economic environment.

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# Keeping Pace With an Evolving Industry

Welcome to the November 2022 issue of *DS News*. This month, we speak to property preservation experts on how they are navigating economic challenges, a shifting industry landscape, and an exodus of vendor partners as they attempt to maintain strong boots-on-the-ground service in the cover story, “The Front Lines of Property Preservation.”

As areas of the Southeast and East Coast continue to clean up after Hurricane Ian as updated estimates from CoreLogic of the damage and loss totals from the storm found that total flood and wind losses will total between \$41 billion and \$70 billion. This estimate includes wind loss, re-evaluated insured and uninsured storm surge loss and newly calculated inland flood loss for residential and commercial properties. Hurricane Ian is currently the costliest Florida storm since Hurricane Andrew made landfall in 1992.

In “The Front Lines of Property Preservation,” David Wharton chats with a panel of experts on the economic impact of COVID, inflation, supply-chain issues, and other headwinds that have presented challenges for those companies that continue to serve in the property preservation arena. In this feature, we are pleased to share the insight and perspective of Nickalene Badalamenti-Kalas, President of Five Brothers Asset Management Solutions; Stacey Bayley, SVP, Sales and Performance Management for SingleSource; Kellie Chambers, EVP of MSI Solutions; Michael Greenbaum, CIO of Safeguard Properties; Phil Johnsen, SVP/General Manager, Servicing & Real Estate Solutions for Altisource; Brandon Kirkham, COO of JGM Property Group; Tony Maher, VP, Business Development of Cyprex Services, LLC; Chad Mosley, President of Mortgage Services for MCS; and Thomas O’Connell, SVP, Default Management for Planet Home Lending.

In the article “Appraisal Modernization: Where We Are Now, What to Expect in 2023,” author Phil King, VP, Principal Product Manager for EXOS Valuations, ServiceLink shares some his insight into what is currently happening in the appraisal modernization space, and what we can expect to see in the coming months as the industry begins to re-balance.

Daren Blomquist, VP of Market Economics for Auction.com, in his article “Shifting Gears,” discusses three distressed disposition trends as the housing market downshifts. Blomquist delves into downward pressure on sales rates at foreclosure auctions; home price appreciation switching to a headwind for real estate-owned (REO) properties; and the shift in buyers toward local investors with a track record of converting distressed properties into quality, affordable housing for owner-occupants.

Janina “Gigi” Woods, SVP, Private Client Services for Planet Management Group, discusses the factors that non-QM investors must consider in a rapidly changing economic environment in her article, “Five Things You Need in a Non-QM Portfolio Manager.” Janina explains the value of maximizing opportunities in the non-QM market through minimizing default, and other hurdles that non-QM investors may encounter with a recession looming in the shadows.

Finally, three legal experts share their insights as T. Robert Finlay, Esq., Founding Partner of Wright Finlay & Zak; Joel Jensen, Bankruptcy Attorney with Diaz Anselmo & Associates P.A. in Covington, Kentucky; and Lauren Riddick, an Attorney and Director of Learning & Development at The Codilis Family of Firms, tackle a cross-section of housing-related legal issues, including default interest, bankruptcy, and foreclosure law in their November contributions to *DS News*.

Thank you again for your continued support of *DS News* and the default servicing industry. Wishing you and your family a happy holiday season.



**David Wharton**  
Editor-in-Chief

*David Wharton*

#### EDITOR-IN-CHIEF

David Wharton

#### MANAGING DIGITAL EDITOR

Eric C. Peck

#### REPORTERS

Kyle G. Horst, Demetria Lester

#### MAGAZINE CONTRIBUTORS

Daren Blomquist

T. Robert Finlay, Esq.

Joel Jensen

Lauren Riddick

John Rohrbach

Janina “Gigi” Woods

#### COPY EDITOR

Brandy Scott

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# DS Journal

Compiled by the DS News Staff

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## RECESSION IN THE FORECAST FOR 2023

A new outlook from the Mortgage Bankers Association found that due to current market conditions, purchase originations and refinance volume are now forecasted to both drop in 2023. The outlook was presented by Mike Fratantoni, Chief Economist and SVP for Research and Industry Technology; Joel Kan, VP, Deputy Chief Economist; and Marina Walsh, CMB, VP of Industry Analysis.

By the end of 2023, total mortgage volume is expected to decline 9% to \$2.05 trillion from the \$2.26 trillion expected in 2022. Purchase originations are forecast to decrease by 3% to \$1.53 trillion next year, while refinance volume is anticipated to decline by 24% to \$513 billion.

According to Fratantoni, the likelihood of a future recession is only increasing due to the Federal Reserve's continued efforts to tamp down inflation; heightened interest rates—along with affordability challenges—will slow homebuyer demand and purchase origination volume in 2023.

"Next year will be particularly challenging for the U.S. and global economies. The sharp increase in interest rates this year—a consequence of the Federal Reserve's efforts to slow inflation, will lead to an equally sharp slowdown in the economy, matching the downturn that is happening right now in the housing market," Fratantoni said. "MBA's forecast calls for a recession in the first half of next year, driven by tighter financial conditions, reduced business investment, and slower global growth. As a result, the unem-

ployment rate will increase from its current rate of 3.5% to 5.5% by the end of the year. Inflation will gradually decline towards the Fed's 2% target by the middle of 2024."

Furthermore, Fratantoni believes that as the economy slows, longer-term rates, including mortgage rates, will begin to fall from current peak levels. However, there will continue to be "significant volatility in rates in the near-term due to quantitative tightening by the Fed and other central banks, and as markets grapple with significant geopolitical, economic, and monetary policy uncertainties."

The MBA is forecasting that mortgage rates will end 2023 at 5.4% after more than doubling in 2022.

"The slowdown in housing activity and higher mortgage rates will quickly cut the rate of home-price growth. MBA expects national home prices will be roughly flat in 2023 and 2024, allowing household incomes some much-needed time to catch up to elevated property values," Kan said. "However, many local markets will see home-price declines, even if national price measures remain largely unchanged."

According to Kan, first-time homebuyers will make up the glut of demand over the next few years, given current trends. The combination of still-low levels of for-sale inventory and slowing new construction activity means that housing supply is likely to remain constrained for some time.

"Origination volumes have declined, rev-

*Continued on next page*

## Top 10 DATA BITS

TAKE A LOOK INSIDE THE NUMBERS



STATES MOST IMPACTED BY NATURAL DISASTERS

- | RANK | CITY           |
|------|----------------|
| 1.   | MISSISSIPPI    |
| 2.   | LOUISIANA      |
| 3.   | TEXAS          |
| 4.   | IOWA           |
| 5.   | ALABAMA        |
| 6.   | OKLAHOMA       |
| 7.   | KANSAS         |
| 8.   | NORTH CAROLINA |
| 9.   | FLORIDA        |
| 10.  | MISSOURI       |



STATES LEAST IMPACTED BY NATURAL DISASTERS

- | RANK | CITY          |
|------|---------------|
| 1.   | MAINE         |
| 2.   | ALASKA        |
| 3.   | NEW HAMPSHIRE |
| 4.   | HAWAII        |
| 5.   | UTAH          |
| 6.   | NEVADA        |
| 7.   | VERMONT       |
| 8.   | ARIZONA       |
| 9.   | WASHINGTON    |
| 10.  | RHODE ISLAND  |

*Source: September 2022 WalletHub Market Report*

Know THIS



A Redfin study found that millennials and Gen Zers allocate more than one-quarter of their income to housing.



ATTOM's August Foreclosure Market Report revealed a total of 34,501 U.S. properties with foreclosure filings, including default notices, scheduled auctions, or bank repossessions, up nearly 120% from a year ago.

*Continued from previous page*

enues have dropped, and expenses continue to rise,” Walsh said. “Lenders have started to shrink excess capacity by reducing staffing levels, exiting less profitable channels, or exiting the business entirely.”

The MBA further predicts that mortgage employment will drop an additional 25-30%, given the decrease in production from record levels that occurred in 2020 and 2021.

On the servicing side of the business, profits rebounded in 2022. Mortgage servicers are benefitting from slower prepayments and low delinquencies that have helped boost mortgage servicing right (MSR) valuations.

“The national mortgage delinquency rate reached a record low in the second quarter of 2022 but will likely increase with the uptick in unemployment and the destruction caused by Hurricane Ian in Florida, South Carolina, and other nearby states,” Walsh concluded.

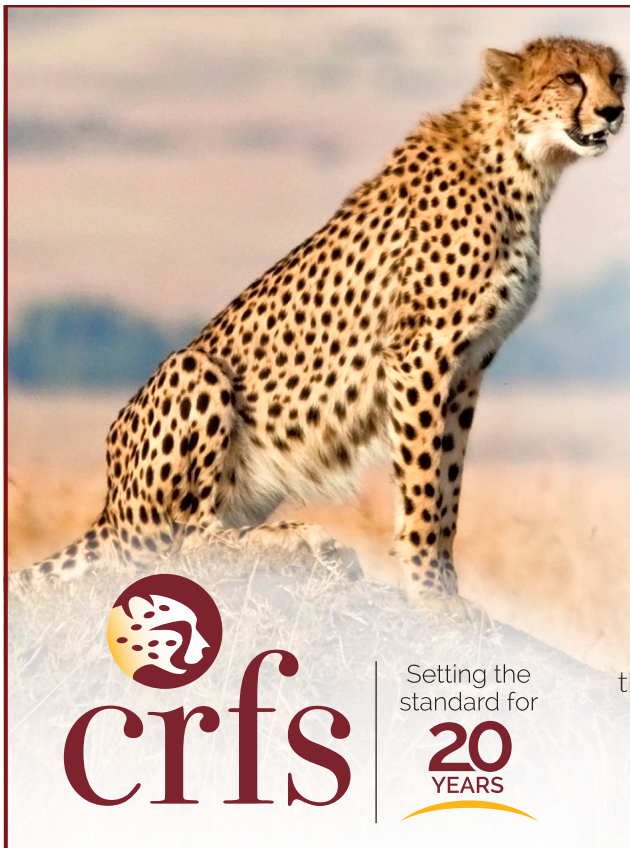
# U.S. HOUSING SUPPLY RISES

According to data analyzed by the U.S. Census Bureau and the U.S. Department of Housing & Urban Development (HUD), sales of new single-family homes in September 2022 were at a seasonally adjusted annual rate of 603,000, 10.9% below the revised August rate of 677,000, and 17.6% below the September 2021 year-over-year estimate of 732,000.

“The decline in September sales was consistent with our view that the large jump seen in August would be a temporary deviation from a generally slowing sales pace due to the short-lived mid-summer pullback in mortgage rates,” said Douglas G. Duncan, Chief Economist at Fannie Mae. “Since then,

mortgage rates have continued to rise, with the 30-year fixed-rate mortgage (as reported by Freddie Mac) up roughly 195 basis points since the mid-summer lows. We, therefore, anticipate a further slowdown in home sales over the coming quarters. Higher mortgage rates continue to weigh on the purchasing power of buyers while also increasing the ‘lock-in’ effect felt by potential move-up buyers. Homeowners with a mortgage at a lower rate than current rates continue to have a strong incentive to remain in their current homes.”

HUD and the Census Bureau found the median sales price of new houses sold in September 2022 nationwide was \$470,600, with the average sales price at \$517,700.



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Nationwide, the seasonally adjusted estimate of new houses for sale at the end of September was 462,000, representing a supply of 9.2 months at the current sales rate.

“The months’ supply of homes for sale rose by 1.1 months to 9.2, largely due to a slower sales pace,” Duncan added. “However, of note is that the number of homes for sale that were already completed continued to rise steadily, up 19.1% from August. Since the beginning of the pandemic, most homes available for sale were not completed; however, a continual increase in the number of completed homes available for sale is now occurring, with the inventories of such homes now at the highest level since July 2020. This suggests to us that builders may be increasingly willing to offer more aggressive incentives and discounts to maintain sales of completed inventory. If so, this would likely put further downward pressure on home prices.”

RE/MAX reported that inventory has grown 3.9% since August and 30.4% year over year in its latest September 2022 report. New listings were down 7.6% since last month, and down 11.4% year over year, due to homeowners staying put in their homes more due to their current favorable financing.

“After a sustained period of quick sales that kept the housing cupboard relatively bare, a supply of two months presents a lot more options for homebuyers,” said Nick Bailey, RE/MAX President and CEO. “For a long time, six months of inventory was the standard for a balanced market that favored buyers and sellers evenly. Now, with the evolution of technology and various changes in homebuying patterns, the new standard is becoming four months. We’re halfway to that level, and the market is making steady progress toward balance. Home sales are still happening and having the right real estate professional by your side is critical for consumers looking to take advantage of the market conditions.”

## PENDING HOME SALES DROP IN SEPTEMBER

Pending home sales trailed off for the fourth consecutive month in September, according to the National Association of Realtors. Additionally, all four major regions recorded month-over-month and year-over-year declines in transactions.

The Pending Home Sales Index (PHSI), a forward-looking indicator of home sales based on contract signings, slumped 10.2% to 79.5 in September. Year over year, pending transactions slid by 31.0%. An index of 100 is equal to the level of contract activity in 2001.

“Persistent inflation has proven quite harmful to the housing market,” NAR Chief Economist Lawrence Yun said. “The Federal Reserve has had to drastically raise interest rates to quell inflation, which has resulted in far fewer buyers and even fewer sellers.”

### Key Highlights:

- » Pending home sales dropped for the fourth straight month, down 10.2% from August.
- » Month over month, contract signings pulled back in all four major U.S. regions.
- » Pending sales decreased in all regions compared to one year ago.

### Pending Home Sales Regional Breakdown

The Northeast PHSI descended 16.2% from last month to 64.2, a decline of 30.1% from September 2021. The Midwest index retracted 8.8% to 80.7 in September, down 26.7% from one year ago.

The South PHSI faded 8.1% to 97.0 in September, a drop of 30.0% from the prior year. The West index slipped by 11.7% in September to 62.7, down 38.7% from September 2021.

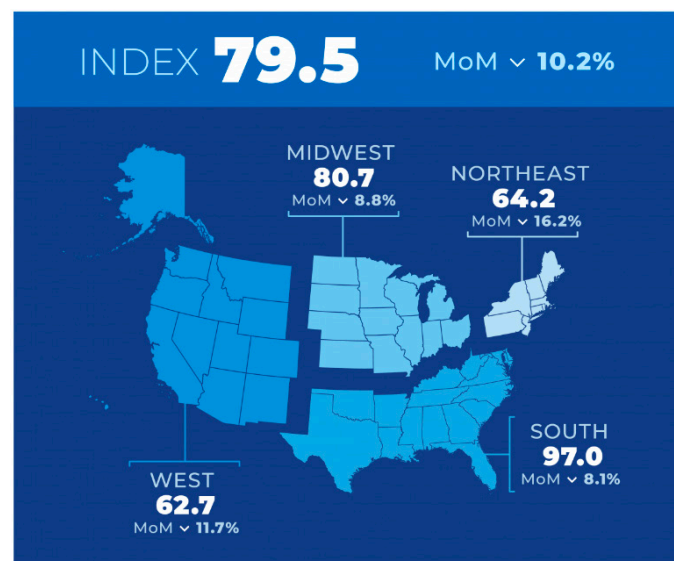
September experienced a steep drop in pending home sales, indicating further existing-home sales declines in October.

“Pending home sales plummet 10.2% in Septem-

ber, largest month-over-month decline since the start of the pandemic,” First American Chief Economist Mark Fleming said. “This is not surprising as mortgage rates recent increase toward 7% and beyond dampened affordability and likely buyer enthusiasm, pending another round of rate increases by the Federal Reserve next week.”

Fleming continued, “This also strongly suggests October existing-home sales will also decline. While the number of households in the U.S. suggests that somewhere near 6 million existing-home home sales a year is normal, we are far from normal. Pending home sales indicate existing-home sales closer to 4 million SAAR than 5 million SAAR over the next few months.”

Yun also noted that new home listings are down compared to one year ago since many homeowners are unwilling to give up the rock-bottom, 3% mortgage rates that they locked in before this year. “The new normal for mortgage rates could be around 7% for a while,” Yun added. “On a \$300,000 loan, that translates to a typical monthly mortgage payment of nearly \$2,000, compared to \$1,265 just one year ago—a difference of more than \$700 per month. Only when inflation is tamed will mortgage rates retreat and boost home purchasing power for buyers.”





Mortgage Process Overview (Home Loans 101) | Chase  
2,858 views · Mar 1, 2022

**YouTube/Podcast:**

## Mortgage Process Overview (Home Loans 101)/Podcast for First-Time Buyers | Chase

Chase Bank has developed an interactive diagram and podcast offered to those looking for more information surrounding home loan operations, as experts provide detail on the home loan process and what steps may be necessary to secure one. Whether a first-time homebuyer or a seasoned pro, the mortgage process may often be complex and overwhelming according to many Americans. In the informative video, Chase covers the basics of a mortgage loan process to help buyers get started and successfully navigate the homebuying journey.

**YouTube:**

## A Mortgage Loan Just for Black Borrowers | Rants and Gems 64

As racial inequality persists in housing, many studies show that Black people have a harder time securing a home loan than most. Legacy Home Loans has launched “Special Purpose Credit Program” (SPCP) for Black aspiring homeowners. The new “CLOSING the GAP” program requires a 1% down payment, with free appraisal, free home warranty program, free pre-purchase homebuying counselling, free post-closing homebuying counselling, and financial assistance with closing costs. Their latest video explains how the loan program uses credit guidelines based on factors such as timely rent, utility bill, phone, and auto insurance payments to help more Black people obtain the opportunity to purchase a home.

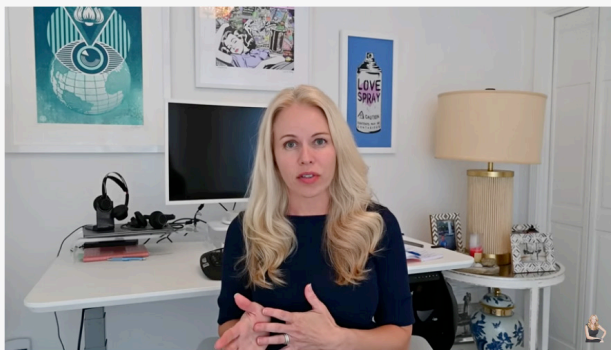


A Mortgage Loan Just For Black Borrowers | Rants and Gems 64  
59,606 views · Streamed live on Sep 14, 2022

**YouTube:**

## VA Housing Market Shift 2022—Great Time to Be a VA Loan First-Time Homebuyer

Jennifer Beeston, SVP of Mortgage Lending at Guaranteed Rate, Inc., provides a video infographic on everything VA loans in the current market, with tips on what time and strategy is best to apply. For veterans, active-duty service members, and some spouses, VA home loans can serve as a great way to secure homeownership. However, they do differ from traditional home loans in some key ways. Beeston’s latest video from September details criteria on how to obtain a VA home loan, which loan might be right for buyers, and what to expect throughout the process.



#valoan #vanmortgage #firsttimehomebuyer  
VA Housing Market Shift 2022 - Great Time To Be a VA Loan First Time Home Buyer  
56,878 views · Sep 7, 2022



## REPORT: DELINQUENT BORROWERS FINDING 'ALTERNATIVES TO DEFAULTING'

CoreLogic's Loan Performance Insights Report for August 2022 has found that for August 2022, 2.8% of all mortgages in the U.S. were in some stage of delinquency (30 days or more past due, including those in foreclosure), representing a 0.2%-percentage point decrease month over month and a decrease of 1.2 percentage points compared to August 2021 when the rate was 4%.

This information comes by way of the CoreLogic August 2022 Loan Performance Insights Report, which reports on first-lien mortgages, covering delinquency, transition, and foreclosure rates. CoreLogic estimates that this report covers 75% of available foreclosure data.

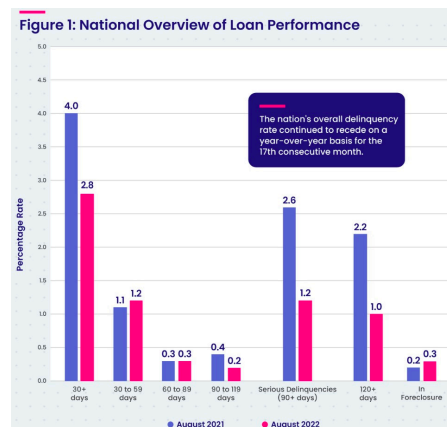
In August 2022, the U.S. delinquency and transition rates, and their year-over-year changes, were as follows:

- » Early-Stage Delinquencies (30 to 59 days past due): 1.2%, up from 1.1% in August 2021.
- » Adverse Delinquency (60 to 89 days past due): 0.3%, unchanged from August 2021.
- » Serious Delinquency (90 days or more past due, including loans in foreclosure): 1.2%, down from 2.6% in August 2021 and a high of 4.3% in August 2020.

- » Foreclosure Inventory Rate (the share of mortgages in some stage of the foreclosure process): 0.3%, up from 0.2% in August 2021.
- » Transition Rate (the share of mortgages that transitioned from current to 30 days past due): 0.6%, unchanged from August 2021.

This data revealed that the number of borrowers classified as seriously delinquent on their mortgage payments in August, the lowest level since April 2020, as the overall delinquency rate remained near a record low.

These numbers have been helped by a



low 4% unemployment rate, which helps homeowners continue to make timely payments.

"The share of U.S. borrowers who are six months or more late on their mortgage payments fell to a two-year low in August and was less than one-third of the pandemic high recorded in February 2021," said Molly Boesel, Principal Economist at CoreLogic. "Furthermore, the foreclosure rate remained near an all-time low, which indicates that borrowers who were moving out of late-stage delinquencies found alternatives to defaulting on their mortgages."

On a state and local level, the report also found:

- » In August, all states posted annual declines in their overall delinquency rates. The states with the largest declines were Hawaii, Nevada, and New York (all down 2.1 percentage points). The remaining states, including the D.C., registered annual delinquency rate drops between 2 percentage points and 0.3 percentage points.
- » All but five U.S. metro areas posted at least a small annual decrease in overall delinquency rates, with increases in those metros ranging from 0.1 to 0.4 percentage points.
- » All U.S. metro areas posted at least a small annual decrease in serious delinquency rates, with Odessa, Texas (down 4.4 percentage points); Laredo, Texas (down 3.3 percentage points); and Midland, Texas, and Kahului-Wailuku-Lahaina, Hawaii (both down 3.2 percentage points), posting the largest decreases.

# PREPAYMENT ACTIVITY FALLS TO 20-YEAR LOWS



According to Black Knight's "first look" at September 2022 month-end mortgage performance data, prepayment activity dropped by 14.9% to a single-month mortality rate of 0.57% over the course of the month, now at its lowest level since November 2000.

In addition, the national delinquency rate inched down by two-tenths of a percentage point from August to 2.78%, just north of the record low set in May 2022, as the bulk of past-due mortgages held relatively steady.

The number of borrowers who are behind by a single payment rose by 1%, while those 90-days past due fell 1.5%, and foreclosure starts fell 9% from August to 18,400 starts, a number now 53% below pre-pandemic levels.

**Total U.S. loan delinquency rate (loans 30 or more days past due, but not in foreclosure): 2.78%**

- » Month-over-month change: -0.18%
- » Year-over-year change: -28.78%

**Total U.S. foreclosure pre-sale inventory rate: 0.35%**

- » Month-over-month change: 0.04%
- » Year-over-year change: 35.52%

**Total U.S. foreclosure starts: 18,400**

- » Month-over-month change: -9.36%
- » Year-over-year change: 371.79%

**Monthly prepayment rate (SMM): 0.57%**

- » Month-over-month change: -14.89%
- » Year-over-year change: -73.33%

**Foreclosure sales as % of 90+: 0.60%**

- » Month-over-month change: 11.96%
- » Year-over-year change: 100.62%

**Number of properties that are 30 or more days past due, but not in foreclosure: 1,491,000**

- » Month-over-month change: 2,000
- » Year-over-year change: -577,000

**Number of properties that are 90 or more days past due, but not in foreclosure: 558,000**

- » Month-over-month change: -9,000

- » Year-over-year change: -675,000

**Number of properties in foreclosure pre-sale inventory: 185,000**

- » Month-over-month change: 0
- » Year-over-year change: 50,000

**Number of properties that are 30 or more days past due or in foreclosure: 1,677,000**

- » Month-over-month change: 3,000
- » Year-over-year change: -526,000

**Top 5 States by Non-Current Percentage:**

- » Mississippi: 6.39 %
- » Louisiana: 5.62 %
- » Oklahoma: 4.68 %
- » Alabama: 4.56 %
- » West Virginia: 4.46 %

**Bottom 5 States by Non-Current Percentage:**

- » Oregon: 1.93 %
- » Colorado: 1.79 %
- » California: 1.78 %
- » Idaho: 1.68 %
- » Washington: 1.64 %

**Top 5 States by 90+ Days Delinquent Percentage:**

- » Mississippi: 2.39 %
- » Louisiana: 1.95 %
- » Alabama: 1.67 %
- » Oklahoma: 1.54 %
- » Arkansas: 1.51 %

**Top 5 States by 6-Month Change in Non-Current Percentage:**

- » Alaska: -24.31 %
- » Hawaii: -23.06 %
- » North Dakota: -15.09 %
- » New York: -14.00 %
- » District of Columbia: -10.19 %

**Bottom 5 States by 6-Month Change in Non-Current Percentage:**

- » South Dakota: 10.09 %
- » Iowa: 8.39 %
- » Arizona: 6.54 %
- » Kansas: 6.28 %
- » Wyoming: 4.99 %



# COMMENTARY: COULD PERMANENT FORBEARANCE PREVENT FUTURE FORECLOSURES?

Four authors for the Urban Institute, make the case for the permanent forbearance plans offered to homeowners for specific life events such as job loss, divorce, life-altering injury, or illness, and even in cases of the death of one of the borrowers.

According to Katie Visalli, Laurie Goodman, Alexei Alexandrov, and Ted Tozer, in the current system it is a fact that when someone loses their home, something in their life has gone wrong to put them down this path.

Extenuating circumstances, or in simpler terms the loss of income, occurs at a rate of 94.5% for mortgage defaults. Many times, severe financial pressures occur alongside emotional trauma from the event, but in these situations, forbearance could be offered to these otherwise credit-worthy borrowers averting them from the foreclosure process.

Before the pandemic, forbearance was uncommon at best, but according to the authors, normalizing these programs could benefit homeowners, communities, and even the lender.

The authors cite data from the Federal Government on the pandemic-era CARES

Act, which is required to publish their findings to the public. As a whole, these findings revealed that up to 8 million households took advantage of forbearances, likely stopping a large wave of foreclosures that would have resulted from high unemployment.

The author also cites a second report which corroborates data from the government using the National Mortgage Database.

So, what would a world of normalized forbearance look like? Through the apparent success of pandemic-era forbearance programs, these forbearance programs could be expanded to cover any number of incidents, namely loss of employment, severe injury or illness, and death of a co-borrower.

“This policy is simply a limited extension of current policies, which all the servicers have implemented,” the group wrote. “Thus, the costs of such an extension would be near zero.”

“Under this forbearance policy, anyone who documented a financially disruptive life event could stop making mortgage payments without going into default and with minimal penalties to their credit score,” the group continued. “If the qualifying event were short

term, the homeowner could continue with their mortgage as usual after the forbearance term expired.”

“In this case, the payments they did not make would be tacked onto the end of their loan without interest. The homeowner would end up paying the same amount for their mortgage when they could afford to do so. If they could not afford to continue making the same monthly payment as before, they would be considered for a modification to reduce their mortgage payments.”

All of this, if implemented correctly, would even allow those homeowners who are seriously underwater a few extra months to put their homes on the market, softening a hit on their credit.

Under this new policy, borrowers would not need to go seriously delinquent before applying for aid, as is how the system currently works. They further estimate if lenders offer these programs to just 5% of their borrowers, it would produce a total savings of \$2,290 per loan.

So, what would it take to normalize forbearance? It would take Fannie Mae, Freddie Mac, the Federal Housing Administration, and the Veterans Administration simply applying the process used during the pandemic, but on a broader scale.

“These entities have the power to make forbearance a regular part of the process for stopping foreclosures,” the group wrote. “Doing so would be easy; each institution can do so by itself, without needing agreement from any of the other entities or from Congress.”

“The GSEs, the FHA, and the VA should consider applying the lessons from the pandemic to institute a forbearance program that homeowners can rely on to maintain stability, even when life takes a turn.”



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# BLACK AND LATINO HOMEOWNERSHIP RATES RISE IN NEARLY HALF OF U.S.

According to Urban Institute's latest market analysis, Black and Latino homeownership rates surpassed that of white homeowners, with rates increasing in 40 states from 2019-2021. Although the Black homeownership rate has experienced a continuous decline since the Great Recession, with many Black households being disproportionately affected by predatory lending practices, the Black homeownership rate is now finally showing growth.

In both the American Community Survey (ACS) and Current Population Survey (CPS)/Housing Vacancies and Homeownership Survey (HVS) data, the Black homeownership rate has increased by around 2 percentage points. Meanwhile, the Latino homeownership rate varied slightly across the two datasets—a 2.5 percentage-point increase in the American Community Survey (ACS), and a 0.9 percentage-point increase in the CPS/HVS—but increased in both.

## The Black Homeownership Rate Increased in Most States

By rate, Montana, Vermont, and Wyoming had the biggest increases in Black homeownership, but they also have some of the smallest Black homeowners and renter populations. Vermont lost both Black homeowners and renters, though the Black homeownership rate increased.

Interestingly, several states in the Mountain West and Midwest, such as Arizona, Idaho, Iowa, Minnesota, North Dakota, and Utah, experienced large increases in Black homeownership rates. In Arizona, the decrease in Black renters from 2019 to 2021 was mirrored by a similarly sized increase in Black homeowners.

In the other states, a decrease in Black renters and a slight increase in Black homeowners had a large effect on the homeownership rate because of the small overall Black population in these states. Larger states, such as Florida, Georgia, and Texas, had the largest increases in the

number of Black homeowners, but the Black homeownership rate in these states changed by only 1.8 to 3.4 percentage points.

## Latino Homeownership Rates Also Increase in Most States

Similarly, the states with the largest increases in Latino homeownership rates from 2019 to 2021 have very small Latino populations. However, some states experienced large increases in Latino homeowner populations and homeownership rates. This happened in Connecticut, which gained 26,972 Latino homeowners from 2019 to 2021 as well as 1,947 Latino renters, for an 8.3 percentage-point increase.

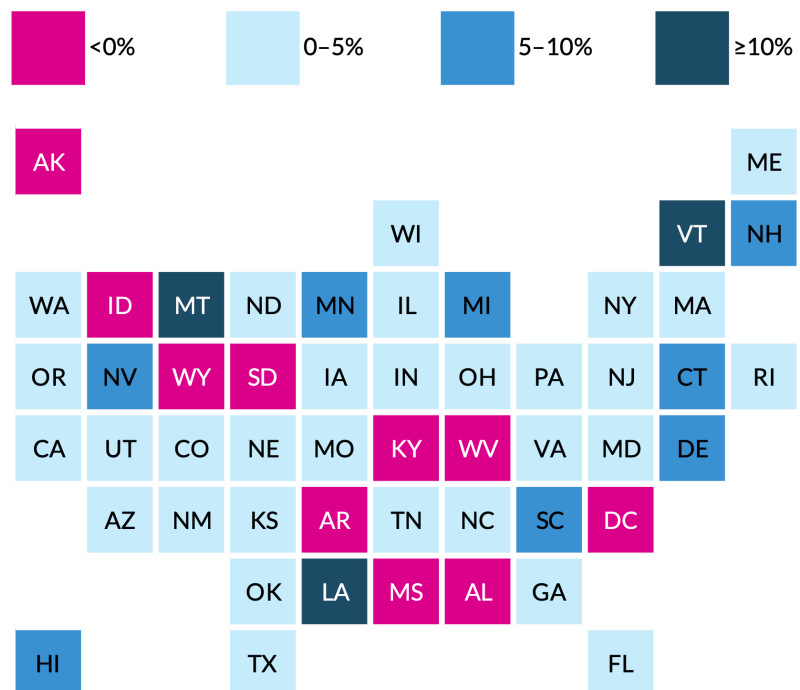
Texas, which experienced only

a 1 percentage-point increase in its homeownership rate, gained nearly 270,000 Latino homeowners, the most nationwide. Texas, along with Florida and California (also states with large Latino homeowner increases), experienced a small homeownership rate change because of the size of the Latino population and the increase in Latino renters, which is likely a sign of mobility, not of poor homeownership outcomes. Renters have a higher mobility rate than homeowners.

## Lack of Affordable Housing and High Interest Rates Pose Challenges Moving Forward

One reason for the increase in Black and Latino homeownership rates is age; many

## The Latino Homeownership Rate Increased in 41 States Between 2019 and 2021



Source: 2019 and 2021 American Community Survey data.  
Note: States that experience homeownership rate changes greater than 10 percentage points have small samples, so the numbers may have greater marginal errors.

Continued on page 15

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Continued from page 13

Black and Latino residents are in their prime homebuying years. In 2021, Black and Latino people's median ages were 35.3 and 30.5, respectively, compared with 43.9 for whites.

Despite the pandemic's negative effects on employment, swift government actions, such as forbearance and unemployment benefits, helped Black and Latino households sustain homeownership and helped many enter homeownership and benefit from historically low interest rates. Data show forbearance take-up was higher among these households.

But quickly changing market conditions could impede this positive trajectory. Despite signs of a slowdown, home prices remain high and mortgage interest rates have more than doubled from last year, making homeownership less affordable, especially for Black and Latino households who, on average, have lower incomes because of structural barriers. Rising rent is also making it more difficult to save for future down payments.

Research shows that homeownership transfers from parents to children. Those with wealthy homeowner parents—who are disproportionately white—are most likely to receive financial support and help navigating the complicated homebuying process. A well-targeted down payment assistance program, special purpose credit program, outreach, and counseling are among solutions that can reduce the racial homeownership and wealth gaps.

Additionally, the state-level differences suggest policymakers should consider different priorities in different places to reduce the racial homeownership gap. For example, in the Midwest and Mountain West, affordability is not as much of a concern, but decreasing outward mobility and making such places welcoming and attractive to diverse populations will be key. In Texas, Florida, and Georgia, states with large Black or Latino populations, improving housing affordability can go a long way.

The racial and ethnic homeownership gap narrowed for Black and Latino households relative to white households during the pandemic, but targeted and tailored policy supports are needed to ensure these gains don't backslide.

# HOUSING MARKET: WHAT TO EXPECT IN THE REMAINDER OF 2022

In a recent First American blog post, Mark Fleming, First American's Chief Economist and leader of the Data Sciences team extrapolated what buyers and investors should expect through year-end in terms of Housing Market Potential.

Overall, housing market potential sagged to its lowest point since May 2020 in September—when the pandemic brought the country to a near standstill—falling 3.6% from August 2022 to an estimated 5.38 million units at a seasonally adjusted annualized rate. On a year-over-year basis, the market potential for existing-home sales is now down 16.7%.

“Market dynamics and the broader economic outlook have changed dramatically in the last 12 months, and that has strongly influenced the fundamentals that drive buyer and seller behavior and the potential for existing-home sales compared with a year ago,” Fleming said. “The higher the mortgage rate, the more sellers will go on strike and the more potential buyers will feel the impact of reduced house-buying power, but price appreciation will further slow and potential buyers can use adjustable-rate mortgages to regain some of that lost house-buying power.”

## Then vs. Now

September 2021 marked the highest market potential level recorded since 2007 mainly because the average 30-year fixed mortgage rate was 2.9%. Since then, the market has endured constantly rising interest rates which are now toeing the 7% mark. These higher rates have a dual effect on the housing market. Firstly, rising rates reduce home-buying power, all things being equal, which in turn dampens home-buying demand and decreases the market potential for existing-home sales.

Compared to September 2021, house-buying power is now down 29%, equivalent to a loss of 695,000 home sales.

Ninety-three percent of outstanding mortgages now have a rate under 6% as of the second quarter of 2022.

“As mortgage rates approach 7% and the gap between most homeowners' current mortgage rate and the prevailing market rate grows, the financial disincentive for homeowners to sell their homes and buy a new home at the higher prevailing mortgage rate increases,” Fleming wrote. “The rate lock-in effect prevents more new supply from reaching the market and reduces the number of home sales. Homeowners staying put reduced housing market potential by 84,000 sales in September compared with one year ago.”

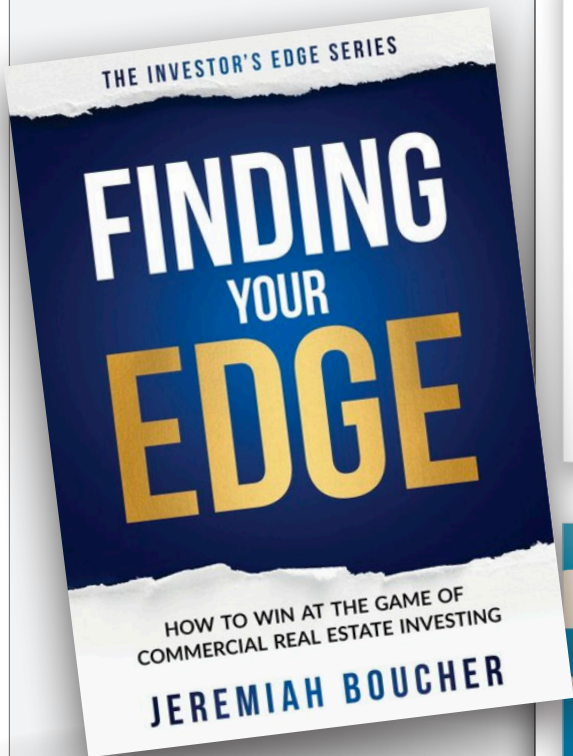
When lending standards are tight, fewer people can qualify for a mortgage to buy a home. Tighter credit conditions resulted in 424,000 fewer potential home sales compared to one year ago.

## So, What's Next?

While in hindsight, it is clear that the ultra-low mortgage rates lenders were offering during the pandemic “super-charged” housing market potential, what is in store for potential home sales now that rates are slated to keep rising?

“As long as inflation remains high, there will be upward pressure on mortgage rates as the Federal Reserve continues to aggressively tighten monetary policy,” Fleming said. “The higher the mortgage rate, the more sellers will go on strike and the more potential buyers will feel the impact of reduced house-buying power, but price appreciation will further slow and potential buyers can use adjustable-rate mortgages to regain some of that lost house-buying power.”

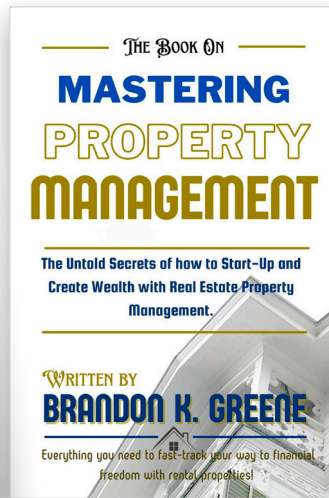
“While not the frenzy of 2021, the largest living generation, the millennials, will continue to age into their prime home-buying years, creating a demographic tailwind for the housing market,” Fleming concluded.



## **Finding Your Edge: How to Win at the Game of Commercial Real Estate Investing (The Investor's Edge)**

By Jeremiah Boucher

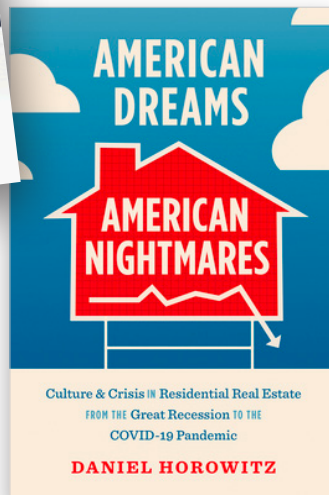
A book for future or new real estate investors, Jeremiah Boucher has authored the first of a series of books on the principles and lessons he has learned throughout his career. In a clear and concise manner, he explains how to use insider jargon to find new ways to seek out deals, make connections, and add value to your operation. Though the use of insider information and strategies he shares, you can find your own strengths and your own edge, whether you want to build a portfolio or learn to evaluate and choose passive strategies like commercial real estate private equity funds to grow your wealth.



## **Mastering Property Management: The Untold Secrets of How to Start-Up and Create Wealth with Real Estate Property Management**

By Brandon Greene

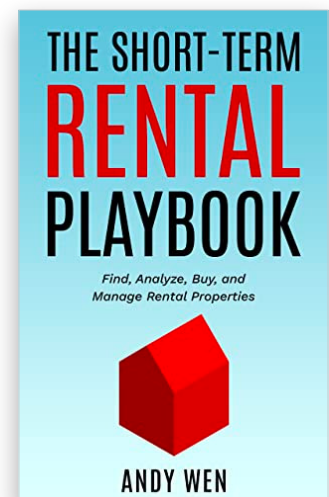
Property management is a niche business, but author Brandon Greene shows you how to achieve financial success through real estate property management. Over the course of his new book, you will be taught how to use rental properties to build a new revenue stream through tried-and-true methods, whether you're just starting out or have hundreds of properties. Topics include how to avoid common mistakes, how to decide when to hire a property manager, how to set up the correct systems for your investments, and creative tips to find incredible deals in today's competitive market.



## **American Dreams, American Nightmares: Culture and Crisis in Residential Real Estate from the Great Recession to the COVID-19 Pandemic**

By Daniel Horowitz

It is no secret that the last two decades have completely changed the housing market in the country. Casting a wide net over an expansive range of material and sources, author Daniel Horowitz shows how journalists and anthropologists have looked at the impact of these changes from real estate workshops to Reality TV home-flippers to the rise of short-term rentals through Airbnb. This book lays bare the catalyzed shifts in the way Americans conceptualize what a house is for.



## **The Short-Term Rental Playbook: A Guide to Finding, Analyzing, Buying, and Managing Rental Properties with Risk and Diversification in Mind**

By Andy Wen

Real estate and stock market investor Andy Wen has been investing for the past 20 years and has written a new book to impart what he has learned throughout his career. Surviving many market crashes, the author believes crafting wealth from diverse sources is the key to success, but short-term rentals are particularly lucrative. This book is for those who want to demystify short-term rentals; readers will learn to see through marketing tactics, make informed choices, boost bookings, and methods you can use to apply to nearly any situation.



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## SPOTLIGHT PROFILE GOVERNMENT

## HUD Names New Assistant Secretary of Public Affairs



The U.S. Department of Housing & Urban Development (HUD) has named **Beth Lynk** as its new Assistant Secretary of Public Affairs, sworn in by HUD Secretary Marcia L. Fudge.

Lynk brings a wealth of knowledge as a strategist and communications expert in campaigns, crisis communications, and strategic planning with experience working in civil rights, healthcare, government, political, nonprofit, and corporate environments. She is a native of the District of Columbia and a graduate of Northwestern University.

She most recently served as Senior Advisor to the Centers for Medicare & Medicaid Services (CMS) Administrator and previously as the CMS Director of the Office of Communications (OC). There, she drove campaign and communications strategy for the most successful Affordable Care Act Marketplace open enrollment period in history, resulting in more than 14.5 million signing up for health coverage and incorporated new health equity campaign strategies, including culturally competent messaging, as well as expanded outreach to five AANHPI languages for the first time.

Prior to joining CMS, Lynk served as the Deputy Assistant Secretary for Public Affairs at the Department of Health and Human Services (HHS), where she supported HHS Secretary Xavier Becerra in his first 100 days leading strategic communications for the HealthCare.Gov Special Enrollment Period, health equity, drug pricing, and the implementation of American Rescue Plan.

Prior to HHS, Lynk worked at The Leadership Conference on Civil and Human Rights, where she ran the Census Counts Campaign and developed a coordinated effort that brought together businesses, foundations, cities, faith leaders, and community-based organizations across a wide spectrum of advocacy to encourage communities the census has historically missed to be counted in the 2020 Census.

Lynk also served as Associate Director of Federal Communications for Planned Parenthood Federation of America and Planned Parenthood Action Fund, directing Planned Parenthood's communications around federal policy, congressional action, advocacy campaigns, and related litigation.

## LENDERS/SERVICERS

## ANCHOR LOANS ADDS NEW CRO



Anchor Loans, a provider of financing to residential real estate investors and entrepreneurs, has announced that **Brad Chmura** has joined the company as CRO, responsible for revenue growth, development of the Anchor Loans brand, companywide sales, loan fulfillment, and customer service.

Chmura brings to Anchor Loans more than 20 years of experience in B2B sales and operational leadership. Most recently, he served as COO at CoreVest Finance, a national lender focused on real estate investors. Prior to CoreVest, Chmura held leadership positions at two mortgage banks and led major sales teams at both First American Mortgage Solutions and Corelogic's Global Mortgage Sales Group.

"Brad is a highly accomplished, recognized leader in sales and operations, with a proven track record of driving revenue and successful execution," said Andy Pollock, CEO of Anchor Loans. "His expertise in lending, consultative sales and team leadership will be invaluable to Anchor as we grow market share while other lenders are pulling back during these uncertain times. We look forward to benefitting from Brad's diverse skill set and deep experience, and are confident he will support Anchor's commitment of capital to the real estate investment market."

Anchor Loans has experienced significant growth over the last several years, completing 2021 with a record \$1.8 billion in originations. As part of its growth and expansion plans, the company recently launched a new single-family rental investor loan program and expanded its sales organization. Chmura joins several C-level executives who have joined Anchor Loans in the last year to expand the company's deep bench of talent, including Kevin Llamido, COO; Matt Miles, Chief Capital Markets Officer; and Andrew Jewett, Chief Strategy Officer.

## SERVICE PROVIDERS

### NEW WESTERN OPENS SALT LAKE CITY BRANCH



New Western, a national private source of distressed residential investment properties, has opened its 45th office location in Salt Lake City, Utah.

**Colin Barnes** will serve as General Manager of the new Salt Lake City office, alongside Regional Director Mike Lam. In his new role, Barnes is responsible for recruiting, hiring, training, and leading his team to revitalize \$885 million in residential properties in the Salt Lake City area over the next five years.

According to a recent report analyzing U.S. census data, there are 16 million vacant homes across the United States. New Western partners with local real estate investors to help facilitate the revitalization of properties.

“Salt Lake City has seen an upward trend in the median price of homes year over year,” said Kurt Carlton, Co-Founder and President of New Western. “With our unique expertise in finding and acquiring vacant properties, combined with our value-added insights, New Western is well-positioned to be a valuable

**“I’m looking forward to growing and expanding our New Western team in Salt Lake City. The metropolitan area is rated a top-tier market for multiple offer situations, providing New Western with the unique opportunity to provide much-needed housing inventory to both local investors and sellers.”**

—**Colin Barnes, General Manager, New Western’s Salt Lake City Office**

resource for local real estate investors, sellers, and buyers. Our expansion into Utah marks New Western’s presence in 21 states.”

New Western’s agents are helping to address the affordable housing shortage by revitalizing distressed homes across the United States, with more than 700,000 aged properties in the Salt Lake City metropolitan area alone and 68.9% built before 2002.

“I’m looking forward to growing and expanding our New Western team in Salt Lake City,” Barnes said. “The metropolitan area is rated a top-tier market for multiple offer situations, providing New Western with the unique opportunity to provide much-needed housing inventory to both local investors and sellers.”

Barnes began his career with New Western in 2019 in its Denver Central office as a Sales Agent, where the team led market sales totaling more than \$1.02 billion for the past three years.

### STREAM REALTY PARTNERS PROMOTES ADAM JACKSON TO CIO



Stream Realty Partners, a national real estate services, development, and investment firm, has named its first-ever CIO on the heels of closing its fourth

and largest-to-date opportunistic discretionary real estate fund. Executive Managing Director of Investment Management **Adam Jackson** has been promoted to the new role effective immediately. Jackson joined the firm in 2008, working in various aspects of the business before launching the investment management platform in 2015.

Jackson has led approximately \$4 billion in acquisitions and developments totaling 30-million square feet. In his new role, Jackson will continue to oversee the firm’s investment initiatives, including directing its investment strategies, managing its fully discretionary investment funds, and the origination of key partner relationships.

“Since Adam was charged with leading our investment management platform, he has built out a world-class team of investment professionals and integrated that team seamlessly into Stream’s 14 local offices around

the country,” said Lee Belland, Stream Realty Partners’ Co-General Partner and Co-Founder. “He has worked tirelessly to create one of the most unique real estate investment platforms that combines deep local market knowledge with capital markets expertise to achieve unparalleled results for our clients, investment partners, and employees.”

Under Jackson’s leadership, the investment management team manages four discretionary funds totaling over \$1.6 billion of equity. To support the efforts, the team has doubled its headcount over the last two years to include dedicated accounting, marketing, asset management, and construction teams and an expanded investment committee.

“I’m proud of the success Stream has realized throughout our investment business,” Jackson said. “We take a fundamentals-based approach to our investment strategies by utilizing the market knowledge across our platform, with a targeted focus of investing into the intersection of tenant and investor demand. What started as a realization that we could be a nimble investment manager has grown into a fully integrated investment and operating company poised to capitalize on dislocations in the market. Our track record has enabled our business to continue to grow, and we are grateful to our partners for the trust they’ve placed in us.”

### PRETIUM GROWS ITS REAL ESTATE TEAM



Pretium, a specialized investment firm with approximately \$50 billion in assets under management, has announced that **Frank Garcia** has joined the firm

as Managing Director and Head of Fund Portfolio Management for the company’s real estate platform. In this role, Garcia will spearhead portfolio management for Pretium’s single-family rental (SFR) fund strategy, while engaging and informing the firm’s global client relationships.

“Frank is deeply respected by his clients and brings substantial portfolio management expertise on a national scale to our industry-leading SFR platform,” said Don Mullen, Founder and CEO of Pretium. “As we continue to strategically grow our real estate investment platform, we are also thoughtfully enhancing the ways in which we manage and optimize

**“As we experience monumental growth and increased demand for our solutions, it is crucial that we have the very best team in place—and Melissa is a key part of that.”**

—Michael Berman,  
CEO of Ncontracts

our portfolios. Having the right team in place is essential for continued success and to create lasting value for our investors and all our stakeholders.”

Garcia brings more than three decades of experience managing portfolios across multiple U.S. real estate asset classes and investment products, including core, value-added, and ground-up development. He most recently spent nearly 10 years as Senior Portfolio Manager of PGIM Real Estate’s flagship U.S. core equity fund, where he led the development and implementation of portfolio-level strategy and improved operations, while driving enhanced financial performance and asset value across market cycles. Garcia implemented numerous fund-level ESG initiatives, resulting in index-leading scores from GRESB, the benchmark for ESG measurement in the real estate community. At PGIM, he also was involved in firm-level DEI initiatives focused on recruitment and retention of diverse talent. Prior to PGIM Real Estate, He also spent 12 years at Deutsche Bank/RREEF, where he was a portfolio manager on the firm’s core fund and a senior portfolio manager of its U.S. value-added commingled fund between 2001 and 2013. Garcia began his career at CBRE and public REIT manager, Spieker Properties.

“We are confident Frank’s extensive experience developing and implementing core and value-added portfolio-level strategies will be an asset to our real estate team and a meaningful differentiator for our clients,” said Josh Pristaw, Co-Head of Real Estate at Pretium. “We look forward to working closely with Frank to further expand our investment management capabilities and scale our real estate platform while delivering compelling returns to our investors.”

### **MELISSA OUTLAW PROMOTED BY NCONTRACTS TO CHIEF CUSTOMER OFFICER**



Ncontracts, a provider of integrated compliance and risk management solutions to the financial industry, has promoted **Melissa Outlaw** to the role of Chief

Customer Officer. Outlaw has been with Ncontracts since 2018, serving as the EVP of Client Services.

Leveraging her industry experience spanning more than 20 years, Outlaw will lead Ncontracts’ vendor management, implementation and training, support services, contract services, professional services, and success teams. Before joining the company, she served as VP of Services at Symplr, a healthcare SaaS credentialing and compliance company, and VP of Operations at Kroll Background Screening. In these roles, she helped drive initiatives to enhance client satisfaction, improve operational efficiency, and increase revenues and gross margins, all while investing in her teams’ development and success.

“Customers are the heart of everything we do at Ncontracts, and the creation of this position cements the customer relationship as a core component of our mission,” Outlaw said. “I’m excited to partner with current and future customers in this new role to help them achieve regulatory and compliance excellence throughout their organizations.”

Ncontracts’ integrated risk management and knowledge as a service (KaaS) solutions empowers financial institutions and fintechs with cloud technology designed to make it easy to find and leverage industry-leading content developed by a team of seasoned regulatory risk and compliance experts. In addition to being a four-time honoree of the *Inc.* 5000 list of fastest-growing private companies, Ncontracts was recently named to *Inc.* Magazine’s annual “Best Workplaces List,” as well as *The Tennessean’s* “2022 Top Workplaces” for a second year.

“As we experience monumental growth and increased demand for our solutions, it is crucial that we have the very best team in place—and Melissa is a key part of that,” said Michael Berman, CEO of Ncontracts. “She has been instrumental in Ncontracts’ success, helping us eclipse 4,000 clients and earn industrywide recognition for our work. This promotion is well deserved, and we look forward to her continued leadership.”

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## Phil King

VP, Principal Product  
Manager for EXOS  
Valuations, ServiceLink

### APPRAISAL MODERNIZATION: WHERE WE ARE NOW, WHAT TO EXPECT IN 2023

Phil King is VP, Principal Product Manager for EXOS Valuations at ServiceLink. As a key technology leader of EXOS, ServiceLink's digital mortgage services platform, he drives the continuous improvement of valuations technologies available to lenders and servicers, and their customers. King's appraisal management career spans more than 20 years; he has been part of ServiceLink since 2009.

As Freddie Mac and Fannie Mae are now powering the push behind appraisal modernization, the mortgage industry is energized. The prospect of standardized, high-quality appraisals that can be turned around within two days is cause for excitement, and suddenly feels well within reach. The technology is here, and the processes are being piloted in anticipation of potential industrywide implementation in the first half of 2023.

Phil King shares some insights into what's happening in the appraisal modernization space right now and what we can expect to see in the coming months.

#### **How is the GSEs' embrace of appraisal modernization accelerating the industry's progress toward incorporating more technology-forward appraisal solutions?**

Fannie Mae and Freddie Mac have made pivotal moves that are influencing the pace of appraisal modernization adoption:

First, they are helping drive what data and images are being collected during a hybrid inspection so that every inspector is capturing the key details. In the past, a hybrid inspection entailed sending a real estate agent, broker, or third party to do a quick walk-through, documenting conditions (including notable positive or negative attributes), and taking photographs, which they would then send to an off-site appraiser. The data and images

captured varied by lender and/or AMC without any industry standard. The appraiser would pull additional data about the property and neighborhood from online sources and build their appraisal on that combined intelligence.

Spurred by guidelines recently set forth by the GSEs, new modernized products are improving that inspection process significantly. Now a third-party inspector walks into a home and opens an app on their mobile device that guides them through the inspection so that they are certain to document all required attributes or data elements. They can capture 3D images, floorplan layouts, measurements, and more—quickly and easily. The resultant information is more robust than what we have been able to collect previously in the alternative valuation space. The technology is driving a very accurate capture of properties, which is driving

unprecedented lender confidence in hybrid products.

Second, Freddie Mac is modernizing the waiver process for refinance transactions through its ACE+ PDR (Automated Collateral Evaluation plus Property Data Report) solution. Certain mortgages submitted to Freddie's Loan Product Advisor® automated underwriting system now require a third-party inspection, guided by Freddie's proprietary PDR dataset, to be eligible for a waiver. This new requirement was put into place to mitigate the risk involved in issuing a waiver when a loan doesn't meet certain waiver requirements.

#### **What should lenders/servicers understand about the technology being used in hybrid appraisals?**

The most important thing to understand is that all of the new technology is being designed and built to ensure a reliable appraisal. The mobile apps have to be able to geolocate the device to make sure they are, in fact, inside the subject property. The image capture guides the user so that they have to capture the entire home, providing a complete view of what's going on inside and outside the property. The inspector can't avoid a specific room because there's damage or some other issue.

Also, these technologies, which use machine learning and artificial intelligence (AI), assist in the property analysis so that lenders no longer need to rely solely on human scrutiny. While scanning the imagery, the AI may detect a potential problem or attribute of the home that may have otherwise gone unnoticed. The technology can also detect people, pictures of people, religious artifacts, etc. in the collected images and screen those out to help prevent bias from entering into the process. We can count on this technology to improve over time, too, because the more images and data that are input into the machine, the smarter it will get. So as the industry moves further down the road in capturing images and teaching the inspection model, we can look for enhanced accuracy and reliability.

#### **How can lenders/servicers best position themselves to adopt modernized processes in 2023?**

They should evaluate their infrastructure, staffing, and workflows to ensure they can take advantage of the new products that are

becoming available to them. For example, it will be important to have people on their team who can proficiently review third-party inspections to ensure they comply with GSE guidelines for ACE+ PDR evaluation. Participating in one of the GSEs' pilot programs can help, too, by showing lenders where they may need to make updates or adjustments to their processes and workflows.

Lenders also need a reliable, tech-enabled partner to help them mitigate risk as they adopt not only the new solutions coming into play right now, but also those that will continue to evolve as the mortgage industry becomes increasingly digital. They should look for a partner that demonstrates a commitment to continuous innovation and product development, and that has the people, processes, and resources to provide whatever level of support they need. Building a strong partnership with a stable, experienced technology partner can help them not only keep pace with, but actually stay a step ahead of, emerging market developments and demands.

***“Now a third-party inspector walks into a home and opens an app on their mobile device that guides them through the inspection so that they are certain to document all required attributes or data elements.”***

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# INDUSTRY SURVEY: PERSONNEL COSTS DRIVING UP MORTGAGE OVERHEAD

Doug Duncan, Fannie Mae's SVP and Chief Economist, has authored a new blog post on the topic of loan costs and the efficacy of recent technology investments considering the state of transition in the market as it combats both inflation and rising rates.

Citing data from Fannie Mae, Duncan said that there are mounting affordability constraints for consumers, demand for home purchase and refinance mortgages has declined meaningfully over the past year, and this trend is expected to continue through 2023.

In addition, loan origination profitability tanked in 2022, as average production costs rose to a new high. In response to the additional stress on their balance sheets, some mortgage lending firms have announced layoffs, ceased specific products, or shuttered altogether.

According to Fannie Mae's most recent Mortgage Lender Sentiment Survey (MLSS), which surveyed well-placed economists and lenders on what changes are driving the increase in loan origination costs, and their views on the impact of recent digitization efforts on cost efficiency.

"Surveyed lenders cited personnel expenses as the primary factors driving up loan origination costs over the past two years," Duncan said. "Further, they noted that investment in digitization was less effective at reducing costs—or in converting them from fixed to variable—even though, for most, it helped improve the consumer experience and reduce cycle time and error rates."

Overall, lenders reported that personnel costs, compliance/legal, and individual loan officers were the top categories that increase average loan costs. In relation to digitization

investments, back-end processing and consumer-facing technology were the categories that were driving down loan costs.

Nearly all lenders have invested in digitization efforts over the past two years in one way or another due to the COVID-19 pandemic, not all lenders saw a return on investment over the last two years. Seven percent of lenders reported "significant" cost savings, while 52% indicated a modest amount of savings.

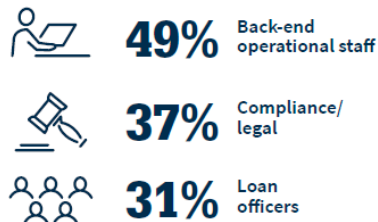
Many lenders also pointed out that they invested in technology to meet shifting consumer preferences, and that a positive return on investment was not necessarily the primary goal.

Lenders were also asked about any plans of outsourcing American workers to manage costs; 80% of lenders reported that they have, and will continue to, keep loan originations in-house. However, for those that have outsourced jobs, 80% found it was a viable strategy to convert fixed costs to variable costs.

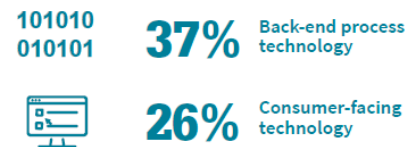
## Loan costs

Combined % largest impact + second largest impact

### Top cost-increase drivers

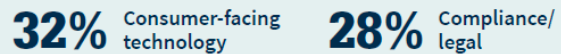


### Top cost-decrease drivers



### Top cost areas expected to increase

Combined % increase the most + increase the second most



"Given lenders' acknowledgment that technology and legal/compliance costs are unlikely to be cut, many appear to be turning to payroll reduction to help manage costs," Duncan said. "Employment among nonbanks and mortgage brokers remains relatively high today, compared to the pre-COVID-19 era. With the market experiencing significant declines in loan volume and applications, productivity (in terms of average loan volume or applications per employee) has also dropped significantly, indicating there's potentially excess capacity."

"Recent news about layoffs, mortgage business closures, and mergers suggest that lenders are scaling back their production employment in response to the cooling housing market," Duncan concluded. "With an industry consensus forecast of a 35-50% drop in origination volume in 2022, it's likely that many lenders will continue to right-size capacity to remain competitive."



# HOMEOWNERSHIP RATES RETURN TO PRE-PANDEMIC LEVELS

According to the Realtor.com residential listings database for September, the median listing price of all single-family homes sold during the month was \$427,250, off from highs hit earlier this year. While many homebuyers in the market have been sidelined by high prices, in the third quarter of 2022, the national homeownership rate increased to 66%, 0.6% higher than the third quarter of 2021.

According to Realtor.com Economic Data Analyst Hannah Jones, home prices also fell from this summer's peak, but the decreases recorded fall within the realm of typical seasonal patterns. But even with the declines, buyers felt little relief as rates started the quarter at 5.3% and ended the quarter at 6.7% while the median listing price fell a total of \$15,000 during the quarter.

As a result, many would-be buyers found the market untenable and continued the trend of opting out until market conditions are more favorable. The homeownership rate ticked up to the highest level since the third quarter of 2020, illustrating how some aspiring homeowners are finding success despite rising affordability challenges and how many existing homeowners are opting to stay put.

The homeowner vacancy rate came up slightly to 0.9% from the second quarter's all-time low of 0.8%, as the ongoing housing short-

age continued to drive high occupancy.

The rental vacancy rate, however, increased by 0.4 percentage points compared to the second quarter's low, reaching 6.0% as the rental market adjusts to the changing housing landscape.

"While the price of buying a home climbed through the third quarter, would-be buyers pivoted towards renting and other housing arrangements," Jones said. "The housing market showed adjustments to decreased buyer demand as sellers pulled back on new listings. Housing

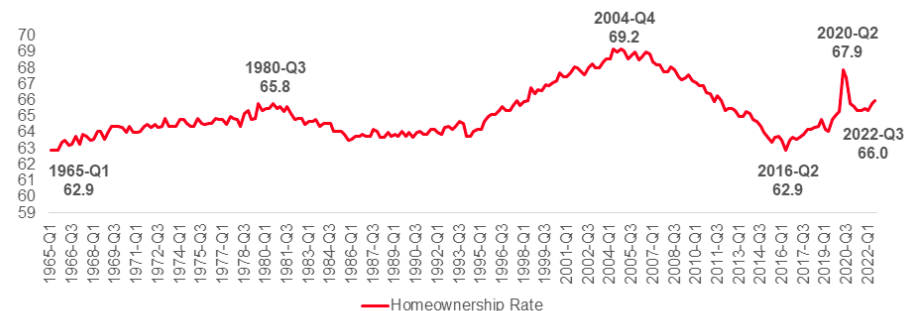
demand remained strong in affordable markets as buyers focused their attention on areas that were not yet out of reach."

"The third quarter's Emerging Housing Markets Index indicated the popularity of markets with strong local economies and relatively low home prices," Jones concluded. "These small increases in the homeowner and rental vacancy rates indicate progress towards a healthier, more balanced housing market that may offer buyers and renters relief."

HOMEOWNERSHIP RATE

## Homeownership was up slightly in Q3, up from pre-pandemic

PANDEMIC SHIFTS & MEASUREMENT CHALLENGES LED TO LARGE RECENT FLUCTUATIONS IN HOMEOWNERSHIP



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# NATIONWIDE INVENTORY OF ACTIVE LISTINGS CLIMBS NEARLY 34% YOY

Active listings soared 33.5% year over year to the highest level since 2020, data from the Realtor.com Monthly Housing Trends Report for October suggests that fewer homebuyers could afford to take advantage of the rise in available inventory, with time on market continuing to climb amid inflated listing prices.

### Key Findings:

- » The national inventory of active listings increased by 33.5% over last year.
- » The total inventory of unsold homes, including pending listings, increased by just 0.5% year over year due to a decline in pending inventory (-30.0%).
- » Sellers are less active than last year, as newly listed homes declined by 15.9% on a year-over-year basis.
- » The median list price grew by 13.3% in October and is slowly decelerating.
- » Time on market was 51 days, 6 days more than last year but 20 days less than typical pre-pandemic levels.

As inventory of homes that were actively listed for sale continued to grow, this growth in active inventory was primarily due to the typical home spending more time on the market than last year, as seller sentiment remained scarce and fewer homes were listed compared to the previous year. Meanwhile, overall listing price growth remained within the double digits but continued to moderate.

“As the rapid runup in rates reshapes housing market dynamics this fall, both buyers and sellers are taking a step back to recalibrate their plans. Home shoppers are looking at a monthly mortgage payment that is roughly \$1,000 higher than at this time last year, and incomes are rising but not by that much. Combined with asking prices that are still climbing at a double-digit yearly pace, the average American has taken a huge hit to their homebuying power,” said Danielle Hale, Chief Economist for Realtor.com. “Still, our data indicates that some aspiring homeowners are finding ways to make the most of inventory conditions, such as by exploring relatively affordable

metros. For buyers with the flexibility, relocating to a lower-priced market could help offset higher mortgage costs. There’s also a takeaway for sellers in these areas—on a well-priced home, you could still see strong interest from these out-of-towners.”

### Inventory Recovery Accelerates Amid Higher Rates and Moderating Demand

In October, the U.S. supply of active listings grew at a record-fast annual pace and surpassed 2020 levels for the first time, even as new sellers declined year over year for the fifth consecutive month. Additionally, pending listings, or homes under contract with a buyer, continued to drop. These trends indicate that October’s accelerated inventory improvements were largely due to moderating buyer demand, fueled by mortgage costs that are rising at a faster pace than inflation and incomes. While some softening in seller

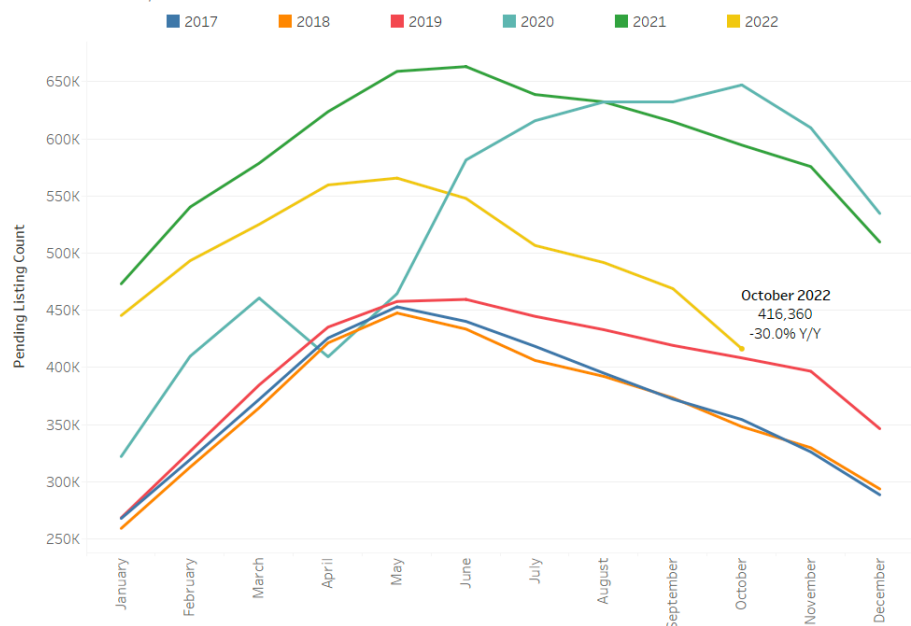
participation is typical in the fall, this year’s significant new listings decline reflects the impact of home shoppers’ diminished buying power on seller sentiment. However, sellers may still see strong buyer competition for fewer options in some regions, with inventory still lagging October 2020 levels in the Northeast and Midwest, regions where home sales declines have also been more modest.

- » Nationally, active inventory grew 33.5% year over year in October, reaching the highest level in 24 months. Meanwhile, both newly listed homes (-15.9%) and pending listings (-30.0%) declined year over year.
- » Among the 50 largest U.S. metros, 42 markets posted yearly active inventory gains in October, led by Phoenix (+173.9%); Raleigh, North Carolina (+167.4%); and Nashville, Tennessee (+145.0%). The

## Pending Listing Count

Down 30.0% Y/Y in October 2022

realtor.com



number of for-sale homes was still down year over year in the remaining eight markets, by the largest amounts in Hartford, Connecticut (-25.7%); Virginia Beach, Virginia (-11.0%); Milwaukee (-9.6%); and Chicago (-9.6%).

- » On average across the 50 largest metros, no regions saw year-over-year new listing increases in October, with the greatest declines registered in the West (-20.6%), followed by the Northeast (-17.4%), Midwest (-15.0%), and South (-9.8%). Furthermore, newly listed homes increased in just four markets: Nashville, Tennessee (+10.5%); New Orleans (+6.2%); Dallas (+5.6%); and San Antonio (+1.4%).
- » Compared to October 2020, active inventory was higher in 32 of the 50 biggest markets, led by western (+33.9%) and southern metros (+7.2%): Phoenix (+132.0%); Austin (+120.8%); Riverside, California (+67.2%); Memphis (+59.7%); and Nashville (+55.7%). Inventory remained lower than two years ago in the Northeast (-21.1%) and Midwest (-7.9%).

### Competition Stalls as Home Listing Prices and Time on Market Hold Steady

With home sales activity declining along with affordability in October, national trends reflected a market in which competition continued at a cooler pace than during this year's summer peak. However, compared to last month, there was little change in both listing prices and time on market. This may be partly attributed to regional variations in supply and demand dynamics, with still-strong home shopper interest in relatively affordable markets balancing out the slowdown in other areas. In the Midwest and Northeast, where buyers saw relatively smaller inventory improvements in October, time on market and the share of homes with price reductions posted smaller year-over-year increases than in other regions.

- » In October, national listing price trends were relatively unchanged from the prior month, with the median listing price dipping just \$2,000 to \$425,000. Additionally, annual home listing price growth decelerated just slightly, to 13.3% from 13.9% in September.
- » On average across the 50 largest U.S. metros, yearly listing price growth entered single-digit territory in October (+9.2%). However, for-sale home prices continued to rise by

double-digits year over year in 20 markets, led by Milwaukee (+34.5%), Miami (+25.1%), and Kansas City (+21.4%).

- » The share of homes with price reductions was up 10.3 percentage points to 20.9% in October, well above 2017 (18.1%) and 2019 (17.0%) levels, but just under the 2018 share (21.2%). Western (+18.9 percentage points) and southern metros (+13.6 percentage points) posted the greatest increases in the share of price reductions: Phoenix (+35.9 percentage points), Austin (+31.2 percentage points), and Las Vegas (+24.4 percentage points).
- » The typical home spent 51 days on the market in October, six days more than last year, but still 20 days faster than the typical 2017-2019 pace. The metros where homes spent longest on the market compared to October 2021 were Raleigh (+27 days), Austin (+26 days), Phoenix (+21 days), and Las Vegas (+21 days).
- » Time on market declined year over year in October in 10 of the 50 largest metros, led by New Orleans (-21 days), where last year's pace was impacted by Hurricane Ida, followed by Richmond, Virginia (-15 days), and Birmingham, Alabama (-6 days).

### Higher Housing Costs Fuel Demand From Out-of-Town Home Shoppers

Similar to October's for-sale housing trends, the Realtor.com Q3 Cross-Market Demand Report highlights regional variations in home-buying activity. With rising rates pushing the typical monthly mortgage payment up 77.1% in October compared to a year ago, some buyers are potentially trying to add room in their budgets by searching further from where they live for lower-priced homes.

Nationwide in Q3 2022, 60.7% of listings views on Realtor.com came from users located outside of the listing's metro, compared to 56.9% during the prior quarter and 52.1% at the same time last year. Regionally, northeastern (69.0%) and western (65.7%) home shoppers were most likely to search out-of-market in Q3. This may be attributed to buyers looking for relative affordability, as October median listing prices were higher across large metros in the Northeast (\$440,000) and West (\$763,000) than in other regions, on average.

## HALF OF MORTGAGED HOMES NOW CONSIDERED EQUITY RICH

ATTOM Data has released its findings covering the third quarter of 2022 of its Home Equity & Underwater Report which found that overall, 48.5% of all mortgaged residential properties in the country were considered equity rich.

The number of properties that are considered equity rich increased from 39.5% during the third quarter of 2021, and from 48.1% during the second quarter of 2022. The latest increase fell below other gains in recent years. It marked the 10th straight quarterly rise and resulted in virtually half of all mortgage payers landing in equity-rich territory.

Additionally, the report found that at least half of all mortgage payers in 20 states were equity-rich in the third quarter, compared to only seven states a year earlier.

"Even though home price appreciation has slowed down dramatically in recent months, homeowners have continued to build equity," said Rick Sharga, EVP of Market Intelligence at ATTOM. "And it appears that many of those homeowners have decided to stay where they are rather than purchase a new home, and are beginning to tap into that equity, as the number of home equity lines of credit (HELOCs) issued in the second quarter of 2022 rose by 43% from the prior year."

The report also shows that just 2.9% of mortgaged homes, 1 in 35, were considered seriously underwater in the third quarter of 2022, with a combined estimated balance of loans secured by the property of at least 25% more than the property's estimated market value.

The data further shows that 94.3% of homeowners had at least some equity built up during the third quarter, a number that is up from 92.9% a year ago and 87.7% in 2020.

On a state-by-state basis, 39 states saw equity increase from the second quarter of 2022 while seriously underwater numbers dipped in 38 states. Year-over-year, equity-rich levels rose in all 50 states and seriously underwater portions dropped in 43 states.

According to ATTOM, the ongoing improvement in home equity during the third quarter of 2022 came as the U.S. housing market cooled considerably amid multiple forces that threaten to stifle or reverse an 11-year run of nearly uninterrupted gains.



# UNDERVALUATION STILL A HURDLE FOR MINORITY FAMILIES

It's a well-documented fact that Black and Latino families have considerably less wealth than their white counterparts. According to the 2019 Survey of Consumer Finances conducted by the Federal Reserve, on average white families held \$983,400 in accumulated wealth, while black families had \$142,500 while Latino families had \$165,500 in wealth.

Because most people in the country derive their wealth from their homes, having accurate, unbiased home valuations makes a lot of sense.

However, citing data from the Federal Housing Finance Agency's (FHFA) Uniform Appraisal District (UAD) Aggregate Statistics Dashboard, a blog post from the FHFA said data suggests there are still racial and ethnic differences in home valuations.

"The Brookings Institute showed a robust relationship between lower valuations and Black neighborhoods," wrote Jonathan Liles, Senior Financial Analyst for the FHFA. "FHFA's Chandra Broadnax highlighted examples of overt references to race in appraisals and the importance of appraisals in the discussion of wealth inequality. Freddie Mac's research showed that properties in minority tracts are more likely than

properties in white tracts to receive an appraisal lower than the contract price. Fannie Mae's publication concluded that white borrowers' homes were overvalued at higher rates across all neighborhoods, but stronger effects were present for white borrowers in Black neighborhoods."

Using this information as a base set, the UAD statistics published by the FHFA include a statistic that shows the percentage of properties that appraise for less than what a buyer has offered to pay, otherwise known as the contract price. UAD Aggregate Statistics, including undervaluation, are available by state and by metro area, and by the racial/ethnic demographic composition of the census tract.

"Undervaluation, from an appraisal perspective, creates additional risk for the buyer and seller in a transaction, as the loan may not be supported by the property as collateral," Liles wrote. "This may lead to a renegotiated sales price as the buyer or seller would have to make up the difference to offset the risk to the lender. In addition, the loan is more likely not to close, as any one of the parties may walk away from the transaction.

The UAD Aggregate Statistics highlight that

properties located in minority tracts have a higher proportion of appraised values less than the contract price. According to the 2021 appraisal statistics, 23.3% of homes in high minority tracts (80.1-100%) experienced undervaluation. This is compared to 13.4% of homes in white tracts (0-50%) and 19.2% in minority tracts (50.1-80%). Using the proportion as a ratio with white tracts as the control group yields a value of 1.74 for high minority tracts and 1.43 for minority tracts.

In other words, the proportion of properties that are undervalued in high minority tracts is 74% greater than the proportion in white tracts. In minority tracts, the comparable proportion of undervaluation is 43% greater than in white tracts.

"From a practical perspective, compliance departments of lenders and appraisal management companies could use the UAD Aggregate Statistics Dashboards to narrow the scope of an exam or compliance review related to appraisal bias," Liles concluded. "For example, in 2021 in the Charlotte, North Carolina Metropolitan Statistical Area, reviewers may want to focus on minority tracts (50.1-80%), which have a higher proportion of undervaluation than high minority and white tracts."

# SHARE OF BLACK, ASIAN AMERICAN HOMEBUYERS DECREASES YOY

Compared to one year ago, the share of first-time home buyers dropped to a record low, while the age of a typical first-time buyer increased to an all-time high. The median distance buyers moved from their previous homes more than tripled from the distance registered the previous four years as the shares of homes purchased in small towns and rural areas reached record highs.

Housing affordability and inventory challenges significantly impacted when, where and how consumers purchased homes, according to the National Association of Realtors' 2022 Profile of Home Buyers and Sellers, an annual report published since 1981, which analyzes the demographics, preferences, and experiences of buyers and sellers across America.

#### Key Highlights:

- » At just 26%, the share of first-time buyers was the lowest since NAR began tracking the data. The typical first-time buyer was 36 years old—an all-time high.
- » The median distance between the home that recent buyers purchased and the home from which they moved was 50 miles—a record high and more than a three-fold jump from a median of 15 miles from 2018 through 2021. The shares of homes purchased in small towns (29%) and rural areas (19%) were at all-time highs.
- » Nearly nine in 10 buyers (86%) and sellers (87%) purchased or sold a home using a real estate agent or broker.

"It's not surprising that the share of first-time buyers shrank to the lowest level ever recorded given the housing market's combination of historically low inventory, persistently high home prices and rapidly escalating interest rates," said Jessica Lautz, NAR's VP of Demographics and Behavioral Insights.

"Those who have housing equity hold the cards, and they've fared very well in the current real estate market. First-time buyers are older as a result of saving for down payments for longer periods of time or relying on a generational transfer of wealth to propel them into homeownership."

First-time buyers made up only 26% of all buyers, down from 34% last year and a peak of 50% in 2010 during the First-Time Home Buyer Tax Credit. The age of the typical first-time buyer was 36 years—up from 33 years one year ago—and the typical repeat buyer's age climbed to 59 years from 56 years in 2021. Both ages are the highest in the history of the data set. The median expected home tenure for first-time buyers was 18 years, the highest ever recorded and up from 10 years in 2021.

The median distance between the home that recent buyers purchased and the home from which they moved was 50 miles, the highest ever recorded. From 2018–2021, the median distance moved was just 15 miles. Lautz noted that several reasons were behind the decisions among last year's buyers to seek homes farther distances away from their previous residences.

"Family support systems still prevailed as a motivating factor when moving and in neighborhood choice," Lautz said. "For others, housing affordability was a driving factor to seek homes in areas farther away. For many, remote work decisions were formalized in the last year, providing clarity for employees to permanently move to more distant areas."

The shares of buyers who purchased homes in small towns (29%) and rural areas (19%) were the highest ever recorded, while the shares of homes purchased in suburban (39%) and urban (10%) locations declined from one year ago.

In terms of the share of home buyers by race, white Americans accounted for 88% of all buyers, followed by Hispanic Americans at 8%, Black Americans at 3%, and Asian Americans at 2%. The shares for white and Hispanic Americans increased from a year ago—82% and 7%, respectively—while the shares of Black and Asian American buyers declined—both down from 6%.

"Housing affordability and limited inventory impacted the buying power of all buyers; however, the greatest impact was felt by Black and Asian Americans, as both groups saw a shrinking share of home buyers," Lautz said. "Conversely,

white and Hispanic Americans experienced gains in buyer shares. Population growth among Hispanic Americans likely drove the increase, while many white Americans are repeat buyers with housing equity that allows them to make easier trades in today's market."

The median number of weeks that buyers searched for a home was 10, an increase from eight weeks in 2020 and 2021. Homebuyers typically purchased their homes for 100% of the asking price, with 28% purchasing for more than the asking price.

Seventy-eight percent of recent buyers financed their home purchase, down from 87% last year and driven by the increased share of repeat buyers who paid all cash. The typical down payments for first-time and repeat buyers were 6% and 17%, respectively.

The median age of home sellers was 60 years, up from 56 years one year ago. Sellers typically lived in their home for 10 years before selling. While that was an increase from eight years the previous year, it's the same tenure reported in 2019 and 2020.

Continuing a long-standing trend, the overwhelming majority of buyers (86%) and sellers (87%) hired a real estate agent or broker to purchase or sell their homes. Nine in 10 buyers said that they were very satisfied with their agent's knowledge of the purchase process (90%), and their agent's honesty, integrity, and knowledge of the real estate market (89%). Eighty-nine percent of buyers and 85% of sellers said that they would recommend their agent to others.

"During challenging and changing market conditions, one thing that's calming and constant is the assurance that comes from a Realtor being in your corner through every step of the home transaction," said NAR President Leslie Rouda Smith, a Realtor from Plano, Texas, and a broker associate at Dave Perry-Miller Real Estate in Dallas. "Consumers can rely on Realtors' unmatched work ethic, trusted guidance, and objectivity to help manage the complexities associated with the home buying and selling process."



# REAL ESTATE AGENTS' LONG-TERM CAREER SENTIMENT DIPS

A record number of Americans have become real estate agents in recent years, and while it can be a challenging career for newcomers, only 4 in 10 new real estate professionals are confident about having a long-term career in real estate, according to Realtor.com's new #ThrivePastFive study.

Realtor.com recently surveyed more than 2,000 agents to gain insights into their top challenges, what separates new and experienced agents, and what it takes to find success in those critical early years and has translated it into insights specifically designed to help new agents succeed. Having a great mentor and cash reserves, as well as spending money on marketing and making a full-time commitment during those first few years in real estate are all vital for an agent's long-term success, according to the study's results.

There are many different reasons why so many decided on a real estate career, from it being a flexible career option for those seeking

balance and autonomy, to the clients, the lifestyle it provides, and the income potential. Despite it being a hot career choice for many, real estate is not easy, and every agent faces different challenges, from a lack of knowledge and training at the start of a career to growing a client base and understanding how to effectively convert leads, and too many agents don't make it past year five.

"In a shifting and ultra-competitive marketplace, with twice as many real estate agents than listings, having insights from experienced agents—80% of whom are confident about making it long term as an agent—about what works best to power business growth has never been more valuable," said Donna August, Vice President of B2B Marketing at Realtor.com. "With 25 years' experience helping agents succeed, Realtor.com is committed to developing tools and insights to help agents who are just starting out, so they can thrive and find success in their early years."

## Lead Generation Is a Top Pain Point

With home inventories rising but still near four-decade lows, it's no surprise that generating new client leads is hands down the top challenge today for agents of all experience levels. In fact, 60% of all agents cited finding new leads as a challenge, and the figure rose to 70% among new agents, those with less than two years' experience.

One of the most effective real estate lead generation strategies is to build a strong client network, which can take years for a new agent to grow. Only one-quarter of new agents reported having a network of buyers and sellers that they feel confident about, and nearly half (45%) said they struggle with developing a new client each week; comparatively, 70% of the most experienced agents surveyed—or those with 11+ years in real estate—are creating between one to four new client relationships each week.

Other top lead generation challenges for

agents of all experience levels are converting leads to clients, poor lead quality, competition from other local agents, high costs per lead, getting a lead too late, low connection rates, and the time/effort in managing clients is too high. Beyond lead generation, new agents also struggle with non-serious buyers, whereas experienced agents struggle with large listing sites that compete with them as brokers.

## **Despite the popularity of social media, new agents struggle to convert it into leads, and social media ranked No. 5 for lead gen after networking/referrals, email marketing, digital advertising, and internet leads.**

### **Knowledge Gaps That Threaten Success**

Newer agents wish they had more knowledge of lead gen, transaction processes, and marketing, whereas experienced agents wish they knew more about social media marketing, online ad campaigns that convert, and search engine optimization. When it comes to why many agents likely don't succeed, new agents perceive their struggles are because of a lack of training and startup cash, while the most experienced agents responded it was likely because new agents underestimate the time commitment and the learning curve.

### **Contributing Factors to a New Agent's Success**

With so many challenges facing new agents, finding success can seem daunting, but a portion of survey respondents found that it's still absolutely possible. When looking at the characteristics of successful new agents—those who average more than seven transactions a year—the majority, 9 in 10, work full-time. While most agents surveyed work full-time (83%), as new agents work to establish themselves, they are

three times more likely to work part-time compared to their more experienced counterparts, 24% versus 8% for the most experienced agents. Nearly half (47%) spend more than \$3,000 a year on marketing, and nearly 7 in 10 spend money on online leads every month. Two-thirds of successful new agents also had someone to mentor them and had backup funds when they first started out in real estate.

### **How Much to Spend on Marketing**

The adage that “you've got to spend money to make money” rings true for agent success; 64% of experienced agents spent \$3,000 or more annually, whereas 70% of new agents spend less than \$3,000 annually. Nearly 9 in 10 agents pay for marketing costs themselves. New agents are most likely to receive marketing support from their brokerage, 15% versus 9% for experienced agents. Only about one-third of new agents spend \$50 or more a month on internet leads, whereas experienced agents are most likely to spend between \$50-499 a month on internet leads.

### **Top Channels to Find the Most Success**

With a greater network of past clients, more experienced agents find online marketing success by calling on past clients via email marketing. Newer agents tend to have more social media experience, which is likely why 82% of new agents rely on social media and lean into creating their own content. Among the different social platforms, Facebook is the platform of choice among survey participants, with 63% of all agents using it to generate leads, and Instagram comes in at a distant second at 28%.

Despite the popularity of social media, new agents struggle to convert it into leads, and social media ranked No. 5 for lead gen after networking/referrals, email marketing, digital advertising, and internet leads. Among all agents, Twitter, YouTube, TikTok, and Snapchat ranked among the social media sites for the lowest lead gen (with less than 5% getting any leads from these sources).

While 6 in 10 agents of all experience levels ranked the tried-and-true method of networking and word of mouth the highest for offline marketing channels, newer agents also ranked open houses (44%) as a top channel. For the most experienced agents, more than half (55%) call on past contacts/leads as a secondary offline marketing tactic, followed by direct mail and open houses.

## **CHAPTER 13 BANKRUPTCIES POST 27% INCREASE YOY**

According to early bankruptcy data from Epiq, total bankruptcy filings across the country increased 4% to 32,695 filings in October 2022 over the 31,493 from the same period last year.

Epiq reported that all individual filing increased by 4% while the 1,886 commercial filings in October 2022 represented a 5% increase over last year.

“With inflation increasing the costs of goods and services, and with interest rates rising, families and businesses have been presented with tough financial decisions,” ABI Executive Director Amy Quackenboss said. “Though filing rates are still below their pre-pandemic totals, struggling households and businesses are still turning to bankruptcy for relief from mounting economic challenges.”

Across all filing chapters, each category reported a decrease compared to September's figures. October's bankruptcy filings represent a 2% decrease from September's filings; individual filings for the month were down a single percent from September's 13,814 reported filings. The commercial filing total represented a 7% decrease from the September commercial filing total of 2,015. Commercial chapter 11 filings decreased 32% from the 445 filings the previous month, while subchapter V elections within chapter 11 decreased 16% from the 156 filed in September.

“While comparing month-over-month or year-over-year filings is one way to determine what's trending in the bankruptcy market, the delta between new filings and closed cases is another valuable capacity metric,” said Gregg Morin, VP of Business Development and Revenue at Epiq Bankruptcy.

According to Morin, not since 2010 have there been more new filings in a year than cases that were closed and it's trending that way again in 2022, as there have been 61,857 more cases closed than were opened through October 2022 compared to the same period in 2021. For the past four months, the difference has steadily decreased, from 7,627 in July, to 6,516 in August, 5,291 in September, and 3,252 in October.

# CONSUMERS REPORT CONTINUED HOUSING MARKET PESSIMISM



Amid stories of other recent declines in the housing market, consumer confidence has also been falling for the last eight months.

According to the most recent iteration of Fannie Mae's Home Purchase Sentiment Index (HPSI), five of the six major components decreased in October 2022 bringing the index to 56.7, down 4.1 points from September 2022 to the lowest level seen in the index's 11-year history. Causes for this include persistently high home prices and unfavorable mortgage rates which weighed heavily on consumers' housing affordability concerns.

A new survey low of 16% of respondents indicated that now is a good time to buy a home while the percentage who believe now is a good time to sell a home decreased from 59% to 51%; this equates to a full year-over-year 18.8-point drop in the index.

"The HPSI reached an all-time survey low this month, in line with expectations that the housing market will continue to cool in the months ahead," said Doug Duncan, Fannie Mae SVP and Chief Economist. "Consumers are increasingly pessimistic about both homebuying and home-selling conditions. Amid persistently high home prices and unfavorable mortgage rates, the 'bad time to buy' component increased

to a new survey high this month, while the 'good time to sell' component continued its downward trend."

"Consumers also remain concerned about the movement of home prices—expectations that prices will decrease reached a new survey high, particularly among homeowners—offering further support to our forecast of home price declines in 2023," Duncan concluded. "As continued affordability constraints reduce homebuyer demand, and homeowners become reluctant to sell at potentially reduced prices, we expect home sales to slow even further in the coming months, consistent with our forecast."

According to the index, results for the six tracked categories were as follows:

- » **Good/Bad Time to Buy:** The percentage of respondents who say it is a good time to buy a home decreased from 19% to 16%, while the percentage who say it is a bad time to buy increased from 75% to 80%. As a result, the net share of those who say it is a good time to buy decreased by eight percentage points month over month.
- » **Good/Bad Time to Sell:** The percentage of respondents who say it is a good time to sell a home decreased from 59% to 51%, while the percentage who say it's a bad time to

sell increased from 33% to 42%. As a result, the net share of those who say it is a good time to sell decreased 17 percentage points month over month.

- » **Home Price Expectations:** The percentage of respondents who say home prices will go up in the next 12 months decreased from 32% to 30%, while the percentage who say home prices will go down increased from 35% to 37%. The share that thinks home prices will stay the same decreased from 28% to 26%. As a result, the net share of those who say home prices will go up decreased four percentage points month over month.
- » **Mortgage Rate Expectations:** The percentage of respondents who say mortgage rates will go down in the next 12 months decreased from 9% to 6%, while the percentage who expect mortgage rates to go up increased from 64% to 65%. The share that thinks mortgage rates will stay the same increased from 20% to 24%. As a result, the net share of those who say mortgage rates will go down over the next 12 months decreased four percentage points month over month.
- » **Job Loss Concern:** The percentage of respondents who say they are not concerned about losing their job in the next 12 months increased from 78% to 85%, while the percentage who say they are concerned decreased from 21% to 15%. As a result, the net share of those who say they are not concerned about losing their job increased 13 percentage points month over month.
- » **Household Income:** The percentage of respondents who say their household income is significantly higher than it was 12 months ago decreased from 26% to 25%, while the percentage who say their household income is significantly lower increased from 11% to 15%. The percentage that says their household income is about the same decreased from 61% to 60%. As a result, the net share of those who say their household income is significantly higher than it was 12 months ago decreased five percentage points month over month.



# NAR REPORT FINDS FINTECH APPS MOST IMPACTFUL REALTOR TOOLS

When it comes to real estate technology, Realtors said that eSignature, lockboxes, and apps and technology from their local multiple listing services were the most impactful tools for their businesses this past year.

These findings appear in the 2022 Technology Survey from the National Association of Realtors. The survey examined NAR members' current tech usage and attitudes about the future of real estate technology. Respondents said that during the past 12 months, eSignature (79%), lockbox (67%), and local MLS apps and technology (67%) were very impactful tools used in their businesses.

## Key Findings:

- » eSignature, lockbox, and MLS apps and technology were the most impactful tech tools used by Realtors during the past 12 months.
- » Cybersecurity, 5G, and drones are expected to have the biggest impact on real estate in the next two years.
- » Nearly half of Realtors believe the metaverse will have an impact on real estate.

When asked to predict which emerging technology tools will be very impactful over the next two years, members stated they believe that cybersecurity (31%), 5G (30%), and drones (27%) will have the most significant impact.

"It's clear that technology plays a key role in our members' lives and businesses," NAR CEO Bob Goldberg said. "From our annual iOi Sum-

mit to our REACH tech accelerator program, NAR has its eyes on the future. By partnering with innovation leaders and empowering Realtors with the latest technology, we're driving the future of real estate and helping our members build staying power.

The survey also examined the total amounts spent on technology tools over the past year. About one in three Realtors—34%—paid between \$50-\$250, and 19% spent more than \$500 each month on their real estate businesses. Twenty percent spent less than \$50 per month.

Sixty-one percent agreed or strongly agreed that their brokerage provides them with all the tech tools they need to be successful in their job. Twenty-three percent neither agreed nor disagreed and 15% disagreed or strongly disagreed with the statement.

Among the most valuable technology tools provided by brokerages were eSignature (67%), lockbox/showing tech (53%), and transaction management (45%). When asked about technology fees paid to their broker, 47% said that the price their broker charges is reasonable. Some 38% said that the broker does not charge a technology fee, slightly up from 36% last year.

Facebook remains the top social media network among Realtors, with 89% using it in their real estate business. Instagram is used by 59% of Realtors—up from 52% in 2021 and 39% in

2018. Some 63% of respondents said the main reason for using social media in their business was to promote listings—up from 49% in 2021.

For the first time this year, the survey asked about the impact of specific emerging technologies on the real estate industry. Thirty-five percent of Realtors said that blockchain technology will definitely or probably have an impact on real estate. For big data and artificial intelligence, 48% think it will definitely or probably have an impact. The metaverse scored a similar result—46% said it will definitely or probably have an impact on the industry.

When asked about the timing of these impacts, nearly one in four Realtors—24%—predict that the metaverse will have an impact on real estate in one to two years. Some 27% said it would take three to five years and 11% said the impact would occur in six to 10 years. Ten percent of respondents believe that the metaverse currently has an impact on the industry.

"To ensure that NAR members remain at the forefront of new technologies and ideas, our Strategic Business, Innovation, and Technology group continues to research, vet, and champion the most promising tech ideas and companies," Goldberg said. "At the heart of everything we do is an insatiable drive to empower our members by providing them with innovations that will impact their businesses for the better."



## OCC APPROVES NYCB/ FLAGSTAR MERGER

New York Community Bancorp and Flagstar Bancorp have been approved by the Office of the Comptroller of the Currency (OCC) to convert Flagstar Bank FSB to a national bank to be known as Flagstar Bank N.A. and to merge New York Community Bank into Flagstar Bank N.A. with Flagstar Bank N.A. being the surviving entity. NYCB's acquisition of Flagstar remains subject to the approval of the Federal Reserve Board, as well as to the satisfaction of certain other customary closing conditions under the merger agreement between the two companies.

The OCC approval is subject to a statutory waiting period that provides that the bank merger cannot be consummated until the 15th day after the date of the OCC approval, which in this case, is November 11, 2022. Approval by the Federal Reserve Board is not expected to have any associated waiting period. NYCB and Flagstar intend to consummate the holding company and bank mergers promptly after the end of the OCC waiting period and the receipt of approval from the FRB.

Once approved and closed, the combined NYCB and Flagstar will operate 395 branches across nine states, including strong footholds in the Northeast and the Midwest with exposure to high growth markets in the Southeast and

West Coast. Through its Mortgage Division, the company will operate nationally through 81 retail lending offices in 26 states, and a wholesale network of approximately 3,000 third-party originators. It will have its headquarters based on Long Island, New York, with regional headquarters in Troy, Michigan, including Flagstar's mortgage business.

It has been reported that Thomas R. Cangemi—current Chairman, President, and CEO of NYCB—will serve as President and CEO of the combined company and Sandro DiNello, current President and CEO of Flagstar—will become Non-Executive Chairman of the combined company, with John Pinto serving as Senior EVP and CFO of the combined company. Lee M. Smith will continue to lead the Mortgage Division as Senior EVP and President of Mortgage, and Reginald Davis will head up consumer and commercial banking, and serve as Senior EVP and President of Banking. The remaining key roles will combine the best talent from both companies. The Board of Directors will be comprised of 12 directors—eight from NYCB and four from Flagstar.

Cangemi, current Chairman, President, and CEO of NYCB, was appointed President and CEO December 31, 2020, and was named

Chairman March 26, 2021. Prior to this, Cangemi served as Senior EVP and CFO of the company and the bank since April 5, 2005. He joined the company on July 31, 2001, as EVP and Director of the Capital Markets Group and was named Senior EVP on October 31, 2003.

Prior to joining NYCB, Cangemi was EVP, CFO, and Treasurer of both Richmond County Financial Corporation and Richmond County Savings Bank. Before joining Richmond County in 1997, Cangemi served as SVP, CFO, and Corporate Secretary of Continental Bank, a commercial bank based in Garden City, New York, and, previously, as Director of Corporate SEC Reporting for an electronics corporation in Boca Raton, Florida. From 1993-1996, Cangemi was VP and CFO of Sunrise Bancorp, a publicly traded thrift headquartered on Long Island. Previously, Cangemi was a member of the SEC Professional Practice Group of KPMG Peat Marwick, serving financial institutions.

In addition to OCC approval, NYCB and Flagstar announced that they have mutually agreed to extend their merger agreement from October 31, 2022, to December 31, 2022. The consideration and exchange ratio as provided in the merger agreement will remain the same. The extension, which has been approved by the Boards of Directors of both companies, will provide additional time to obtain regulatory approval from the FRB in order to allow the transaction to be completed.



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## BLACK KNIGHT LAUNCHES SUITE OF CLIMATE RISK SOLUTIONS

Black Knight Inc. has announced the launch of its new Climate and Natural Hazard Risk Data Solutions Suite to help identify properties impacted by natural disasters and mitigate future climate-related risk. Made up of integrated data sets and portfolio analytics, but also available as stand-alone offerings, the Climate and Natural Hazard Risk Data Solutions Suite will provide property-level insight into both the potential impact of current climate events, as well as gauges and helps users manage the level of climate risk to assets in the future.

“With each passing year, it becomes more apparent that we’ve entered an age of increasingly large, destructive, and frequent climate-driven events,” said Ben Graboske, President of Black Knight Data & Analytics. “The impact these events have on life and property can be immense, with damages well into the billions of dollars each time. And the risk they represent to those with a financial stake in the collateral that’s in the path of these events is significant and growing. Mortgage lenders, servicers, investors, and many others with a stake in the housing industry have always looked to Black Knight

for actionable insights to help them manage risk, and climate risk is certainly no exception.”

CoreLogic estimates that due to wind losses for residential and commercial properties in Florida because of Hurricane Ian are expected to grow to between \$22 billion and \$32 billion, while insured storm surge losses in Florida are forecast to be an additional \$6 billion to \$15 billion. These totals make Hurricane Ian the costliest Florida storm since Hurricane Andrew made landfall in 1992.

Black Knight’s Climate and Natural Hazard Risk Data Solutions Suite combines the company’s data and analytics assets with public and private data sets and proprietary risk-scoring algorithms to provide a unique look at climate risk, both proactively as well as in the moments immediately following a climate-related event.

“According to a National Oceanic and Atmospheric Administration report, the United States saw 20 distinct billion-dollar-plus climate and weather events in 2021, making it the third-most-costly year on record with an estimated \$145 billion in damages,” Graboske added. “Black Knight customers already rely on our unmatched

data and analytics offerings to monitor their portfolios for key risk factors, such as loan-to-value ratios, equity, and liens. With the Climate and Natural Hazard Risk Data Solutions Suite, we can now also provide a 360-degree view of their climate risk—wherever they stand in the real estate and housing finance continuum.”

Black Knight’s new suite includes Disaster Alerts and Climate Risk Scoring Disaster Alerts, the data set behind the Early Warning Suite in the Black Knight Actionable Intelligence Platform (AIP). The solutions use satellite imagery, topographical mapping, and other data sets to drill down into impacted areas and pinpoint properties in harm’s way, in many instances before FEMA disaster declarations. By focusing on specific properties that were impacted, rather than on countywide areas of potential activity, Disaster Alerts helps users act both quickly and effectively to protect costs and resources.

The Climate and Natural Hazard Risk Data Solutions Suite will cover more than 95% of residential properties nationwide and is available via the Black Knight Rapid Analytics Platform.



# URBANIMMERSIVE ACQUIRES HOMEVISIT FROM CORELOGIC

Urbanimmersive Inc. has signed a final purchase agreement for the acquisition of all the interests of the real estate photography agency, HomeVisit, LLC, from CoreLogic Solutions. CoreLogic will have a right to nominate up to two Board members or observers on the Board of Directors of Urbanimmersive.

HomeVisit is a provider of visual content marketing focused real estate solutions, including property listing photography, videography, 3D tours, drone imagery, printing services, and other related services and having generated revenues of \$7.83 million for its last unaudited fiscal year ended December 31, 2021, with assets of \$2 million and liabilities of \$1.7 million.

"We are excited to welcome HomeVisit, a well-established and respected brand in the industry to Urbanimmersive's portfolio of brands today," said Ghislain Lemire, President and CEO of Urbanimmersive. "While this represents a significant acquisition that is expected to double the revenues of the Urbanimmersive Group and makes us a clear leader as a tech-powered

real estate photography service business in North America, we are proud of having reached a transaction which will enable us to not use our working capital in short and mid-term, giving us the necessary leeway to build value for our investors. We are also happy and feel privileged to welcome CoreLogic as a strategic partner and shareholder of Urbanimmersive."

The acquisition of HomeVisit will be the most important acquisition made by Urbanimmersive since its inception in 2007. It is also considered by Urbanimmersive's management to be the most strategic one as it will significantly expand the company's presence in many regions in the U.S., brings new product offerings, and is setting the table for significant growth and cross-selling opportunities with CoreLogic Group.

HomeVisit was acquired by CoreLogic in 2019. CoreLogic is a global property information, analytics, and data-enabled solutions provider, headquartered in Irvine, California, and serving more than 1.2 million real estate professionals through data-driven insights to

help clients make informed decisions.

Like all previous Urbanimmersive acquisitions, the HomeVisit brand will remain in the forefront to customers. All day-to-day operations of HomeVisit will be integrated on Urbanimmersive's Photography Enterprise Resource Planning application in the upcoming months. Once completed, HomeVisit's customers will benefit from UI's online ordering system offering Guaranteed Hours Booking experience, easy-to-order 3D marketing packages, and UiMeet3D video conferencing Prime Subscriptions.

"I am very pleased, along with our HomeVisit and CoreLogic teams, to partner with Urbanimmersive Group," said Devi Mateti, Managing Director at CoreLogic. "For us, Urbanimmersive has clearly demonstrated to have robust business solutions to successfully integrate HomeVisit, add value to our mutual customers buying experience while bringing state-of-the-art 3D and floor plan solutions. We could not have found better hands to take care of our HomeVisits customers."



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## MSI'S REAL-TIME WEATHER ALERTS

MSI, an Insight One Company, has announced that it is offering disaster alerting technology that reports real-time, property specific impacts. Powered by Earthvisionz, MSI geotags each asset and uses interactive maps to track elevation relative to local storm surge, local rainfall levels, wind speeds, and damage severity and certainty, among many other data points.

“As a courtesy to the communities we serve, we are making this weather intelligent technology available to anybody that needs it,” said Baker Breedlove, President and CEO of MSI. “This technology allows us to visualize impacts and make triage decisions with incredible accuracy. In turn, we respond more quickly and with greater accuracy to events such as this, which mitigates damages, costs, and risk.”

MSI is part of the Insight One Family of Companies that provides end-to-end solutions that include field services, renovations, hazard claim recovery, loss recovery, and real estate auctions.

Earthvisionz mapping technology delivers real-time information before, during, and after any severe weather event, helping with repairs and recovery.

***“This technology allows us to visualize impacts and make triage decisions with incredible accuracy. In turn, we respond more quickly and with greater accuracy to events such as this, which mitigates damages, costs, and risk.”***

—Baker Breedlove, President and CEO, MSI



## NEW DATAVERIFY OFFERING ANALYZES DISASTER IMPACT

DataVerify, a provider of data verification, risk mitigation, and workflow automation services, has announced an association with Veros Real Estate Solutions. As part of this relationship, an insightful tool for lenders called DisasterVision has been launched, providing lenders with contextual insight regarding potentially impacted properties in the lender’s portfolio that lie within a natural disaster area.

“This association speaks to who we are as a company,” DataVerify President Brad Bogel said. “We are continually looking for ways to offer lenders more protection and helpful data without reducing efficiency. We believe that working with Veros allows us to offer lenders another tool to help strengthen their portfolios without sacrificing workflow automation.”

Veros leverages, among other sources, satellite imagery, federal/state agency reports, and data from FEMA and NOAA to provide lenders with current information as data is continually updated throughout the disaster event. Veros also partners with reliable, experienced property condition/inspection providers, offers nationwide coverage, and ensures eyes on a property

following a disaster. The DisasterVision results are provided at the property level, offering more granularity and accuracy to lenders than the less precise county level data provided by FEMA.

“We are excited to work with DataVerify and their customers,” said Sarah Acosta, VP of Product & Data Operations. “DisasterVision is the key solution to gaining post-natural disaster property risk intelligence that helps to simplify and expedite the process for DataVerify customers, providing more convenience and consistency with fewer handoff delays. In situations with Hurricane Ian, for instance, it is important to know right away which properties are potentially impacted to get aid to those homeowners first.”

Through DisasterVision, lenders gain the ability to acquire property-specific data, portfolio analysis, and valuation. Veros can also work closely with lenders when a known natural disaster is about to occur, such as a hurricane that has yet to make landfall, and provide continuous and near real-time updates. DataVerify is proud to offer an innovative new way for lenders to remain informed and prepared in uncertain times.



## OPTIMAL BLUE ANNOUNCES COMPASSEGE PLATFORM

Optimal Blue, a division of Black Knight, has launched the CompassEdge hedging and trading platform—a hedging and loan trading platform new to the capital markets sector.

The result of Optimal Blue's multiyear effort to combine its CompassPoint, Optimal Blue Secondary Services, and Resitrader solutions, CompassEdge was designed to support the needs of every originator—regardless of range, size, or type. CompassEdge merges and builds upon the strengths of each preceding solution to offer world-class analytics, ease-of-use, and true best execution in one, unified platform.

“Today marks an unprecedented step forward for capital markets participants as we introduce our much-anticipated CompassEdge platform,” said Scott Happ, President of Optimal Blue.

“Our existing hedging and loan trading solutions are already unrivaled in the industry, and with CompassEdge, we've created a unified platform that's even greater than the sum of its parts. With a simple login, any credentialed member of an organization can access the comprehensive hedging and trading tools, data and analytics they need—from a single, user-friendly source.”

CompassEdge integrates pipeline risk management tools and analytics with dynamic loan sale and mortgage servicing rights (MSR) valuation functionality. Streamlined navigation enables users to efficiently complete a loan sale in just a few clicks. Additionally, CompassEdge promotes greater transparency across organizations by making premier analytics accessible to any capital markets participant—from the lock desk to

the C-suite—without requiring in-depth system training. The platform's intuitive interface and mobile functionality also make it easy for any user to access key data and tools from any location.

“Whether you're a small originator with one secondary marketing manager, or a large originator with an extensive team, CompassEdge offers the scalability to support your goals,” Happ said. “With Optimal Blue, clients get so much more than best-in-class technology and data. We extend unparalleled support and industry expertise to all of our clients, backed by our skilled secondary marketing and capital markets professionals, who represent decades of collected industry wisdom. And through enhanced visibility, CompassEdge amplifies the already outstanding support we're able to deliver to clients.”



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## VESTA INTEGRATES WITH CORELOGIC TO STREAMLINE ORIGINATIONS

Loan origination system (LOS) provider Vesta has announced an integration with the CoreLogic suite of property information, analytics, and hazard risk solutions products, to offer lenders a natively integrated solution to accelerate and automate mortgage workflows.

“We are extremely excited to be partnering with CoreLogic to simplify originations for lenders and borrowers alike,” said Mike Yu, CEO of Vesta. “The depth of integration between Vesta and CoreLogic allows for a comprehensive data driven approach to loan processing—something that we at Vesta believe is fundamental to lenders’ success.”

Designed from the ground up to streamline the loan manufacturing process through intelligent automation and no code custom workflows, Vesta’s modern task-based LOS enables efficiency gains and cost savings. Lenders now can access CoreLogic’s robust suite of property information, consumer credit, hazard risks, and more via Vesta’s natively built API integration. The ability to seamlessly access this data enables comprehensive records, and more streamlined processing and underwriting.

“Completing this integration with Vesta continues our commitment to the industry to take time, touch, and cost out of the lending process,” said Mike Mitchell, Executive, Strategy & Alliances with CoreLogic. “Vesta clients will now be able to benefit from our robust suite of borrower, loan, collateral, and risk solutions, supported by our world-class property databases.”

***“The depth of integration between Vesta and CoreLogic allows for a comprehensive data driven approach to loan processing—something that we at Vesta believe is fundamental to lenders’ success.”***

—Mike Yu, CEO, Vesta



## RISKSPAN UNVEILS NEW DATA MAPPING AND EXTRACT FUNCTIONALITY

A recent enhancement to RiskSpan’s Edge Platform now enables users to take in unformatted datasets from mortgage servicers, sellers, and other counterparties and convert them into their preferred data format on the fly for sharing with accounting, client, and other downstream systems.

Analysts, traders, and portfolio managers have long used Edge to take in and store datasets, enabling them to analyze historical performance of custom cohorts using limitless combinations of mortgage loan characteristics and run predictive analytics on segments defined on the fly. Through Edge’s “Reverse ETL” data extract functionality, these Platform users can now fully design an export format for exporting their data, creating the functional equivalent of a full integration node for sharing data with any

system on or off the Edge Platform.

Market participants tout the revolutionary technology as the end of having to share cumbersome and unformatted CSV files with counterparties. Now, the same smart mapping technology that for years has facilitated the ingestion of mortgage data onto the Edge Platform makes extracting and sharing mortgage data with downstream users just as easy.

RiskSpan is a technology company for data management and analytics for residential mortgage and structured products. The company offers cloud-native SaaS analytics for on-demand market risk, credit risk, pricing, and trading. With our data science experts and technologists, we are the leader in data as a service and end-to-end solutions for loan-level data management and analytics.



# RUTLEDGE CLAIMS MANAGEMENT RECEIVES WOMEN'S BUSINESS ENTERPRISE DESIGNATION

Rutledge Claims Management, a provider of hazard insurance claims management for the mortgage industry, has announced its national certification as a Women's Business Enterprise by the Women's Business Enterprise Council-West, a regional certifying partner of the Women's Business Enterprise National Council (WBENC).

"We are proud to receive our WBENC certification, as it symbolizes our strong commitment to being an industry leader in diversity, equity and inclusion," RCM CEO Allison Rutledge said. "As a WBENC-certified business, I look forward to helping our clients and business partners meet their own DEI goals while accessing

our world-class claims management services.

I'm also eager to build relationships with other woman-owned businesses and help expand opportunities for future women leaders and entrepreneurs."

RCM is a nationwide provider of hazard claims management services for mortgage servicers and investors, including dispute resolution, negotiations, loss draft, and other services.

The WBENC standard of certification implemented by the Women's Business Enterprise Council-West is a meticulous process including an in-depth review of the business and site inspection. The certification process is designed to confirm the business is at least 51% owned,

operated, and controlled by a woman or women. By including women-owned businesses among their suppliers, corporations, and government agencies demonstrate their commitment to fostering diversity and the continued development of their supplier diversity programs.

"As man-made and natural disasters that are typically covered under hazard insurance continue to grow, today's mortgage lenders and servicers face great uncertainty when it comes to protecting their assets," Rutledge added. "With our new WBENC certification, our clients are able to leverage our decades of expertise in claims management to meet these challenges and support diversity and equity at the same time."



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## THE GUARANTORS LAUNCHES RENT AND DAMAGE PROTECTION FOR INDEPENDENT LANDLORDS

TheGuarantors, a fintech firm building smart financial and insurance solutions for renters and landlords, has rolled out its new product platform designed to help protect small- and medium-sized rental property owners. This launch follows the company's announcement that it had raised \$50 million in Series C equity funding in April.

Amidst considerable economic uncertainty and resulting fears of economic hardship, independent landlords—who own approximately 22 million rental properties nationwide—are at proportionally greater risk of renter default than institutional real estate operators. Independent landlords often do not make a profit; one in three regularly report annual losses. With the unveiling of TheGuarantors' new product platform, independent landlords can now protect their rental income at no cost to the landlords

themselves, addressing the exposure these landlords face, while also providing renters the flexibility of lower move-in costs and the opportunity for greater housing access.

The platform will allow independent landlords to access TheGuarantors' insurance products and invite their prospective renters to apply in a matter of minutes. In exchange for the renter paying a fee (typically less than one month of rent), TheGuarantors issues a Lease Guarantee policy that protects the landlord's rental income against loss due to rent defaults, vacancies, lease breaks, and other common risks. The company also offers a Security Deposit Replacement solution that helps landlords meet changing deposit regulations, eliminate administrative hassles, and attract more renters by offering a deposit alternative that significantly reduces move-in costs—an increasingly com-

mon amenity for institutional landlords. Both products provide more protection for landlords at a significantly lower up-front cost to renters than if they were required to provide deposits for equivalent coverage.

"Small-scale landlords are integral to the supply of affordable housing. As we expand our offerings to independent landlords, we're eager to meet heightened demand from both property owners and their renters for more security, more options, and more relief to help avoid renter default and distress altogether," said Julien Bonnevill, Founder and CEO of TheGuarantors. "Small-scale landlords are more economically vulnerable than institutional operators. It's critical that we extend the same protections to independent landlords so that they, in turn, can extend access and affordability to millions of renters who need comfortable, quality housing."

# THE FRONT LINES OF PROPERTY PRESERVATION

DS News speaks to property preservation experts about how they're navigating economic challenges, a shifting industry landscape, and an exodus of vendor partners as they attempt to maintain strong boots-on-the-ground service.

The property preservation sector has always served as a critical arm of the housing and mortgage lifecycle, ensuring that vacant properties are maintained on their way back into the market, as well as helping combat urban blight during the period when they sit empty. However, this sector has seen significant pain points in recent years, as the economic impacts of COVID-19, inflation, supply-chain issues, and other headwinds have presented challenges for those companies that continue to serve in this arena, even as those same factors have driven other companies under or forced veteran prop pres workers to seek out other industries entirely.

Continuing a long-standing fall tradition, DS News, this month, speaks with a roundtable of property preservation executives to learn about how they are tackling these issues and working to ensure that our nation's stock of REO and vacant properties are attended to, as well as ensuring that the property preservation sector has the manpower and an economic model that will permit it to thrive going forward.



## Nickalene Badalamenti-Kalas

President, Five Brothers Asset Management Solutions

**What regulatory issues or impacts are most challenging for the property preservation sector? How are you navigating them?**

Completion timeframes can be challenging in today's environment. There are fewer vendors available to complete necessary services collectively, and with the additional consideration of greater travel distance, it will take preservation

companies longer to locate a vendor that is willing to travel to a remote area. In addition, we may be required to source a less experienced vendor out of necessity, which may result in inadequate photos/reporting and the need for a return trip to the property, further protracting the timeline.

**A recent National Organization of Mortgage Field Services survey identified a significant exodus of vendor partners that provide direct boots-on-the-ground services. Are you experiencing challenges maintaining necessary labor or vendor partnerships, and if so, how are you combatting this?**

Absolutely. Fundamental to our business philosophy is creating and maintaining relationships with seasoned vendors. We are dedicated to collaborating with field vendors to ensure they remain viable. We understand the challenges field vendors face in today's



environment. We try to work with them in any capacity we can, which may mean modifying coverage areas, partnering with vendors if a reimbursement is indicated, or providing a cash advance to see them through to month's end. Loyalty is reciprocal.

**How are you and your team working to improve efficiencies within the industry to attract and retain new talent and improve the economic model for those that have remained in this sector?**

The "pause" created by the moratoria provided an opportunity for us to ramp up our focus on technological improvements. Having been in the industry for more than 30 years, our CIO has focused on proprietary field tools to reduce the time associated with photo upload labeling, bid creation, and tracking, as well as an alternative to the customary vendor assignment model.

**One thing we've heard about is an ongoing demographic shift to a higher concentration of rural versus urban properties that go through the foreclosure sale process and are taken by the investors/insurers back into inventory. Have you seen this, and if so, what challenges are presented by this higher concentration of properties in "hard to serve" areas?**

Higher concentrations of properties in rural areas certainly present an ongoing challenge. As described above, work completion within required timeframes is one facet of these challenges. Often, vendors will require trip fees to travel to rural areas. We find that it is necessary to collaborate with our clients and provide them with the necessary transparency to make an informed decision before agreeing to a trip fee. Vendors that remain within the industry realize the state of the industry. They know there are few willing to travel to rural areas, and therefore, this can be an opportunity for them to charge higher trip fees than we have seen in the past.

**Are there any other critical challenges you are facing headed into 2023? If so, how are you navigating and preparing for these?**

Most economists agree that we are heading for a recession sometime in 2023. Some predict a "mild" recession. Having weathered diminished volumes, as well as vendor and employee shortages, I anticipate staffing challenges. Also, wage requirements could be especially difficult in the absence of government and GSE accommodation to the current pricing model. For now, Five Brothers has put a great deal of emphasis on cross training our in-house team. We have adopted a hybrid, work-from-home model and try to remain flexible in order to attract talent with unique at-home needs.



**Stacey Bayley**

SVP, Sales and Performance Management, SingleSource

**What regulatory issues or impacts are most challenging for the property preservation sector? How are you navigating them?**

The demands of the field service industry stress timeliness and high-quality home assessments to ensure every unique element of a home is properly evaluated and protected. Reductions in volumes combined with a shift in property concentrations to more rural areas are creating challenges in managing the costs of meeting regulatory timeframes. In essence, nothing can be missed, and everything must be completed on time. Field contractors have always been careful with fuel expenses, but new rural vacant property footprints strain the logistics of completing work quickly at out-of-date costs.

The notable increase in home values heightens liability assumed by national providers and our vendors, yet no adjustments to manage such risks have come to fruition. Home value spikes have affected overhead and management costs in the form of insurance fees for our vendor networked providers.

**A recent National Organization of Mortgage Field Services survey**

**identified a significant exodus of vendor partners that provide direct boot-on-the-ground services. Are you experiencing challenges maintaining necessary labor or vendor partnerships, and if so, how are you combatting this?**

SingleSource has taken pride in working with a diverse network of vendor partners across the United States. Our experience shows that successful field network coverage involves using a combination of small and large field service providers. Covering certain parts of the United States can be managed with larger one-stop shop operations while others require smaller specialized vendors for each product type. SingleSource has built our services with this in mind and has developed a diverse group of vendors to handle the nuances of each region. We continue to source coverage with regional needs in mind, but the potential vendor partners are different than ones we worked with in the past.

Unfortunately, we have felt changes not only in available vendor partners but also in vendor coverage and capacity. Many of our larger vendor partners have reduced their coverage footprint. These vendors, once titans in their regions, have reshaped into smaller companies with more concentrated coverage. They had to reorganize to manage expenses and survive in the industry. Many smaller vendor partners have slowly been closing. Vendors that worked with us for many years are no longer in business due to low volume, increased costs, and increased liability. The material costs alone are difficult to navigate. It often costs more money in gas to get to a property than the actual job pays. Vendors usually must bring a trailer with equipment, and by the time they complete routine maintenance, they may have lost money. People often forget that the vendors must also carry proper insurance, which they pay for. We are actively and aggressively recruiting, whereas in years past we did not have to because there was a large pool of qualified and willing vendors to onboard.

To battle the changing vendor environment, SingleSource leverages its 20,000 national brokers to support our field service network. We have customized dynamic property inspection forms that are easy to complete regardless of the vendor's core competency and expertise. Increased vendor flexibility while maintaining high-quality control has become crucial.

**How are you and your team working to improve efficiencies within the industry to attract and retain new talent and improve the economic model for those that have remained in this sector?**

SingleSource leverages its 20,000 national brokers to support our field service network. We have customized dynamic property inspection forms that are easy to complete regardless of the vendor's core competency and expertise. Increased vendor flexibility while maintaining high-quality control has become crucial. SingleSource continues to enhance its field service technology platform to maximize results and automate and reduce processing times.

SingleSource is working with our clients to get more equitable fee structures. We have been successful at negotiating several client payment structures, which is a positive start. SingleSource has also offered to support NAMFS with industry pricing adjustment initiatives. Additionally, we have signed the NAMFS pledge, a commitment to ensuring that any price adjustment is shared with our contractor network.

We are aware that other nationals are discussing options like reducing required insurance vendors' coverage limits just to make the barriers to entry more feasible for smaller contracting companies, but this does not feel like a viable option. Reducing insurance limits would be tricky to navigate when home prices and material costs are increasing.

**One thing we have heard about is an ongoing demographic shift to a higher concentration of rural versus urban properties that go through the foreclosure sale process and are taken by the investors/insurers back into inventory. Have you seen this, and if so, what challenges are presented by this higher concentration of properties in "hard to serve" areas?**

There is an increase in properties located in hard-to-reach areas. Urban properties are usually closer together than those in rural locations. A contractor covering a metropolitan area with many properties nearby can reach more homes within a single day. A vendor covering a rural area may spend more time driving than conducting work in a day's time. Their billable results are

not comparable. The farther away the property, the more gas and labor time needed to get there. Drive time is not factored into pricing models with investors or clients.

Typically, we would try to maximize a vendor's trip so they will travel with a trailer, and we would do as much work as possible to limit the amount of back and forth. The challenge with this strategy is the timing of bid requests. Not all work needed at a property can be completed until a bid request is submitted to a client or investor for approval. Sometimes this can result in multiple trips to the same property. We always want to maximize vendor trips, but this is not always possible if the safety and security of a home are at risk.

Increased vacancies in remote areas pose their own set of issues. Rural vacant homes can be at a greater risk of vandalism because fewer neighbors are passing by the properties. This can result in minor incidents where small re-securing tasks are needed, meaning more drive time for smaller jobs like a minor rekey, or window boarding.



**Kellie Chambers**  
EVP, MSI Solutions

**What regulatory issues or impacts are most challenging for the property preservation sector? How are you navigating them?**

The most impactful regulatory issue has been national forbearance moratoriums. These moratoria distorted the market through disruption to the boots on the ground preserving assets and reducing the velocity or turnover in the market, thereby reducing both housing supply and preservation volume. We'll continue to navigate the respective challenges through partnerships with servicers, attorney networks, and industry sponsors like The Five Star Institute to educate the policymakers and help guide future language for the inclusion or exclusion of specific scenarios to lessen the impact on communities and homeownership rates.

**“Many of our larger vendor partners have reduced their coverage footprint. These vendors, once titans in their regions, have reshaped into smaller companies with more concentrated coverage.”**

—**Stacey Bayley**  
SVP, Sales and Performance Management, SingleSource

***A recent National Organization of Mortgage Field Services survey identified a significant exodus of vendor partners that provide direct boot-on-the-ground services. Are you experiencing challenges maintaining necessary labor or vendor partnerships, and if so, how are you combatting this?***

It's no secret that there is a significant exodus of field vendors in the industry. This is largely attributable to market conditions—the labor market is tight, material and fuel costs skyrocketed, and inventories plummeted. We have gotten scrappy, taking a relationship approach and diversifying services to leverage our infrastructure and network. The diversification of our services has provided more opportunities for vendors to repair and preserve commercial and retail assets through cross-training. We are also sharing our network across our family of companies. Lastly, MSI was an early adopter and supporter of the pricing initiative and discussions regarding investor allowables not reflecting historically high inflation, low volumes of work, and increasing operating costs due to further distances between properties.

***How are you and your team working to improve efficiencies within the industry to attract and retain new talent and improve the economic model for those that have remained in this sector?***

MSI is continuously working to reduce the administrative burden of our field vendors by helping with automation and third-party system integration where possible. MSI has proprietary software and systems for our field vendors to send results and photos, but we also recognize our field partners are not exclusive to MSI, so integration and automated software to reduce the number of systems they use offers lift to their crews and staff. In addition, through partnerships across the Insight One family, we can offer opportunities outside of property preservation. With training our field network is able to pursue revenue opportunities assisting with proof of loss for IProperty Claims, inspections, and signage assistance for Williams & Williams Auctions, as well as expanding to service our retail and commercial accounts.

***One thing we've heard about is an ongoing demographic shift to a higher concentration of rural versus urban properties that go through the foreclosure sale process and are taken by the investors/insurers back into inventory. Have you seen this, and if so, what challenges are presented by this higher concentration of properties in "hard to serve" areas?***

The ratio of metropolitan properties to rural has shifted significantly. I would not say the rural properties are "hard to serve," but I would agree servicing these properties comes at a much higher cost to the boots on the ground due to gas prices, distance to drive, and lack of density. A field vendor may need to forgo work at three metropolitan properties to service one rural property in the same amount of time. Meanwhile, the tradeoff is two-thirds less money in their pocket. Common sense often prevails when they are faced with this decision, and the rural property doesn't get scheduled. The pricing initiatives and considerations for paying for time and materials, in lieu of payment by task, are more reflective of market conditions and may result in faster completion timeframes for the rural properties.

***Are there any other critical challenges you are facing heading into 2023? If so, how are you navigating and preparing for these?***

As mentioned above, inflation rising at an annually compounded rate of 10% combined with operating under fixed pricing established over a decade ago is a challenge. It's reassuring to see the recent interest and active discussions on adjusting investor/insurer allowables across the diverse parties in the industry. Beyond that, increased interest in consumer protections is on the horizon. The rapidly rising interest rates, increasing hazard insurance rates, higher frequency of storms, and expansion of flood zones by the NFIP will affect home affordability for millions of Americans. Real estate sale prices have begun to slow in both quantity and pricing. If the downward pressure on prices continues, the industry may see a sharp reduction in second-chance auction sales, which will result in an increased demand for property preservation on a lean and strained field vendor network.



**Michael Greenbaum**

COO, Safeguard Properties

***What regulatory issues or impacts are most challenging for the property preservation sector? How are you navigating them?***

State licensing requirements are one of the most challenging issues that impact the property preservation space. They create barriers to hiring new personnel from outside of the industry and reduce our ability to drive competition within an existing vendor network. We navigate by spending significant marketing dollars in these areas to attract and retain talent.

***A recent National Organization of Mortgage Field Services survey identified a significant exodus of vendor partners that provide direct boot-on-the-ground services. Are you experiencing challenges maintaining necessary labor or vendor partnerships, and if so, how are you combatting this?***

Yes, we are experiencing this to an extent. To combat this, we have placed a focus on recruiting new talent, as well as developing retention programs for both the current network and new hires just starting with Safeguard.

***How are you and your team working to improve efficiencies within the industry to attract and retain new talent and improve the economic model for those that have remained in this sector?***

We have focused on clear, honest marketing in our recruiting efforts, including true testimonials from our long-term, loyal vendor partners. We have adjusted payment for services in response to inflation to help reflect the current economic environment.

**One thing we've heard about is an ongoing demographic shift to a higher concentration of rural versus urban properties that go through the foreclosure sale process and are taken by the investors/insurers back into inventory. Have you seen this, and if so, what challenges are presented by this higher concentration of properties in "hard to serve" areas?**

It is true that the distance between properties has increased significantly over the past few years. The additional mileage increases windshield time, and thus, reduces the percentage of time spent completing tasks that directly generate income. When you take into account the surge in gas prices, that inactive time becomes even more expensive to the network; it costs more to get to fewer properties in a day. This has a huge impact on daily revenue and daily costs.



**Sam Ingber**

CEO, Brookstone Management

**Kerry Medel**

Client Relationship Manager,  
Brookstone Management

**What regulatory issues or impacts are most challenging for the property preservation sector? How are you navigating them?**

Regulatory changes are always expected whether at the municipal, state, or national level—in this industry, these are surely the nature of the beast. However, increased regulation expectations are not usually found to be commensurate at the same level of reimbursement costs. The truest and perhaps most talked about challenge remains the failure to increase allowable prices for the last 15 years. Static pricing combined with the ever-increasing compliance requirements for those servicing

default properties remains an imbalance that is often supplemented by those who shouldn't be bearing that burden: those in the field actually completing the services.

**A recent National Organization of Mortgage Field Services survey identified a significant exodus of vendor partners that provide direct boot-on-the-ground services. Are you experiencing challenges maintaining necessary labor or vendor partnerships, and if so, how are you combatting this?**

There is no secret that partners have certainly left the field service industry to go into other, more lucrative sectors. Through no fault of their own, servicers and field service providers alike work tirelessly to reinvent the ways in which they can better support their tenured boots-on-the-ground, while responding appropriately to advances in training, technology, and skill requirements for those just entering (or re-entering) the industry. Brookstone continues to be creative in identifying new ways to support the challenges our vendors face and work with them to ease transitional burdens. Brookstone tries to remain ahead of efforts to support vendors through many means, including splitting or even absorbing 'cost of doing business' price increases. For example, Brookstone works to bundle trips to rural areas to reduce travel efforts for our vendors. If bundling options aren't available, we focus on negotiating compensation for the trip outside of standard charges.

Brookstone also works to support increased costs associated with technological changes and requirements, trying to take some inconveniences off the vendors with set-up, troubleshooting, costs, and mobile solution support so that the vendors can focus on what they do best. Brookstone has also worked to be creative in sourcing efforts. This year we successfully worked to bring vendors, contractors, tradesmen, and other professionals into the industry from other sectors. Leveraging providers of these services has helped Brookstone better respond to the changing needs of our existing network as well.

**How are you and your team working to improve efficiencies within the industry to attract and retain new talent and improve the economic model for those that have remained in this sector?**

**“State licensing requirements are one of the most challenging issues that impact the property preservation space. They create barriers to hiring new personnel from outside of the industry and reduce our ability to drive competition within an existing vendor network.”**

—**Michael Greenbaum**  
CIO, Safeguard Properties

Very similarly to the response provided in question No. 2, Brookstone's teams work to reduce hold-times by addressing the source causes for those delays. For example, Brookstone has increased verbal communications with field team members while they are onsite to reduce the need for return trips and to maximize the potential at each property. Completing what can be done during that same trip, communicating those needed actions to our clients, and gaining preapproval for our vendors to do as much as possible while they are at the asset has helped increase turnaround times and mitigated frustration on the vendors' part. Brookstone has and will always consider the bottom line for our vendors, working to ensure the most money ends up in the pockets of the experts doing the repairs onsite.

**One thing we've heard about is an ongoing demographic shift to a higher concentration of rural versus urban properties that go through the foreclosure sale process and are taken by the investors/insurers back into inventory. Have you seen this, and if so, what challenges are presented by this higher concentration of properties in "hard to serve" areas?**

Certainly, Brookstone can agree that a shift in demographics across all portfolios has shown a swift and major conversion from urban properties to more rural geographically challenging assets. This, coupled with the fickle and often outrageous cost of fuel, has been a hot topic of consideration during the discussion of vendor impacts.

Consider this: vendors are not largely driving around to complete repairs in a fuel-efficient hybrid or electric vehicle—they are driving trucks that can carry all the tools, hardware, material/supplies, etc. needed to complete the most work at the property in one trip. Furthermore, consider if that vendor must collect and remove debris, and how much fuel economy means to their operation. Debris removal is generally not approved to be done with the rental of a dumpster or other container. Vendors must often rely on their truck beds or a detachable trailer (open or enclosed) not only to remove the debris from site but also as a mechanism to justify cubic-yard measurement and ensure invoice accuracy. Furthermore, hauling the trailer (empty or full) further reduces fuel-efficiency on these vehicles. The cost of debris removal at the cubic yard hasn't

been adjusted for almost 15 years, yet in the last 15 years cost of living, inflation, fuel, consumer price index, and other factors have all been shown only to increase—some exponentially so. What does that mean for the boots-on-the-ground just trying to remove debris from a home?

**Are there any other critical challenges you are facing headed into 2023? If so, how are you navigating and preparing for these?**

Critical challenges in the industry are faced by all in the default space, from investors/insurers down to the crews maintaining the properties' lawns. Regulatory changes will always cause swift analysis and require rapid response from the field servicing networks. However, being vigilant about preparing for what can be observed and quickly implementing procedural and operational changes will always help keep communities as free of negative impact as possible, ensuring mindfulness to borrower sensitivity and adherence to compliance requirements, all while protecting clients' interests and reducing their exposure. The added complexities facing the field servicing industry post-COVID have served to make companies like Brookstone more creative and better partners for our clients, as well as better supporters for our network of vendors. For example, advocating for them to be commensurately compensated for their efforts caring for our assets.



**Phil Johnsen**

SVP/General Manager, Servicing & Real Estate Solutions, Altisource

**What regulatory issues or impacts are most challenging for the property preservation sector? How are you navigating them?**

The ever-changing array of local municipal and state regulations pertaining to vacant and

abandoned properties make it ever more difficult to remain compliant. This requires an increasing investment in the monitoring of state and local regulations, as well as an understanding of the variations between states and cities as they set requirements. Maintaining a matrix across all states and cities is a full-time job.

**A recent National Organization of Mortgage Field Services survey identified a significant exodus of vendor partners that provide direct boots-on-the-ground services. Are you experiencing challenges maintaining necessary labor or vendor partnerships, and if so, how are you combatting this?**

The exodus of experienced, competent subcontractors is the greatest challenge impacting field services companies. It doesn't matter if you are managing your own network of workers or relying on regional or national providers, the ability to get the work done in the field according to client/investor specifications is becoming more and more difficult. The root cause of the problem is a pay scale that does not allow vendors to make enough of a profit to keep them engaged in this industry. They are fleeing to other jobs that offer higher earning potential and greater flexibility (Uber, DoorDash, etc.). Successful field services companies are hanging on by reducing their profits, paying more to get the work done, and increasing outreach and ongoing relationship-building to strengthen their relationships with proven vendors. Ease of doing business is a key factor, enabled by simple processes and superior technology.

**How are you and your team working to improve efficiencies within the industry to attract and retain new talent and improve the economic model for those that have remained in this sector?**

We are investing in better technology to improve the vendor experience, increasing the ease with which they work with us (simplifying processes), and driving for greater clarity in setting expectations for desired work outcomes.

**One thing we've heard about is an ongoing demographic shift to a higher concentration of rural versus urban properties that go through the foreclosure sale process and are taken by the investors/insurers back into inventory. Have you seen this, and if so, what challenges are presented by this higher concentration of properties in "hard to serve" areas?**

Absolutely. Starting back in 2013, the GSEs and HUD adopted the use of bulk note sales to investors, where the best properties (metro, good condition) were packaged together and sold as portfolios. The recent run-up in housing demand/prices also drove most of the desirable properties quickly off the market. What is left are the more rural properties and properties in poor condition. There are far fewer concentrations of properties, even in rural areas. Properties are fewer and farther between, driving vendor demands for extra trip fees. Overlay high inflation and supply chain disruptions and the conditions in the field have never been more challenging. Vendors are demanding higher fees, due to skyrocketing gasoline prices, rapidly increasing dump fees, and wild fluctuations in material costs. Aside from pricing pressures, timeline expectations set back in a time when properties were much more concentrated are now outdated and not considerate of the current wide disbursement of properties. Vendors survive by setting routes and grouping work orders together, so they minimize "windshield time." More-remote properties mean the routes result in less-frequent visits to the properties.

**Are there any other critical challenges you are facing headed into 2023? If so, how are you navigating and preparing for these?**

All of these challenges listed above are exacerbated by a labor environment where the rules regarding worker classification (employee versus contractor) are evolving. States are increasingly adding legislation making the classification of workers as contractors ever more difficult. The industry is not keeping pace with the pricing demands of a contractor-based model, let alone a W2 working force.

**"It doesn't matter if you are managing your own network of workers or relying on regional or national providers, the ability to get the work done in the field according to client/investor specifications is becoming more and more difficult."**

**—Phil Johnsen**  
SVP/General Manager, Servicing  
& Real Estate Solutions, Altisource





**Brandon Kirkham**  
COO, JGM Property Group

### ***What is the most emergent threat to the property preservation industry today?***

Without any hesitation, it is the significant exodus of vendor partners that provide direct, boots-on-the-ground services. The trade group, NAMFS, recently completed a survey that identified resource loss as upwards of 40% over the last three years. Much of the exodus is among the most experienced providers. New providers recruited to our industry do not have the retention rate needed to replenish the vendors that are either retiring or exiting due to financial reasons.

### ***In light of this, what are your recommendations on how to slow or even reverse this trend?***

The single largest driver for the exodus is the outdated investor allowable fees. A distant second is the proliferation of additional requirements. Property preservation fees have remained relatively unchanged for over 10 years for the property preservation industry. Fuel and labor prices have forced out many of the providers referenced above. The economic model is broken. The fee rates are based on substantially different industry dynamics from what we are experiencing today. Volumes were much higher, as were concentrations of properties in urban areas, which have a lower cost to service, and the general condition of the housing stock subject to conveyance was better.

The trade association, NAMFS, commissioned a study and compiled cost data from a variety of service providers. This information is actively being shared with stakeholders, investors, and government agencies. The industry is very hopeful that this initiative will lead to updated fee schedules and possibly a mechanism that will adjust fees annually based on changes in the CPI.

### ***Do cost estimate tools assist with changes in materials and labor costs?***

The introduction of a Cost Estimation tool was intended in part to help; however, these tools do not always accurately reflect the actual cost to maintain, preserve, or repair properties that are in default and subject to long-term neglect. At best, it is a tool that provides component details of a bid and a reference point of a reasonable cost. It helps with the evaluation if the vendor's cost estimate is comprehensive and reasonable. Too often, it is used as the absolute limit of what the investor will approve.

For example, the cost estimation tools yield a midpoint price based on collected pricing data and support multiple stakeholders such as insurance companies and builders. A mid-point does not account for property attributes of deteriorated or neglected properties or the additional regulatory requirements unique to the property preservation industry, both of which add substantial costs. An easy illustration: a builder will utilize 85% or more of a sheet of plywood, while a preservation contractor uses a much smaller portion of the same sheet. Regardless, both the builder and the repair contractor will have the same full-sheet cost; however, the CE tool will only reimburse the actual calculated dimensions in the form of united inches. The remaining portion of the unused plywood is a loss to the vendor.

### ***What initiatives do you foresee with technology in 2023?***

I remember a time when Polaroid photos were taped into the claim file. I am a big proponent of technology and understand the fundamental value it creates for all stakeholders. Technology has provided a significant lift in communication, documentation, oversight, and compliance. As an industry, we can do more with less administratively. But the work in the field is at the core of this industry, and technology has no impact on the craft in the field. Changing a lock, mowing a lawn, treating discoloration, or carrying gallons of water into a property to clean a toilet requires human power.

Initiatives are underway to improve standardization. We anticipate this will make it to the market in 2023, although more work is needed. Technology, when designed with the input of all stakeholders, can create significant efficiencies and better results. It can lower costs and improve the vendors' abilities in the

field. Technology that is not aligned with the practical aspects of the job in the field can have the opposite effect. To illustrate, the goal of an initial property condition report is universal for all stakeholders: document the condition and communicate risk. However, there are many different versions of a property condition report, along with substantially different configurations of the report. In some cases, all 100+ questions must be answered, while in other configurations, only relevant questions are presented to the vendor to be answered.

Flagging hundreds of photos taken during an initial secure to align with each inspection question and sub-condition can take hours to complete. Taping 20 Polaroids to a piece of paper only took minutes. Collaboration and standardization will improve performance, reduce costs, and help retain new vendors.

### ***Do you anticipate an adverse impact of regulatory or legislative changes on the property preservation industry in 2023?***

Yes, and the potential change would be the most significant development in over 40 years. In 2022, California enacted legislation under AB Proposition 5 that essentially reclassified independent subcontractors as employees and established a framework for a litmus test when making such a determination. The target of the legislation was the new "gig" economy, such as Uber and Lyft. However, the litmus test has the potential to apply to the property preservation industry. The Biden administration recently engaged the Department of Commerce to develop a national standard that addresses this topic with the underlying goal to reclassify away from 1099. This review process may take up to 18 months to complete, and thus substantial work is needed in 2023 to quantify the impact and develop solutions should the legislation pass.

A move to reclassify from 1099 to W2 would adversely impact the preservation industry and would require substantial modifications to the regulations issued by HUD, VA, USDA, Fannie Mae, and Freddie Mac. Chiefly, the substantial modification in the property preservation fee allowables. In addition, cost estimation tools and other technology platforms would need substantial modification to account for the resulting impact. Without corresponding changes, the vendor network supporting mortgagees, loan servicers, banks, investors, and insurers would no longer exist.



## Tony Maher

VP, Business Development,  
Cyprex Services, LLC

### **What regulatory issues or impacts are most challenging for the property preservation sector? How are you navigating them?**

Regulatory issues are the same for us as they are for our clients. We monitor them closely to understand them from many different agencies and jurisdictions. Our clients and our exposure can be costly for the slightest error. Some clients/states have implemented extra steps before being able to secure a property resulting in extra touches to complete that service (longer posting timeframes, city must sign off on affidavit of vacancy prior to securing). During the COVID-19 era, city offices closed, and it delayed getting permits and sign-offs for repair work.

We would like to see more collaboration with the investor community so that we work together to address liabilities. Unlimited liability exposure, especially with FHA work, is an area that needs to be addressed. Adding a liability cap or changing how errors/corrections are approached would go a long way to restoring the supply chain. HUD should set a time limitation for retroactive liability after their inspector has okayed a property In Conveyance Condition (ICC).

### **A recent National Organization of Mortgage Field Services survey identified a significant exodus of vendor partners that provide direct boot-on-the-ground services. Are you experiencing challenges maintaining necessary labor or vendor partnerships, and if so, how are you combatting this?**

Yes, this is a challenge, but our scale makes this just a little easier to manage. Having been in this business for 30 years, we count on vendors that have a history with us to know that things will change. Many of these vendors are small family

businesses and this is what they know best and count on. The foreclosure and eviction moratoria significantly reduced delinquency volumes. The GSEs made changes to their inspection requirements, which reduced their inspection volumes by about 50%. The reduced volumes took a lot of the scale out of the inspection space, and compounding that are the economic pressures that have increased the cost to the vendor network.

We are paying vendors separate trip charges that are not reimbursable by investors to get properties addressed quickly, but this is not a solution that we can absorb indefinitely. We have increased our vendor outreach and onboarding efforts to replace vendors who left the industry. Investments in IT platform improvements and paying vendor partners quickly make it easier for vendors to work with us. As a national preservation company, we are in a better position with our scale to manage the challenging environment. However, the reduced scale and increased costs have created a very challenging situation for the regional/mid-size/smaller preservation companies.

### **How are you and your team working to improve efficiencies within the industry to attract and retain new talent and improve the economic model for those that have remained in this sector?**

Investing in our proprietary technology platform; maintaining a veteran, highly skilled IT department; and constantly creating technology efficiencies and integrations continue to pay dividends in improving productivity. We see some benefits for future efficiencies in AI. However, we still believe there is additional work to be done in this area. We are constantly working with our field vendors to make sure their interactions unfold smoothly, and that they are paid in full and in a timely manner for their services.

### **One thing we've heard about is an ongoing demographic shift to a higher concentration of rural versus urban properties that go through the foreclosure sale process and are taken by the investors/insurers back into inventory. Have you seen this, and if so, what challenges are presented by this higher**

**“As a national preservation company, we are in a better position with our scale to manage the challenging environment. However, the reduced scale and increased costs have created a very challenging situation for the regional/mid-size/smaller preservation companies.”**

—Tony Maher

VP, Business Development, Cyprex Services, LLC

**concentration of properties in “hard to serve” areas?**

Whereas this is somewhat of a challenge to everyone in this industry, our national coverage and scalability have enabled us to continue to serve rural properties, but, in some cases, not as timely as we’d like. As this trend continues, it is only a matter of time before new vendors appear to service these properties. In the meantime, we pay service and travel charges and expect our clients to understand that we cannot absorb these costs indefinitely. We are seeing a higher concentration of rural properties in need of more repair and preservation work to bring to standard. In addition, we are experiencing clients transferring properties in these areas when other field service companies lack sufficient coverage due to our coverage and scalability.

**Are there any other critical challenges you are facing heading into 2023? If so, how are you navigating and preparing for these?**

Uncertainty in the global economic outlook will no doubt bring challenges. We are reacting carefully, and hopefully effectively, for the unknown. We consider ourselves scalable and nimble as an organization as we have been in the past. Our acquisition of Xome Field Services a year ago is part of this planning. As clients expect more sophisticated and seamless technology from field service vendors, volume and scale are absolute necessities.



**Chad Mosley**

President, Mortgage Services, MCS

**What regulatory issues or impacts are most challenging for the property preservation sector? How are you navigating them?**

There are a number of regulatory issues that can be a challenge for property preservation providers, but the one that poses a particularly difficult challenge is the various property

registration ordinances, the majority of which exist at the municipal level.

There are thousands of municipalities nationwide and each has its own ordinances for registering a property—some ordinances are required for foreclosed properties, while others are needed for vacant or even delinquent properties, and the complexity of trying to manage all of these required registrations can be an overwhelming process.

Fortunately, MCS has been able to excel at this complex and sometimes risky procedure for our clients by building a team of professionals that understands the nuances of property registration ordinances as well as utilizing technology that streamlines the overall process.

**A recent National Organization of Mortgage Field Services survey identified a significant exodus of vendor partners that provide direct boot-on-the-ground services. Are you experiencing challenges maintaining necessary labor or vendor partnerships, and if so, how are you combatting this?**

There’s clearly been a shift in the industry as many third-party vendor partners that perform field services are leaving the property preservation space entirely. We first saw this as early as 2017 when foreclosure rates were low, but once the pandemic and foreclosure moratoriums hit, this vendor exodus completely accelerated.

It’s been a balancing act for MCS, but we are successfully navigating through it. Historically, companies have provided preservation services through a third-party network of vendors and contractors. Today, MCS is innovating the property preservation industry by establishing a complementary network of regional service centers staffed with its own employees, creating a hybrid service model to help support client needs.

It may be beneficial for servicers to consider a provider that can self-perform and has an extensive, nationwide network of vendors so that all of their property preservation needs are covered. A model like this enables a provider to offer the flexibility of a regional vendor with the benefits of scale you would get from a national company. It also promotes increased quality control, code compliance, speed of work, and customer satisfaction, as well as in-market support and oversight for third-party vendors.

**How are you and your team working to improve efficiencies within the industry to attract and retain new talent and improve the economic model for those that have remained in this sector?**

MCS is always looking for great talent and new ways to attract and retain the best in the industry. But with over 11 million jobs open in the United States and only 6 million unemployed workers, the challenge has never been greater.

At MCS, our secret weapon is the amazing culture we’ve created. Our recruiting team truly believes MCS is a great place to work, which makes telling our story an easy task. The best candidates can be incredibly choosy today and are seeking more than just a paycheck. We’ve found that employees want to work for a brand they are proud of and can believe in. More than ever, they’re also looking for a company that matches their belief system with a job that allows them to have a little fun along the way. MCS is a dynamic brand, and our social media consistently highlights the fun we have as well as our commitment to the communities we serve.

We focus heavily on our company values, spelled out as SHINE: service, hustle, integrity, nurture, and excellence. This isn’t something we just put up on the wall. SHINE is at the core of everything we do for customers, service partners, and teammates. This has formed the foundation for MCS as a company and we’ve been able to successfully attract and retain the very best industry talent as a result.

**Are there any other critical challenges you are facing heading into 2023? If so, how are you navigating and preparing for these?**

Most industry professionals believe there is going to be increased foreclosure volume going forward because of the economic pressures the country is facing. We don’t know precise numbers yet, but the expectation is there will be a greater number of foreclosures in the coming months than are taking place today. The property preservation business is at a crossroads right now—increased foreclosures are imminent, and yet much-needed vendors are continuing to leave the space at a high rate.

We believe this will be the biggest issue for MCS in 2023, as well as the entire industry, but we are prepared through our hybrid service

model approach, which was created to tackle this exact kind of challenge. MCS will continue to utilize existing vendors and recruit new ones at the local level while combining that with our complementary network of self-performing regional service centers. We're confident this unique hybrid approach will ensure our property preservation operations remain strong.



**Thomas O'Connell**

SVP, Default Management, Planet Home Lending

**What regulatory issues or impacts are most challenging for the property preservation sector? How are you navigating them?**

The most challenging regulations the industry is experiencing are vacant property registrations and zombie property statutes. Ensuring compliance with each state, county, city, and sometimes township is a difficult task that requires a significant investment in resources.

We mitigate the impact by maintaining effective tracking and reporting, so we avoid significant fines and penalties. Additionally, we ensure property preservation vendors comply with timing, posting, and preservation requirements. Lastly, we have experienced benefits in avoiding fines and penalties by communicating directly with the code enforcement officers.

**A recent National Organization of Mortgage Field Services survey identified a significant exodus of vendor partners that provide direct boot-on-the-ground services. Are you experiencing challenges maintaining necessary labor or vendor partnerships, and if so, how are you combatting this?**

We have heard about delays in completing conveyances due to a lack of contractors in certain areas. This means that preservation vendors find it difficult to complete work within established

timelines. To date, this has not been a significant issue for Planet, but we are monitoring this and communicating with our property preservation vendors.

**How are you and your team working to improve efficiencies within the industry to attract and retain new talent and improve the economic model for those that have remained in this sector?**

We rely on Power BI and data analytics to enable staff to successfully manage their work queues and to highlight what's important to focus on. To retain employees, we work hard to create a positive work environment. Planet's culture is diverse and inclusive. That leads to high employee engagement, which helps us retain employees. People stay where they're valued and see opportunities for career growth.

**One thing we've heard about is an ongoing demographic shift to a higher concentration of rural versus urban properties that go through the foreclosure sale process and are taken by the investors/insurers back into inventory. Have you seen this, and if so, what challenges are presented by this higher concentration of properties in "hard to serve" areas?**

This trend has been happening over the last couple of decades as the population has been moving to urban/suburban areas for more opportunities. The pandemic may have slowed this trend when employers went to a remote-work environment. Foreclosures and REOs in rural areas have always been difficult because of the availability of contractors, uniqueness of the properties, and extended hold times in REO resulting in deterioration of the property. The keys to managing those challenges are vendor oversight to ensure contractors are performing, obtaining multiple bids, and assessing both marketability and the type of buyers to determine the level of repairs if liquidating through REO.

**“The most challenging regulations the industry is experiencing are vacant property registrations and zombie property statutes.”**

—Thomas O'Connell  
SVP, Default Management, Planet Home Lending

# THE IMPORTANCE OF UNDERSTANDING REPLACEMENT COST VALUE

Homeowners insurance policies are a recurring annual purchase required as a part of your mortgage, but all too often, homeowners don't necessarily consider the adequacy of the amount of coverage provided. An important aspect of sufficiently protecting a property is obtaining a policy that settles at Replacement Cost Value (RCV) and automatically adjusts each year based on current market conditions. Fortunately, RCV is the default coverage calculation on a standard HO-3 homeowners insurance policy and provides reimbursement for property damage after a covered loss based on the cost to repair or replace the property considering the then-current price of building supplies and labor. It's important for homeowners to maintain coverage at least equal to RCV, rather than Actual Cash Value (ACV) coverage, as the latter provides reimbursement for property damage by determining the replacement cost value and then deducting depreciation, based on age or use. ACV thus does not provide the homeowner with full indemnity for their property in the case of a loss, thus impacting their equity in the home.

Coverage amounts, and the accompanying premiums, have been increasing for policies with RCV coverage over the last few years above the historical annual average of 2% to 4% as a result of rising material and labor costs. Material and labor prices started increasing as a result of COVID-19 pandemic-related restrictions and associated supply chain disruptions, and these have subsequently been compounded by inflationary pressures and labor shortages. As an example, average building material costs increased 8.9% from Q1 2022 to Q2 2022.

The 2022 CBRE U.S. Construction Cost Trends forecasts a 14.1% year-over-year increase in construction costs by year-end 2022 as labor and material costs continue to rise, after which escalation should stabilize to the 2%-4% range in 2023 and 2024. However, market conditions continue to change rapidly, and it's difficult to forecast exactly what will happen. Rising interest rates are negatively impacting new housing demand, but the reconstruction required as a result of Hurricane Ian is likely to drive higher demand for construction materials.

Homeowners insurance companies' rates have been approved for rate increases in almost every state, with an average nationwide rate increase of 4.48%, based on S&P data spanning January 1, 2022, to May 18, 2022. The rate increase amounts vary by state, with California expected to see the highest increase at 15.3%, followed by Washington at a 12% increase. Other states are expected to see very minimal increases, such as Michigan, Kansas, and New York. All in all, many homeowners will find that their premiums will increase as a result of coverage amount increases and carrier rate increases.

## WHAT DOES ALL THIS MEAN FOR MORTGAGE SERVICERS?

- » The average homeowner will likely encounter higher premium rates as their homeowners insurance policy renews.
- » They may also encounter potential issues with availability of coverage, especially in states such as Florida where six property insurers became insolvent in 2022, even before the catastrophic damage wielded by Hurricane Ian.

- » For mortgagors with escrowed loans, servicers are likely to see insurance-related escrow shortages and monthly payment increases due to these higher premiums.
- » Servicers may also see increased churn with insurance policies as customers shop for more affordable options, which can lead to multiple premium disbursement requests within the same policy year.

It cannot be emphasized enough that RCV coverage for homeowners insurance policies is an important tool to adequately protect a property. Mortgage servicers will undoubtedly see their customers continue to experience rising homeowners insurance premiums as more expensive material and labor costs lead to corresponding premium increases. And while it's important that mortgage lenders understand RCV and its impact on insurance premiums, it's equally important to have a strong insurance tracking partner to help navigate the multiple risk scenarios in today's homeowners insurance environment.



*John Rohrbach is Executive Director, Product at National General Lender Services, the second-largest provider of lender-placed insurance and services in the industry. A proud member of the Allstate family of companies, they provide their clients with award-winning customer care and technology while ensuring continual compliance with ever-changing regulations and requirements.*

***“It cannot be emphasized enough that RCV coverage for homeowners insurance policies is an important tool to adequately protect a property.”***



# PLAN AND PREVAIL: HOW THE INDUSTRY CAN PREPARE FOR AN UNCERTAIN FUTURE

Economic downturns. Health crises. Natural disasters. The occurrence of events like these is inevitable, yet their timing and lasting effects are impossible to predict. Though the housing industry may not be able to pinpoint the next widescale impactful event, developing a well-grounded plan can help navigate it, mitigate risk, and get homeowners back on track.

Because massive events often share similarities, lessons learned from the past should influence future strategies. Unfortunately, the housing industry has seen two major events—the 2008 housing crisis and COVID-19 pandemic—that have created significant challenges for homeowners and servicers. However, the industry has responded with initiatives to leverage the latest technologies, design flexible policies, establish strategic partnerships, and continuously innovate, allowing the housing ecosystem to become stronger, smarter, and more resilient. Freddie Mac shares insights from learned experiences, both past and recent.

## **PROACTIVE? REACTIVE? HOW ABOUT BOTH?**

During an unexpected event, speed to market is critically important to help a servicer's customer base. A proactive approach is generally lauded as preferable to a reactive one. While the former conjures associations of initiative and take-charge leadership, the latter is often unfairly derided as passive and wait-and-see. But is it really that simplistic, and does it need to be A or B?

Being successfully proactive requires flexibility, not rigidity, and an acknowledgement that reacting to unique events is also okay—if it is for the short term.

“No matter the event, we want to be able to flip switches, not by making wholesale changes but by having fundamentals built in, from policy to tech to testing,” says Dave Lucchino, SVP, Single-Family Operations at Freddie Mac. “This limits the reaction so you can readjust to a more proactive state.”

## **TEST, TEST, TEST, STREAMLINE**

That malleability involves planning and executing solutions that are regularly tested and streamlined, with adaptability built in for unexpected variables. The same way that a sailor takes a new tack when the wind shifts direction, changes to a situation can necessitate tweaks in parameters to apply them in a more relevant way.

Ten years ago, Freddie Mac responded to Hurricane Sandy by updating and refining disaster-related policies to better serve homeowners. It has continued to refine and adjust these policies—through the three major hurricanes of 2017 and beyond. The policies were most recently



updated in 2021 to expand the definition of an “Eligible Disaster,” reducing friction in the insurance loss settlement process and introducing the Disaster Payment Deferral. All of these made meaningful impacts to streamline processes while continuing to effectively manage risk.

More recently, the COVID-19 response provided an opportunity to apply existing disaster relief initiatives in an unprecedented servicing landscape. Requesting additional documentation from borrowers who were already missing payments would have been superfluous. By waiving this step, the industry was able to better accommodate distressed homeowners and act quickly to offer solutions like payment deferrals and forbearance—with limited steps and paperwork.

“Having streamlined steps and policies in place not only increased efficiencies in loan servicing, but also had a positive downstream effect on homeowners,” continues Lucchino, “allowing them to remain in their homes and benefit from refinancing opportunities at a time when interest rates were at record lows.”

#### **OVERCOMMUNICATE AND COLLABORATE**

Well-developed collaborations and consistent communication with servicers and other

stakeholders help significantly reduce market headwinds. Meaningful changes to policies and programs are not done in a vacuum, but with FHFA and Fannie Mae producing aligned programs to help with speed to market and consistency. Just as importantly, proactively and reactively collaborating with servicers and other industry participants ensures that policies and programs are easily understood, implementable, and will provide the quickest and greatest benefit to impacted homeowners.

#### **STRATEGIZE TO DIGITIZE**

Solutions like these require technology and data—two crucial aspects of preparedness. According to a *Forbes* Insights report published in association with Freddie Mac, 94% of leaders say digital processes and advanced analytical tools will lead to improved decision-making and security and better outcomes for borrowers.

Continuous investment in the latest technology eliminates scrambling at the eleventh hour to implement the right digital tools. During the pandemic, distressed borrowers have been able to easily access mortgage relief resources through self-service portals, preventing servicer call centers from becoming overwhelmed while also impacting delinquency rates.

“Resolve<sup>®</sup>, Freddie Mac’s default management platform, is a key example of investing in the future of servicing. It provides Guide-compliant workout decisions, so servicers can have real-time interactions with borrowers on eligibility,” Lucchino points out. “Resolve sets the foundation to be proactive up front and then react faster to variables.”

No matter what economic challenges lie ahead, having the right tools, policies, and people in place prepares your organization to weather unforeseen events and continue to serve customers. Unexpected events always lead to a phase of reaction; it’s how—and how quickly—we pivot to proactivity that makes all the difference. Stay invested with us on building the future of mortgage servicing.

Visit [SF.FreddieMac.com/ReimagineServicing](http://SF.FreddieMac.com/ReimagineServicing)

**“Having streamlined steps and policies in place not only increased efficiencies in loan servicing, but also had a positive downstream effect on homeowners,” continues Lucchino, “allowing them to remain in their homes and benefit from refinancing opportunities at a time when interest rates were at record lows.”**

—**Dave Lucchino**  
SVP, Single-Family Operations,  
Freddie Mac

# SHIFTING GEARS

Prepare for these three distressed disposition trends as the housing market downshifts.

As the housing market downshifts, sellers will need to adjust to three emerging distressed disposition trends going into 2023:

1. Downward pressure on sales rates at foreclosure auction
2. Home price appreciation switching to a headwind for REO
3. A shift in buyers toward local investors with a track record of converting distressed properties into quality, affordable housing for owner-occupants

## PRESSURE ON FORECLOSURE SALES RATES

This trend is already emerging in the second half of 2022 as buyers at foreclosure auction bid more conservatively to hedge against slowing home price appreciation and even a possible home price correction in some local markets.

The foreclosure sales rate, which represents the percentage of foreclosure auctions that result in a sale to a third-party buyer, dropped just below 50% in the third quarter of 2022—the lowest level since Q2 2020. That's according to data from the Auction.com marketplace, which accounts for close to half of all foreclosure sales nationwide.

A 50% sales rate is still high relative to pre-pandemic levels. Between 2015 and 2019, quarterly foreclosure sales rates averaged 38% and stayed within a 10-point range of 34% to 44%, according to the Auction.com data.

As with many trends, the pandemic broke the mold for what was considered normal when it comes to foreclosure sales rate. The supply of properties available to buy at foreclosure

auction was severely restricted due to foreclosure moratoria and widespread forbearance early in the pandemic. However, demand for distressed properties barely skipped a beat as buyers quickly experienced a surge in demand for the well-renovated, affordable housing stock they deliver to the market. Additionally, the restricted supply was disproportionately weighted toward vacant properties, which historically attract higher demand from investors.

The supply-demand imbalance in the foreclosure auction marketplace during the pandemic resulted in record-high foreclosure sales rates. Nationwide, the foreclosure sales rate hit as high as 63% in Q2 2021, and it was much higher in some local markets.

However, the retail housing market is now quickly cooling in response to skyrocketing mortgage rates, causing distressed property buyers to recalibrate their calculations for maximum bid at foreclosure auction. A sales rate that continues to be near 50% despite these headwinds is a testament to increased transparency and buyer-inclusivity at

foreclosure auction thanks to technology such as Remote Bid and Foreclosure Predict.

"You have to be careful about fixing and flipping that you're not catching a falling knife," said Paul Lizell, a Florida-based real estate investor and coach who purchases distressed properties from Auction.com.

Lizell said he's lowered the starting point for calculating his maximum bid by five points, from 75% of estimated after-repair value to 70%. Additionally, he's upped his rehab calculations by \$10 a square foot, to \$35 for resales and \$25 for rentals due to the rising costs of materials and labor.

Lizell's bidding adjustments align with overall bidding behavior on the Auction.com platform. Foreclosure auction buyers purchased at an average discount of 23% below the estimated as-is property value nationwide in the third quarter of 2022, an increase of 12 points from six months earlier, according to Auction.com data.

The recent increase brings average purchase discounts back to pre-pandemic norms. The average purchase discount at foreclosure auction was 22% between 2015 and 2019, and the discount was relatively stable over that five-year period, staying within a six-point range between 20% and 26%. This reversion to the pre-pandemic mean is evidence that investors are not yet anticipating a nationwide home price correction.

"I don't think we're going to see that big drop-off (nationwide) unless unemployment rises a lot," Lizell said, adding that he thinks some select markets will see a correction. "Where you'll see those prices fall ... Southern California, Las



By: **Daren Blomquist**

Vegas, Arizona, and Florida will be hit.”

More conservative bidding behavior at foreclosure auction is putting downward pressure on the sales rate, but pro-active servicers are already adjusting pricing downward to maintain a sales rate close to 50%. That 50% foreclosure sales rate threshold has proven to produce the best disposition outcomes—not only for servicers in terms of lower loss severity and REO risk, but also for distressed homeowners in terms of equity protection and for surrounding communities in terms of higher homeownership rates, higher property values, and quality, affordable housing.

### PRICE APPRECIATION A HEADWIND IN REO

Maintaining an elevated foreclosure sales rate—at least compared to pre-pandemic levels—of about 50% will also help servicers pro-actively adjust to the second disposition trend emerging in a cooling retail housing market: home price appreciation switching from a tailwind to a headwind for properties held as real estate-owned (REO) inventory.

An elevated foreclosure sales rate helps mitigate the risk that holding REO inventory will be akin to catching a falling knife in markets where home prices turn negative. Instead, more of that risk can be transferred to the local community developer buyers purchasing properties at foreclosure auction and REO auction. Given their proximity to the frontlines their local markets, these local community developers are well-equipped to manage that risk

and most efficiently convert distressed homes into quality, affordable housing for owner-occupants—even in a slowing market.

The likelihood of a home price correction is growing, particularly at a local market level. Home value forecast data from Zillow shows home values decreasing in the three-month period between August and November in 552 out of 896 metropolitan statistical areas nationwide (61%), including New York, Los Angeles, Chicago, Dallas, and Houston. The same forecast data has home values decreasing over the next year in 259 of the 896 markets (29%), including New York, Los Angeles, Chicago, Washington D.C., and Boston.

In late 2020 and 2021, heady home price appreciation averaging 17% annually—and much more in some local markets—helped cushion the negative impacts of holding and maintenance costs associated REO inventory. As price appreciation reverts to more historically normal levels—or even turns negative in some markets—time in REO inventory joins holding costs and maintenance costs as a headwind against lower loss severity for distressed dispositions.

This again points to foreclosure auction as the ideal disposition channel in a slowing housing market. A property sold at foreclosure auction spends zero days in REO inventory. But not all properties are good candidates for selling at foreclosure auction given that venue’s limitations—a one-and-done auction with no

interior inspection available. For those properties, an immediate post-foreclosure REO auction (known as Day 1 REO) provides the best opportunity to keep days in REO inventory to a minimum and thereby minimize the impact of the home price appreciation headwind.

### A SHIFT TO ESTABLISHED LOCAL BUYERS

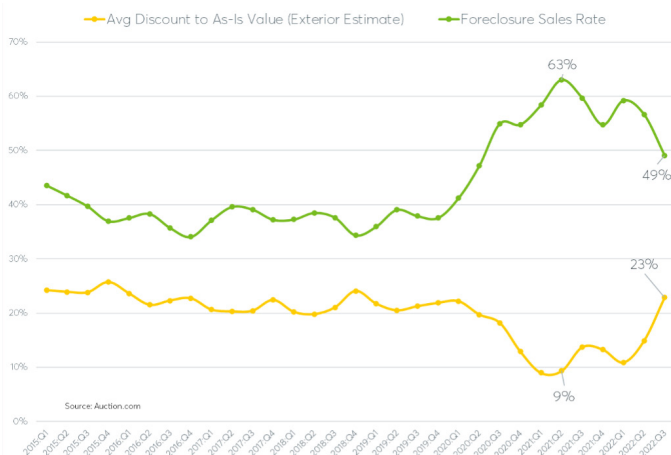
The growing likelihood of a home price correction in more local markets also represents a growing risk for distressed property buyers—especially to the extent that pro-active servicers transfer the risk to these buyers in the form of earlier dispositions at foreclosure auction or REO auction.

A rising risk profile for distressed property deals will likely sideline some newer and less established distressed property buyers who have a lower risk tolerance. Those buyers have less margin to absorb losses. On the other hand, this environment will likely attract more action from well-established local buyers who have weathered previous down cycles in the real estate market.

Early evidence of this trend is showing up in Auction.com buyer data. In the first seven months of 2022, 80% of Auction.com buyers purchased just one property on the platform. Those buyers represented 53% of purchases in that timeframe. This is down from the first seven months of 2021, when 86% of buyers purchased just one property and those one-property buyers represented 64% of all purchases.

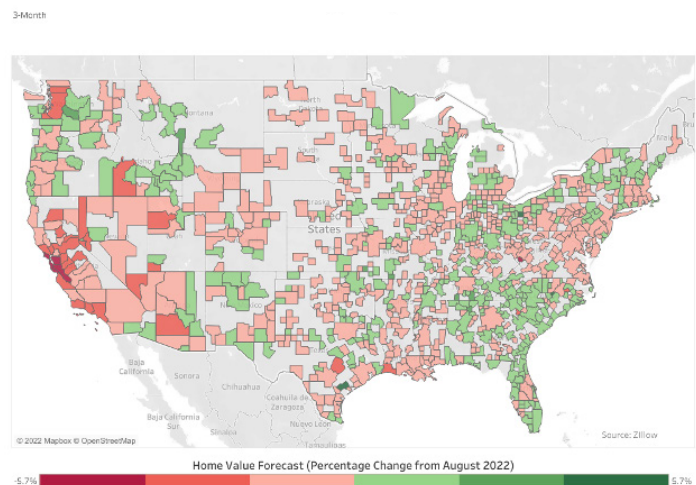
Conversely, buyers purchasing between two

### MORE CONSERVATIVE BUYERS = DOWNWARD PRESSURE ON SALES RATES



### HOME VALUE FORECAST BY METRO

Home Value Forecast by Metro



and 10 properties in the first seven months of 2022 accounted for 38% of all purchases, up from 30% in the first seven months of 2021. The slightly higher volume of purchases indicates a more established investor, but these investors are still relatively small-volume local community developers. The median distance between buyers and properties purchased on the ADC platform in the first eight months of 2022 was 20 miles, down from a median of 23 miles in the first eight months of 2021.

Atlanta-area investor Tony Tritt is a good example of a well-established local real estate investor. He started investing in real estate about 25 years ago and has grown that into a small business that employs 11 full-time staff and keeps construction crews of more than 20 people busy renovating the 35 to 50 properties he buys each year. He has averaged five foreclosure auction purchases a year through Auction.com over the past decade.

“It was different the last several years because you’re in a rising market ... that makes it a little easier because you’re buying off today’s numbers,” said Tritt, who contends that some bandwagon investors of the last few years have been overpaying for homes purchased at foreclosure auction. “(Now,) I give myself some room in case it goes down.”

Established local community developers like Tritt are not to be confused with the Institutional Investors that scooped up thousands of properties at foreclosure auction. Those investors have largely exited the foreclosure auction marketplace and turned to the retail market and bulk purchases from other institutional investors as their primary acquisition channels.

Public record data from ATTOM Data Solutions shows investors purchasing 10-plus properties a year accounted for 9% of purchases at foreclosure sale in the first nine months of 2022, down from 12% in 2021 to a new record low since 2000, the earliest year data is available. By comparison, 52% of foreclosure auction sales went to these buyers at the peak of the last foreclosure crisis, in 2009.

Many of the institutional buyers purchasing during that last foreclosure crisis were holding properties as rentals. That is not the case for the established local community developers like Tritt, who has renovated and resold 70% of the properties he purchased on Auction.com since 2016, based on an analysis of public record data. Ninety-one percent of his resales went to owner-occupant buyers.

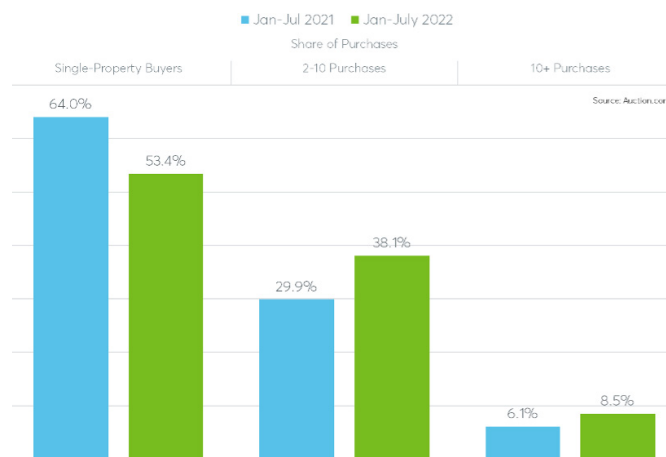
Most other Auction.com buyers are also reselling a high percentage of properties to owner-occupants. An analysis of more than 150,000 properties sold at foreclosure auction on Auction.com between 2016 and 2022 shows that 53% have been renovated and resold, with 73% of those resales going to owner-occupants.



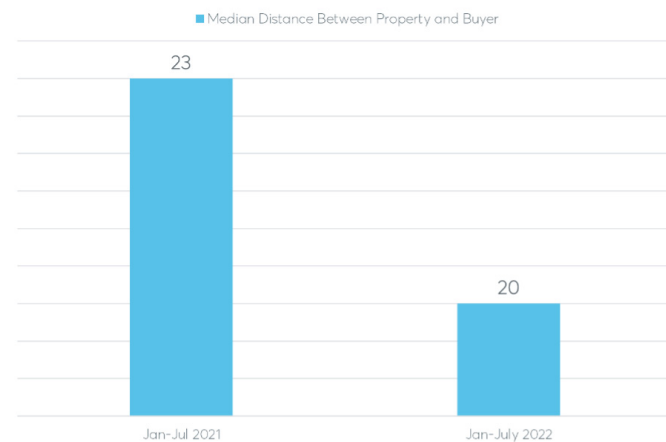
*Daren Blomquist is the VP of Market Economics for Auction.com. In this role, Blomquist analyzes and forecasts complex macro- and microeconomic data trends within the marketplace and greater industry to provide value to both buyers and sellers using the Auction.com platform.*

*Blomquist’s reports and analysis have been cited by thousands of media outlets nationwide, including the Wall Street Journal, the New York Times, USA TODAY, and on many national network broadcasts, including CBS, ABC, CNN, CNBC, FOX Business, and Bloomberg.*

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### RETAIL OCCUPANCY RATES BY DISPOSITION TYPE



# CALIFORNIA COURT OF APPEALS INVALIDATES DEFAULT INTEREST PROVISION

Most courts inherently do not like default interest because they see it as an improper “penalty.” Here’s what the First District of the California Court of Appeals recently found in *Honchariw v. FJM Private Mortgage Fund, LLC*.

Default interest is a hot button for borrowers, lenders, and the courts. Most courts inherently do not like default interest because they see it as an improper “penalty.” That is the exact result reached on September 29, 2022, by the First District of the California Court of Appeals in *Honchariw v. FJM Private Mortgage Fund, LLC*.

## THE FACTS

In 2018, the Honchariws took out a \$5.6M bridge loan. In the event of default, the Honchariws agreed that FJM could charge both a one-time 10% late payment fee of roughly \$39,000 and default interest of 9.99% on the entire loan balance. The loan documents even went so far as to explain that these charges are necessary because a default “will result in [FJM] incurring additional expense in servicing the loan, including, but not limited to, sending out notices of delinquency, computing interest, and segregating delinquent sums from the not delinquent sums on all accounting, loan and data processing records, in loss to [FJM] of the use of the money due, and in frustration to [FJM] in meeting its other financial commitments.” This language appears intended as an agreement

between the parties that the late charge and default interest were justified as compensation to FJM resulting from the default. These provisions (or similar ones) are common to many non-consumer loan documents.

After missing a monthly payment, FJM declared the loan in default and assessed the one-time late charge and added the default interest to the entire loan balance. The Honchariws initiated arbitration to dispute both charges. The arbitrator ruled in FJM’s favor, finding that the charges were not a penalty. The Honchariws’ attempt to vacate the arbitrator’s award was also denied, leading to this appeal.

## THE DECISION

In a published decision, the Court of Appeals vacated the Arbitrator’s award, finding that

the default interest provision was an unlawful “penalty” and, therefore, unenforceable. The decision starts by correctly determining that liquidated damage provisions are presumed valid when involving a non-consumer loan and presumed invalid when involving a consumer loan. Since this case involved a non-consumer loan, the Honchariws have the burden to prove that the default interest provision is invalid by showing that the amount of damages does not bare a “reasonable relationship” to the damage that will be caused by the default. In other words, if the default interest charge is \$100,000, the borrower must prove that the lender will not incur \$100,000 of additional expense or loss as a result of the default. Rather than point to any evidence presented by the Honchariws showing that the default interest was not reasonably related to FJM’s loss, the court concluded that the mere fact that default interest is being charged on the entire loan balance is, in and of itself, a violation of public policy and therefore, the Honchariws had met their burden.

## TAKEAWAYS

The court focused its decision on default



interest charged on the entire loan balance following a monthly payment default. The court distinguished contrary case law supporting the validity of default interest charged on the entire loan balance following the maturity of the loan. As a result, charging default interest on the remaining loan balance following the maturity of the loan should be unaffected by this decision. Likewise, this decision arguably does not affect a lender's right to charge default interest on amounts in default. Questions also remain about whether a lender can charge default interest on

an amount less than the entire unpaid balance. Of course, any default interest charge must still be reasonably related to the potential loss caused by the default.

Going forward, we recommend that lenders consult with an attorney before charging any default interest. In addition, lenders should have their loan documents reviewed to maximize the ability to charge default interest in the future.

WFZ is discussing with the California Mortgage Association and other industry groups about filing an amicus briefs to support FJM's

anticipated Petition for Review by the California Supreme Court and, if accepted, the California Supreme Court review.



***T. Robert Finlay** is a founding Partner of Wright Finlay & Zak.*

# BANKRUPTCY COURT WEIGHS IN ON CHAPTER 13

Attorney Joel Jensen discusses a recent proceeding involving violations of a bankruptcy rule. Learn the latest and how it could impact the industry.

The United States Bankruptcy Court for the Southern District of Ohio issued an order in a Chapter 13 bankruptcy proceeding wherein it found the debtor's mortgagee, HSBC<sup>[i]</sup>, violated a bankruptcy rule when it sought to collect a past tax advance after the debtor's debt had been discharged and the bankruptcy case closed. *In re Dewitt, No. 11-36341, 2022 WL 4588320* (Bankr. S.D. Ohio September 30, 2022).

In *DeWitt*, the debtor (Dewitt) sought to reorganize her debt via a Chapter 13 bankruptcy proceeding. She filed for bankruptcy protection in November 2011, made payments according to her plan for several years and received a discharge of her debts, including some past-due amounts on her HSBC mortgage loan, in June 2017. Problems arose in 2018 when HSBC required DeWitt to escrow for past due taxes. Although DeWitt failed to pay property taxes in 2014, 2015, and 2017<sup>[ii]</sup> (while her bankruptcy was pending), she believed the tax advances HSBC made on her behalf for these periods were either paid, waived, or discharged by the discharge order entered in June 2017.

Based on this understanding, Dewitt did not pay the monthly escrow amount HSBC said was due. HSBC considered Dewitt's refusal to escrow for the past-due taxes a default under the terms of the mortgage and sent a demand letter advising it intended to foreclose. When DeWitt

failed to cure the alleged default, HSBC stopped accepting her monthly mortgage payments and filed foreclosure proceedings in state court. Dewitt's repeated inquiries regarding the returned mortgage payments went unanswered. DeWitt answered the foreclosure complaint and filed counterclaims against HSBC for "wrongful foreclosure, attempted wrongful foreclosure, breach of contract, and breach of good faith and fair dealing."<sup>[iii]</sup>

Dewitt also reopened her bankruptcy case and moved for an order of contempt and for sanctions against HSBC for its alleged "violation of the discharge order and other actions ..." Dewitt explained that in May 2017, prior to entry of the discharge order, the bankruptcy trustee filed a Notice of Final Cure. The purpose of the notice was to provide HSBC an opportunity to notify the court of any outstanding debt that Dewitt was required to pay. If HSBC incurred post-bankruptcy

filing "fees, expenses, or charges" that were not already part of Dewitt's repayment plan, HSBC was required to file a claim for those charges under Rule 3002.1(c). Although HSBC filed a claim for the second tax advance during the bankruptcy proceedings, it did not file claims for the first or third tax advances.

To make matters worse, upon receiving the Notice of Final Cure, HSBC filed a sworn response, under penalty of perjury, agreeing that the "Debtor was current on all post-petition payments due, including all fees, charges, escrow, and costs ..." Thereafter, the trustee filed its Certification of Final Payment and Case History. Although HSBC could have objected to the certification based on the outstanding tax advances, it chose not to do so. The court also noted HSBC never requested an extension of time to file the 3002.1(b) response or submit an accurate showing that any amounts remained outstanding.

By way of explanation, HSBC stated that, at the time the trustee filed the Notice of Final Cure, HSBC's records reflected that the escrow balance of \$10,253.86 (the total of the first and third tax advances) would be waived from the loan.<sup>[iv]</sup> However, at some point, ostensibly about a year after Dewitt's bankruptcy was closed, HSBC "changed its mind" and decided the advance remained recoverable from the Dewitt.



**“Rule 3002.1 is clear—creditors who intend to recover additional post-petition fees related to a ... mortgage claim secured by the debtor’s primary residence must timely disclose these fees.”**

[v] HSBC argued that the time period (180 days) had not yet run for HSBC to file its Rule 3002.1 claim relating to that tax advance and that the bankruptcy was dismissed before the period expired.[vi] HSBC also contended that Dewitt’s reliance on HSBC’s sworn response that Dewitt was current was unreasonable since she had received letters indicating HSBC intended to escrow for the past tax advance. Lastly, HSBC argued the bankruptcy court did not have the authority to disallow fees provided for under the mortgage regardless of whether a 3002.1 claim was filed.

The court rejected all these arguments and stated it was “hardly amused” by HSBC’s “excuse that it simply changed its mind.”[vii] The court stated: “Rule 3002.1 is clear—creditors who intend to recover additional post-petition fees related to a ... mortgage claim secured by the debtor’s primary residence must timely disclose these fees.”[viii] The court elaborated “that Rule 3002.1 exists to prevent unexpected deficiencies in residential mortgage payments when a chapter 13 case is completed and closed.”[ix] The court explained that the bankruptcy provisions take into account the creditor’s contractual rights while balancing those interests with the debtor’s desire to escape the “pressure and discouragement of preexisting debt.”[x]

The court concluded that Dewitt was harmed by HSBC’s failure to file a claim under 3002.1(c) and by its failure to file an accurate response to the Notice of Final Cure Payment as required by Rule 3002.1(g). Dewitt was “forced to defend a state court foreclosure action

and to reopen her bankruptcy case to assert her rights.”[xi] The court held Dewitt was entitled to sanctions against HSBC for its violations of 3002.1 and reserved jurisdiction to determine the type and amount of the sanctions award.[xii] It remains to be seen whether Dewitt will be entitled to damages for her counterclaims filed in the state court foreclosure proceedings. Stay tuned.



*Joel Jensen is a Bankruptcy Attorney at Diaz Anselmo & Associates P.A. in Covington, Kentucky. For a period spanning two decades, Jensen has concentrated his practice*

*in the representation of banks, lenders, and mortgage servicers in the areas of bankruptcy and bankruptcy litigation in cases arising under Chapters 7, 11, 12, and 13 of the Bankruptcy Code. He is admitted in all Federal Courts in Ohio, Kentucky, and Indiana, as well as the United States Court of Appeals for the Sixth Circuit. He is licensed to practice law in Ohio and Kentucky. He has provided counsel and advice to mortgage lenders and servicers for many years concerning the many changes to bankruptcy statutes and rules that have occurred. He has served as a judicial law clerk for a Federal District Judge in the Southern District of Ohio. Jensen is a life member of the Judicial Conference of the United States Court of Appeals for the Sixth Circuit. He has a wide background of legal experience that he can bring to bear to solve legal problems and assist clients to comply with the law.*

[i] HSBC Bank USA, NA, as Indenture Trustee for the registered holders of the Renaissance Home Equity Loan Asset-Backed Certificates, Series 2005-1.

[ii] DeWitt failed to comply with the portion of her plan which required her to stay current with property taxes. During the bankruptcy proceedings DeWitt failed to make three tax payments which HSBC ending up advancing on her behalf. HSBC made the first advance in August 2014 for \$6,097.95, the second advance in August 2015 for \$1,655.63, and the third advance in April 2017 for \$4,155.91. DeWitt, at 2. Future references to and quotations from DeWitt are to this citation until indicated otherwise.

[iii] DeWitt, at 2-3. Future references to and quotations from DeWitt are to this citation until indicated otherwise.

[iv] DeWitt, at 6-7. Future references to and quotations from DeWitt are to this citation until indicated otherwise.

[v] DeWitt, at 3. HSBC did not explain why it did not seek reimbursement for the first, and largest tax advance.

[vi] DeWitt, at 4. Future references to and quotations from DeWitt are to this citation until indicated otherwise.

[vii] DeWitt, at 7.

[viii] DeWitt, at 7.

[ix] DeWitt, at 5. Future references to and quotations from DeWitt are to this citation until indicated otherwise.

[x] DeWitt, at 1.

[xi] DeWitt, at 8.

[xii] DeWitt, at 12.

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# PROBATE- FORECLOSURE KNOT UNTANGLED?

It's not often that a modern-day court relies on case law from 1896, but a recent case did exactly that, examining longstanding friction between Illinois probate and foreclosure law.

It's not often that a modern-day court relies on case law from 1896, but it's also not often that issues arising in 1896 are still uncertain modern-day.

In *Estate of Topal*, 2022 IL App (4th) 210613, the 4th District Appellate Court of Illinois confronted some longstanding friction between Illinois probate and Illinois foreclosure law. At issue was the impact on a mortgage lien of a probate statute barring “all claims” failing to be filed within two years of a decedent's death. 755 ILCS 5/18-12(b).

In *Topal*, pursuant to this probate statute, the lower court found that the time for filing a claim against an estate begins at the decedent's death, regardless of whether a lender is aware of that death. Consequently, a lender's claim against the estate brought more than two years after the decedent's death was time-barred. However, the probate court then went a step further and required the lender to record a release of the mortgage—effectively eliminating the lender's ability to ever foreclose.

Interestingly, this same issue was resolved by the Illinois Supreme Court more than 125 years ago. In *Waughop v. Bartlett*, 165 Ill. 124, (1896), the Illinois Supreme Court ruled that although the failure to file a timely claim barred the claim against the estate, it did not terminate the debt

itself. In other words, the “all claims” language arose in a probate statute and was therefore limited to all claims in a probate—not all claims in the universe of all possible claims. Normally, an on-point decision like this, especially one coming from the Illinois Supreme Court, would have ended future similar disputes.

The problem was that the *Waughop* court went on to classify foreclosure actions as “*in rem*”—a notion specifically rejected by a much later Illinois Supreme Court in *ABN AMRO Mortg. Group, Inc. v. McGaban*, 237 Ill. 2d 526. And when the Illinois Supreme Court rejects an earlier ruling, even an earlier ruling from itself, that entire ruling tends to be forsaken.

However, recognizing this dichotomy, the 4th District Appellate Court in *Topal* clarified that “[a]t no point did the supreme court explicitly abandon” the first part of its holding in *Waughop*, and that the only impact of an untimely probate claim was “... to prevent any participation in the inventoried assets of the estate.” *Topal* at P27. Therefore, the *Topal* court concluded that:

... [The lender's] failure to timely file a claim against decedent or his estate prevents [the

lender] from reaching estate assets to satisfy the debt owed to it. This conclusion does not mean, however, that [the lender] cannot still proceed with a future foreclosure action against the property covered by the mortgage ... Should the foreclosure sale produce insufficient funds to satisfy the debt, [the lender] may not pursue a deficiency judgment against the Estate. This is fundamentally the purpose of section 18-12(b). *Topal* at P28.

Interestingly, the *Topal* court also seemed to invite Supreme Court review of its *Waughop* and *McGaban* analyses, stating that it would be “unwise” for them to “extrapolate” from *McGaban* a “conclusion which was not reached there,” and theorizing that “such a consequential decision, if it is to be made, should come from the supreme court.”

Therefore, although the analysis appears to be well-reasoned and serves to close some longstanding confusion, it remains to be seen whether the Illinois Supreme Court will even review the matter, much less agree.



*Lauren Riddick is an attorney and Director of Learning & Development at The Codilis Family of Firms.*



# 5 THINGS YOU NEED IN A NON-QM PORTFOLIO MANAGER

Here are the factors investors must consider in this rapidly changing economic environment.

In the wake of this summer's non-QM market rate and volatility shocks, nonconforming investors are taking a page from the institutional investor playbook and placing higher values on non-QM portfolios being serviced on reputable, rated servicing platforms. Doing so recognizes the value of maximizing opportunities in the marketplace and minimizing default, especially Early Payment Default (EPD), and other hurdles non-QM investors encounter in a rising rate market and possible recession.

Many of the same high-touch customer tools and tactics highly rated servicers apply in the QM market will solidify the health and value of the non-QM portfolios while ensuring a quality borrower experience. These include professional, integrated borrower onboarding communications, online account management and automated payments, customer service representatives dedicated to first-call issue resolution, and a payment app with a smooth user experience.

Beyond those lie another set of tools and

tactics specifically targeted to non-QM portfolios, including unique loan-boarding processes, custom reporting, identification of potential Early Payment Default (EPD), and in-flight process management to ensure timely payments.

Because even a single loan default can create a loss for a lender, choosing an experienced, rated non-QM subservicer can minimize risk and end up saving substantial amounts.

A non-QM servicer that keeps defaults to a minimum and adheres to regulatory require-

ments may also help investors take advantage of the ability to convert certain non-QM loans to Qualified Mortgages (QMs) after three years of seasoning or could assist investors moving loans into non-QM securitization pools.

Lenders that originate non-QM loans may also find that using a rated servicing platform with a non-QM specialty can increase the value of their loan sales or securitizations. Investors seem to be paying up for non-QM portfolios that have been serviced or interim serviced by a rated, reputable servicing platform. That's because investors know the platform's specialization and depth of knowledge in default servicing will help reduce EPD and missed payments—two of the most prevalent reasons for non-QM defaults and pricing hits.

## 1. SPECIALIZATION IS KEY

Companies approved to subservice government and agency home loans must demonstrate a basic level of competence and pass ongoing compliance audits confirming those abilities.



But non-QM loans aren't vanilla and competence in subservicing QM home loans doesn't necessarily translate into competence in subservicing non-QM loans.

The COVID-19 pandemic demonstrated why specialization is essential in nonconforming servicing. Agency subservicers responded to COVID-19 by applying unified changes across conforming portfolios. Non-QM subservicers had to implement rules set by private investors responding differently to borrowers whose finances were upended.

The Planet Management Group asset management team created specialized programs for our non-QM asset holders based on individual borrower circumstances while keeping both investor portfolio strategy and compliance requirements in mind. We could make those adjustments because our asset management expertise and Monetization Engine technology allow investors to shift strategies quickly in response to changing markets.

## 2. DEFAULT MANAGEMENT THROUGH THE LIFE OF THE LOAN

Having targeted technologies and strategies to identify early a newly originated loan's propensity for default or property issues impeding the ability to rent for asset-based originations is critical to portfolio quality for non-QM portfolios.

As a loan seasons, proper asset management can improve portfolio performance. The application of proactive strategies targeting high-risk borrowers, expanded special forbearance and loan modification options, debtor incentives for pre-foreclosure sales and a sense of speed and flexibility can all reduce losses when applied by expert asset managers and loan counselors.

Keeping delinquencies from occurring, and rapidly addressing those that do happen, increases the likelihood that an investor can take advantage of the CFPB's Seasoned Non-Qualified Mortgage Rule on converting non-QM loans to QM loans. For applications received on or after March 1, 2021, the rule allowed certain home loans held in portfolio for 36 months to be converted to QM status. To qualify, the home loan must meet certain requirements, including a requirement that the home loan can have no more than two 30-day delinquencies and no 60-day delinquencies at the end of the seasoning period.

## 3. TARGETED TECHNOLOGY AND STRATEGIES

Technology within the QM subservicing market is well-established with most servicers using one of a handful of tools. By contrast, the technology employed in non-QM servicing must be far more flexible to accommodate the diverse needs of asset investors.

A solid non-QM servicing platform must be capable of creating custom workflows and unique default waterfalls. In a rapidly shifting market, today's investors realize that the ability to change strategy for an asset can preserve or even improve projected returns.

Next-level technology provides customized reporting that allows asset owners to model outcomes based on "what if" scenarios. Planet Management Group's technology stack enables investors to identify and quickly implement strategies to improve results.

## 4. EXPERIENCE FROM LINE MANAGERS TO LEADERSHIP

Maximizing the ongoing value of non-QM assets requires specialized knowledge at the loan and portfolio levels. Everyone from asset managers to leadership must thoroughly understand servicing with a non-QM spin.

Having a team experienced with servicing non-QM assets makes the most sense. Non-QM assets shouldn't be treated like their QM counterparts, they require a different and diversified approach of creative strategies led by experienced managers to mitigate risk. Effective asset managers also oversee performance on current loans, such as ensuring payments are posted correctly, statements and letters are correct and timely sent, and complaints are handled appropriately.

Strong expertise is also essential to companies intending to scale up and those seeking to minimize risk.

## 5. STANDARD OF EXCELLENCE IN OPERATIONS

How asset managers operate and manage their portfolios matters. Having an experienced asset manager who operates efficiently is key to non-QM portfolio profitability. Planet's core servicing group provides operational excellence and strong support for key servicing functions, such as loan boarding, cash management,

investor reporting, and default operations. In turn, Planet Management Group provides unique asset monetization engine platform provides lenders and their investors with transparency into performance and superior customer service.

In such a highly competitive and regulated industry, operational quality must also encompass following and upholding complex servicing and compliance standards. Highly rated servicers are constantly reviewed by rating agencies, state, and federal regulators and individual investors. They are closer to understanding and correcting any compliance risks associated with servicing complex products, including non-QM products, which have become more of a focus since the subprime crisis.

Adding non-QM volume to boost overall originations can be a worthwhile goal, especially with the support of a subservicer with in-depth knowledge and experience in managing nonconforming portfolios. It's important to consider and identify the value and expertise offered by a non-QM servicing platform. Doing so could make a difference in how profitably your assets perform, especially in this shifting market.

*The views and opinions expressed in this article are those of the author and do not necessarily reflect or represent the views, policy, or position of Planet Management Group.*



**Janina "Gigi" Woods** is SVP, Private Client Services for Planet Management Group. For more than 30 years, Woods has built organizational excellence through the

*development of people, process, and technology, and the management of executive-level relationships in default management, client services, and transaction management. Before joining PMG, Woods was SVP of Portfolio Default Management at Seneca Mortgage Servicing, where she was instrumental in building out the servicing platform, which was converted to PMG in 2016. She has held management positions at Wells Fargo Home Mortgage, Clayton/North American Mortgage Company, Sibley Mortgage Corporation, and First Federal Savings and Loan, Rochester, New York.*

# Government

*From HUD to the GSEs and CFPB, learn the latest news and updates affecting the regulatory landscape.*





## FIFTH CIRCUIT FINDS CFPB FUNDING STRATEGY UNCONSTITUTIONAL

Federal courts have delivered another blow to the Consumer Financial Protection Bureau, with the 5th Circuit Court of Appeals ruling that the bureau's funding model is unconstitutional. The court held that Congress alone should be appropriating money to fund the CFPB rather than having funds allocated through the Federal Reserve. The three-judge panel also struck down a small-dollar lending rule which has received opposition from payday lenders, a victory for lenders that have targeted the agency's structure in a years-long bid to tamp down regulation.

A three-judge panel of the 5th U.S. Circuit Court of Appeals ruled that the design of the CFPB violated the Constitution because it receives funding through the Federal Reserve, rather than appropriations legislation passed by Congress. Democrats established the structure when they created the CFPB in the 2010 Dodd-Frank law as a way to shield the bureau from political pressures that could impact its oversight of the finance industry.

The judges also vacated a 2017 small-dollar lending rule targeted by the payday lending ad-

vocates who brought the case—the Community Financial Services Association of America and the Consumer Service Alliance of Texas.

“Congress’s decision to abdicate its appropriations power under the Constitution, i.e., to cede its power of the purse to the Bureau, violates the Constitution’s structural separation of powers,” the judges wrote.

The appeals court ruling marked the latest victory for the finance industry, which has fought for years in Congress and the courts to blunt the CFPB’s reach and limit its ability to police financial services. Republican lawmakers have also worked for years to stifle the CFPB and revamp its structure, arguing the agency lacks accountability.

The CFPB declined to say whether it would appeal the decision to the full 5th Circuit. CFPB spokesperson Sam Gilford said, “there is nothing novel or unusual about Congress’s decision to fund the CFPB outside of annual spending bills.”

“Other federal financial regulators and the entire Federal Reserve System are funded that way, and programs such as Medicare and Social

Security are funded outside of the annual appropriations process,” Gilford added. “The CFPB will continue to carry out its vital work enforcing the laws of the nation and protecting American consumers.”

The Supreme Court in 2020 ruled that another provision of the agency’s structure—a single director who could only be fired for cause, rather than at will, by the president—violated the Constitution’s separation of powers.

“It remains to be seen whether this is a minor or major setback for the CFPB,” said Jeff Ehrlich, partner at McGuireWoods and former deputy enforcement director at the Consumer Financial Protection Bureau. “Either way, it likely doesn’t spell doom for the Bureau. Most of this work, but the enforcement work in particular, is going to be done by someone. In many cases, the states have the same enforcement authority as the Bureau under the Consumer Financial Protection Act. There is also room for the FTC to pick up any slack.”

Ehrlich added that even with a blow to the funding, other regulators will likely enter any enforcement vacuum and handle much of the prosecutorial work done by the CFPB.



## FHFA APPROVES NEW CREDIT SCORING MODELS FOR GSEs

The Federal Housing Finance Agency (FHFA) stated it has “validated and approved” the FICO 10T and VantageScore 4.0 credit scoring models and will be accepted for use by government-sponsored entities Fannie Mae and Freddie Mac (the GSEs).

The two scoring models have been in use for some time through alternative channels but can now be used to apply for and secure a government-backed mortgage.

According to FICO, the FICO 10T model is designed to outperform all previous scoring models and is touted to be the most predicted and comprehensive model developed by the company to calculate borrowers’ credit risk by including borrower payment histories. FICO estimates that the new score could reduce mortgage defaults by 17%.

VantageScore 4.0 is an independent joint venture between the three credit bureaus (Equifax, Experian, and TransUnion). This score takes into account rent and utility payments, allowing those with no credit history a chance to secure better financing due to additional data points. They

claim their model can score 96% of the country’s adult population.

“Today’s decision will benefit borrowers and the Enterprises, along with maintaining safety and soundness,” said Sandra L. Thompson, Director of the FHFA. “While implementing the newer credit score models is a significant change that will take time and require close coordination across the industry, the models bring improved accuracy and a more inclusive approach to evaluating borrowers.”

The adoption of the scores will be a multi-year effort. Once fully adopted, all lenders will be required to deliver both new scores for each GSE-backed loan. The FHFA and the GSEs will be monitoring implementation and conducting outreach to borrowers and lenders alike to ensure a smooth transition.

“Owning a home remains one of the most important ways Americans build wealth and financial security. FHFA’s action will enable millions more creditworthy Americans to have access to mortgages by using VantageScore’s

more predictive credit score,” said Silvio Tavares, President & CEO of VantageScore.

“We would like to extend a sincere thanks to FHFA Acting Director Sandra Thompson, the FHFA, and the GSEs for their leadership in undertaking this thorough process and the many advocates that, for over a decade, have elevated this important initiative,” Tavares said. “We look forward to continuing to help industry stakeholders quickly and smoothly transition to VantageScore.”

Credit scores were first introduced in 1989, and since then, the GSEs relied on the classic FICO score. This announcement is the result of a years-long effort by FHFA and the GSEs to implement Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The new models improve accuracy by capturing new payment histories for borrowers when available, such as rent, utilities, and telecom payments.

FHFA also announced that the GSEs will work toward changing the requirement that lenders provide credit reports from all three nationwide consumer reporting agencies (CRAs). Instead, the GSEs will require lenders to provide credit reports from two of the three nationwide CRAs. The GSEs will work with stakeholders on a plan for implementing the change from a tri-merge credit report requirement to a bi-merge credit report requirement in the future.

National Community Reinvestment Coalition President and CEO Jesse Van Tol released this statement following the announcement:

“I applaud the modernization of a system that has too long punished the marginalized by ignoring the most significant expenses in a working-class life. Old, outmoded models of determining a person’s creditworthiness have been fencing too many families out of homeownership for decades by pretending that a person’s biggest monthly expenses didn’t exist when deciding what sort of mortgage they could afford.”

“Millions of Americans wrongly deemed ‘unscorable’ for generations will now gain access to credit—and millions more will benefit from reduced transaction costs when they purchase a home and more sensible weighting of things like medical debt that do not accurately reflect the financial behavior that matters to lenders. Millions of families who have been treated as invisible by the mortgage industry despite years of diligent financial behavior will now have access to the generational wealth-building opportunity of homeownership.”



# FEDS AIM TO RETURN FINANCIAL DATA RIGHTS TO CONSUMERS

It's no secret that every aspect of the human experience is somehow turned into data for use by companies, but this is especially true in banking where it tracks how payments, deposits, services, which products are used—and who provided all those services—only to turn around and monetize this data one way or another.

Knowing this, the Consumer Financial Protection Bureau (CFPB) has proposed new options to strengthen consumers' access to and control over their financial data as a first step before issuing a proposed data rights rule that would implement section 1033 of the Dodd-Frank Act.

According to a release from the CFPB, under the options the CFPB has proposed, consumers would be able to more easily and safely walk away from companies offering bad products and poor service and move towards companies competing for their business with alternate or innovative products and services.

“Dominant firms shouldn't be able to hoard our personal data and appropriate the value to themselves,” CFPB Director Rohit Chopra said. “The CFPB's personal financial data rights rulemaking has the potential to jumpstart competition, giving Americans new options for financial products.”

The intended goal of the new rules is to create a marketplace where companies would need to improve their offerings to keep their customers. Lenders would be able to use consumer-authorized data to build and widely offer products and services that can compete with established companies. Consumers could switch providers to get a better deal or escape poor customer service, and companies would have to keep and attract customers through competitive prices, high-quality services, and improved products.

The CFPB cites the current environment as the case for these changes: under current rules,

companies hoard vast troves of data, which include which financial products consumers use.

“By monopolizing the use of personal financial data, financial institutions are able to block competitors' access to potential customers and stifle development of competitors' products and services,” the CFPB said. “In addition, data protection concerns have contributed to a lack of trust among market participants and a growing sense of powerlessness among the general public. Clear data rights for consumers have the potential to give individuals more bargaining leverage.”

To be clear, no changes have been implemented yet the CFPB release said, but if enacted after a public comment period, the rule would require firms to make a consumer's financial information available to them or to a third party at that consumer's request.

“As described in the outline, the CFPB is considering proposals, for instance, that would empower consumers who want to switch providers to transfer their account history to a new company, so they do not have to start over if they are unsatisfied with the service provided by an incumbent firm,” the CFPB concluded. “The CFPB is also considering proposals that would include important options around privacy for personal financial data authorized for third party use, including limitations that would prevent third parties from reselling authorized data for other uses.”



# FHFA ANNOUNCES TARGETED CHANGES TO GSE PRICING FRAMEWORK

The Federal Housing Finance Agency (FHFA) has announced changes to Fannie Mae and Freddie Mac's (the GSEs) guarantee fee pricing by eliminating upfront fees for certain borrowers and affordable mortgage products while implementing targeted increases to the upfront fees for most cash-out refis.

As part of the pricing changes stemming from the FHFA's ongoing review of the GSEs' pricing framework announced last year, FHFA is eliminating upfront fees for:

- » First-time homebuyers at or below 100% of the Area Median Income (AMI) in most of the nation, and below 120% of AMI in high-cost areas;
- » HomeReady and Home Possible loans (Fannie Mae and Freddie Mac's affordable mortgage programs);
- » HFA Advantage and HFA Preferred loans; and
- » Single-family loans supporting the Duty to Serve program.

"FHFA is eliminating upfront fees for certain first-time homebuyers, low-income borrowers, and underserved communities to promote sustainable and equitable access to affordable housing," Director Sandra L. Thompson said. "Today's announcement will result in savings for approximately one in five borrowers of the Enterprises' recent mortgage acquisitions."

The new fee reductions will go into effect immediately, and the FHFA will work with the GSEs and announce an implementation date shortly. The implementation of new fees for cash-out refinance loans will begin on February 1, 2023, to minimize market and pipeline disruption.

The pricing changes built upon the upfront fee increases for second-home loans and high-balance loans announced in January 2022.

The FHFA classifies "high balance loans" as mortgages originated in certain designated areas above the baseline conforming loan limit. The FHFA's new fees went into effect for deliveries

and acquisitions beginning April 1, 2022, to minimize market and pipeline disruption.

"These targeted pricing changes will allow the Enterprises [Fannie Mae and Freddie Mac] to better achieve their mission of facilitating equitable and sustainable access to homeownership while improving their regulatory capital position over time," Thompson added. "Today's action represents another step FHFA is taking to strengthen the Enterprises' safety and soundness and to ensure access to credit for first-time home buyers and low- and moderate-income borrowers."

FHFA also plans to continue to review and update the pricing framework to meet the objectives set in FHFA's 2022 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions for the Enterprises to support core mission borrowers, while fostering capital accumulation, achieving commercially viable returns, and ensuring a level playing field for all sellers.

"The announced updates on credit scoring models should help broaden the scope of eligible borrowers and expand access to homeownership for underserved communities," added Bob Broeksmit, CMB, President and CEO of the Mortgage Bankers Association (MBA). "MBA supports competition in the credit scoring space, and we will work with FHFA to ensure costs and the implementation process are monitored to mitigate unintended consequences to lenders and borrowers."



# THE FUTURE OF FANNIE MAE AND FREDDIE MAC

Don Layton, the Senior Visiting Fellow at the NYU Furman Center and the former CEO of Freddie Mac, has penned a new opinion piece for *The Hill* on what the future might hold for the two government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac.

According to Layton, the question “what should we do with Fannie Mae and Freddie Mac?” has been a constant question since the GSEs came under the Federal Housing Finance Agency’s control after losing consumer confidence in 2008.

But even though they now fall under government control, the two companies remain the largest sources of mortgage credit, financing over 50% of the total of outstanding mortgages, valued at \$12 trillion.

It was the position of the Obama administration to wind the GSEs down and replace them with something new which wasn’t tainted by its old name, and that position was held until the end of the administration.

“It reflected that post-mortem analysis of the Great Recession showed how flawed the government-sponsored enterprise business model had become,” Layton said. “Fannie Mae and Freddie Mac went well beyond their congressionally granted mission in order to pursue extra profit, took too much risk, benefitted heavily from a subsidy that officially did not exist, and had top

executives focused too much on lobbying to protect subsidies and avoid robust regulation. It took nearly \$200 billion of taxpayer money to bail them out.”

While both sides of the political spectrum came to a general agreement that the GSEs should be replaced, the big question was, what would they be replaced with? Many ideas were thrown around by lawmakers, government officials, and think tanks, but no proposal ever got anywhere close to being a solution; these efforts were also hindered by a constant stream of new information further revealing fatal flaws in the companies.

“It turns out that the core of the GSE business model—which protects the availability of the 30-year fixed-rate mortgage for the typical American homeowner—was really quite effective within the complex system of U.S. housing finance and unexpectedly hard to replace,” Layton said.

In response, the government has been directing the GSEs to implement major internal reforms to fix their business model to improve operations.

“For example, risk was cut dramatically by reducing the GSEs’ outsized investment portfolios and selling mortgage credit risk to institutional investors,” Layton said. “Newly installed management focused not on lobbying but on quality customer service, improved technology,

and proper safety and soundness. The GSEs led the way in treating troubled borrowers better through updated modification options and a natural disaster forbearance program. And all this was done within a strengthened regulatory envelope of safety and soundness.”

All these changes seem to have worked: the latest official stress test revealed the GSEs would lose about \$5 billion in a “severely adverse” economic downturn—down from \$196 billion of loss they scored in their first stress test in 2013.

Even yet, the improved technology offered to the GSEs paid off in spades during the pandemic, as they were able to handle a three-fold increase in volume without missing a step, as employees worked remotely to stay within COVID-19 protocols.

“With the passage of time, the question of what to do with the two GSEs has, therefore, been answered: keep them in place, but with today’s reformed business model, which includes formalizing the existing utility-style price regulation to protect borrowers from being overcharged,” Layton said. “This general approach first publicly emerged about 2017 and has gained traction since, including because it has little risk of disrupting housing and mortgage markets. Realistically, there is simply no other approach broadly considered workable, other than keeping them under ‘temporary’ government control forever.”

“The shorthand for this approach is reform, recapitalize, and release,” Layton continued. “The reforms are substantively already in place, and recapitalization began in 2019 when the GSEs were permitted to retain their earnings, which has so far grown their combined net worth up to \$90 billion.”

“To make progress toward release, the Biden administration does not first need to develop a comprehensive plan; it just needs to take a few well-chosen steps. My suggestions would include revising the GSE regulatory capital requirement to more accurately reflect risk and setting the long-awaited fee to be paid by the GSEs to the Treasury for ongoing taxpayer support. Ideally, Treasury and the FHFA would also jointly begin planning further steps in what will be a complicated, multiyear process likely to take a minimum of five years.”

Concluding his piece, Layton said any action taken will likely face criticism from both sides of the political spectrum.

“It really is time, after more than 14 years, to stop kicking this can down the road.”



# GINNIE MAE EXTENDS EXECUTION DATE FOR RISK-BASED CAPITAL REQUIREMENT

The Government National Mortgage Association (Ginnie Mae) is extending the mandatory implementation date of the RBC requirement to December 31, 2024. The RBC requirement is a part of a larger set of financial eligibility guidelines released simultaneously with Federal Housing Finance Agency (FHFA) requirements on August 17, 2022. The RBC requirement is an important component of measuring risk, designed to strengthen and bolster the Issuers that support the government mortgage market.

Ginnie Mae has been actively engaged with the Issuer community and industry and continues to monitor mortgage markets and engage with public and private partners. As a result of stakeholder feedback and evolving market dynamics, Ginnie Mae has officially extended the implementation date of its new RBC requirement by 1 year. Qualifying Independent Mortgage Bank (IMB) Issuers must now implement the RBC requirement no later than December 31, 2024. All other aspects of the minimum financial

requirements will remain the same.

“The state of the U.S. housing market is evolving rapidly, and housing affordability has eroded nationwide, with first-time homebuyers and lower-income households that Ginnie Mae exists to serve feeling the effects most acutely,” Ginnie Mae President Alanna McCargo said. “Our Issuers and the mortgage servicing industry are integral to the government mortgage system, and they are also adapting and adjusting to market conditions. As always, we are focused on working with our counterparties to manage risks and ensure continuity in serving the most underserved households through all economic cycles.”

“MBA appreciates Ginnie Mae’s decision to delay the implementation date of its RBC requirement for one year,” MBA President and CEO Bob Broeksmit said. “Given current economic and mortgage market conditions, the extra time allows for continued dialogue and a much-needed comprehensive analysis to fully assess its impact. MBA has led efforts to address

concerns about the RBC standard, engaging with Ginnie Mae in a thoughtful, data-informed discussion about the possible adverse impact on the Ginnie MSR market, and the implications for first-time, low- and moderate-income, and veteran homebuyers.”

Broeksmit continued, “While MBA and its members have worked constructively with Ginnie Mae to develop stronger capital and liquidity standards to ensure the safety and soundness of Ginnie Mae issuers, we have stressed, since August 2021 when the RBC concept was first introduced, that the punitive treatment of mortgage servicing rights (MSRs) could result in reduced liquidity of MSRs and could limit lenders’ ability to serve borrowers in the Ginnie Mae servicing space.”

Ginnie Mae’s Issuer Eligibility Requirements were first published on August 17, 2022, in APM 22-09 through a joint announcement with the Federal Housing Finance Agency of amended minimum financial requirements for IMB Issuers in government securitization guaranty programs.



# FANNIE MAE COMPLETES LATEST CIRT TRANSACTION

Fannie Mae has achieved its 10th Credit Insurance Risk Transfer (CIRT) transaction of 2022, a move made by the government-sponsored enterprise (GSE) to reduce taxpayer risk by increasing the role of private capital in the mortgage market.

Under the terms of CIRT 2022-10, \$265 million in mortgage credit risk to private insurers and reinsurers was transferred. Since its inception to date, Fannie Mae has acquired approximately \$22 billion of insurance coverage on \$740 billion of single-family loans through the CIRT program, measured at the time of issuance for both post-acquisition (bulk) and front-end transactions.

“We appreciate our continued partnership with the 18 insurers and reinsurers that have committed to write coverage for this deal,”

said Rob Schaefer, Fannie Mae VP of Capital Markets.

The covered loan pool for CIRT 2022-10 consists of approximately 31,000 single-family mortgage loans with an outstanding unpaid principal balance of approximately \$9.6 billion. The covered pool includes collateral with loan-to-value (LTV) ratios of 80.01% to 97% acquired from September to December 2021. The loans included in this transaction are fixed-rate, generally 30-year term, fully amortizing mortgages and were underwritten using rigorous credit standards and enhanced risk controls.

With CIRT 2022-10, which became effective September 1, 2022, Fannie Mae will retain risk for the first 75-basis points of loss on the \$9.6 billion covered loan pool. If the \$72 million retention layer is exhausted, 18 insurers and reinsurers

will cover the next 275-basis points of loss on the pool, up to a maximum coverage of \$265 million.

As of June 30, 2022, approximately \$1.02 trillion in outstanding unpaid principal balance (UPB) of loans in our single-family conventional guaranty book of business were included in a reference pool for a credit risk transfer transaction.

Coverage for this deal is provided based on actual losses for a term of 12.5 years. Depending on the paydown of the insured pool and the principal amount of insured loans that become seriously delinquent, the aggregate coverage amount may be reduced at the first anniversary and each month thereafter. The coverage on this deal may be canceled by Fannie Mae at any time on or after the fifth anniversary of the effective date by paying a cancellation fee.

To promote transparency and to help insurers and reinsurers evaluate the CIRT program, Fannie Mae provides ongoing, robust disclosure data, as well as access to news, resources, and analytics through its credit risk transfer webpages. This includes Fannie Mae’s Data Dynamics tool that enables market participants to interact with and analyze both CIRT deals that are currently outstanding in the market and Fannie Mae’s historical loan dataset.



# FHFA RELEASES Q2 FORECLOSURE PREVENTION REPORT

The Federal Housing Finance Agency's (FHFA) latest Foreclosure Prevention, Refinance, and Federal Property Manager's Report for July 2022 revealed the total number of loans in forbearance continued to trend downward since its peak in May 2020 but remained elevated through July 2022—compared with pre-pandemic levels.

Data found that as of July 31, there were approximately 84,385 loans in forbearance, representing an estimated 0.27% of the Enterprises single-family conventional book of business. This number is down from 90,889 or 0.29% at the end of June, while roughly 6% of these loans have been in forbearance for more than 12 months.

## Highlights:

### The Enterprises' Foreclosure Prevention Actions

- » The Enterprises completed 23,874 foreclosure prevention actions in July, bringing the total to 6,614,876 since the start of the conservatorships in September 2008. Approximately 39% of these actions have been permanent loan modifications.
- » There were 8,925 permanent loan modifications in July, bringing the total to 2,591,941 since the conservatorships began in September 2008.
- » Approximately 65% of loan modifications in July include reduce rates and extend-term. Modifications with principal forbearance accounted for 11% of all loan

modifications during the month.

- » The number of borrowers who received payment deferrals after completing a COVID-19-related forbearance plan decreased by 17% from 12,816 in June to 10,631 in July.
- » Initiated forbearance plans increased from 14,410 in June to 13,453 in July. The total number of loans in forbearance decreased from 90,889 at the end of June to 84,385 at the end of July, representing approximately 0.27% of the total loans serviced, and 16% of the total delinquent loans.

### The Enterprises' Mortgage Performance

- » The 30-59 days delinquency rate increased to 0.84% while the serious delinquency rate declined to 0.75% at the end of July.

### The Enterprises' Foreclosures:

- » Third-party and foreclosure sales decreased to 1,176 while foreclosure starts declined to 5,424 in July.

### Refinance Activities

- » Total refinance volume decreased in July 2022 amid rising mortgage rates through June. Mortgage rates fell in July: the average interest rate on a 30-year fixed-rate mortgage decreased to 5.41% from a July level of 5.52%, representing levels last observed in 2008.
- » The percentage of borrowers refinancing into shorter-term 15-year fixed-rate mortgages decreased to 17% in July, with borrowers finding the greater monthly affordability of 30-year fixed-rate mortgages amid rising rates more attractive than the increased interest rate savings of 15-year fixed-rate mortgages which inched toward 1%.

New data also found the percentage of cash-out refinances increased to 81% in July, continuing an increase in earlier months. Rising mortgage rates have decreased the opportunities for non-cash-out borrowers to refinance at lower rates and lower their monthly payments.

The percentage of borrowers refinancing into shorter-term 15-year fixed-rate mortgages decreased to 17% in July as the difference between 15- and 30-year fixed-rate mortgages increased in 2022. While the interest rate savings of a 15-year fixed mortgage over a 30-year mortgage has increased, the sharp rise in mortgage rates since December has acted as an additional disincentive against the higher monthly cost of a 15-year fixed rate mortgage compared to the greater monthly affordability of 30-year fixed rate mortgage.



**“Both GSEs’ strategies explicitly call out challenges disproportionately facing households and communities of color in renting and owning homes. This is important and long overdue.”**

# EXAMINING THE GSEs’ APPROACH TO EQUITABLE HOUSING FINANCE PLANS

The Urban Institute has released a report, “The GSEs’ Equitable Housing Finance Plans: Strengths and Missed Opportunities,” the inaugural Equitable Housing Finance Plans (EHFPs) released by Fannie Mae and Freddie Mac at the direction of the Federal Housing Finance Agency (FHFA).

Report authors Janneke Ratcliffe, VP of Housing Finance Policy Center; Laurie Goodman, Institute Fellow for the Housing Finance Policy Center; and Michael Stegman, Nonresident Fellow for Housing Finance Policy Center examine the GSEs’ EHFPs, three-year plans outlining the actions the GSEs will undertake to promote sustainable homeownership and rental opportunities for traditionally underserved Black and Latino communities.

In September of 2021, the FHFA directed the GSEs to submit three-year EHFPs, to be updated annually, charging them with setting goals and undertaking actions to address the barriers to sustainable homeownership opportunities to advance equity in the nation’s housing finance system.

The Urban Institute notes that each GSE takes a different approach to the EHFPs. Fannie Mae’s plan seeks to dismantle barriers Black households face along three main stages of the housing journey, including, housing preparation (including credit building and financial education; shopping for, acquiring, renting, or buying a home using a mortgage; and achieving housing stability, or maintaining homeownership or rentership despite obstacles.

Freddie Mac’s approach includes broad interventions to “address systemic barriers to equitable housing”—including improving fairness in credit scoring, underwriting, appraisal bias, and reducing third-party costs. Freddie Mac’s plan has a central role for special purpose credit programs (SPCPs), focusing on a more expansive definition of people of color.

“Freddie Mac’s plan is also substantively broader than Fannie Mae’s, touching on housing finance for persons with intellectual or developmental disabilities, technical assistance on renovation financing, down payment assistance tools, and tenant protections, and acceptance of housing choice vouchers in Freddie Mac–financed rental housing,” states the report. “Freddie Mac also hopes to develop disclosures

and special bond categories to attract social impact investor capital.”

The authors recognize the efforts of the GSEs that change should be implemented as positives in the report.

“Both GSEs’ strategies explicitly call out challenges disproportionately facing households and communities of color in renting and owning homes. This is important and long overdue,” said the authors. “The GSEs have maintained plans under their respective Duty to Serve and affordable housing goal regimes, but these plans have never squarely focused on narrowing the racial homeownership gap. In addition to the overall focus on the racial homeownership gap, the EHFPs include several noteworthy provisions.”

And as affordability remains a major hurdle for many in today’s market, the Urban Institute team of authors shift their focus on the critical need for high-quality, affordable rental housing, and the important role the GSEs play in

multifamily finance.

“Although taken together, these plans will have only marginal effects on the overall supply, Freddie Mac’s planned initiatives to expand the supply of affordable rental housing are especially welcome because financial engineering alone will not resolve persistent rental affordability issues,” said the authors. “Freddie Mac is also extending its Develop the Developer initiative in underserved communities of color from single-family (one to four units) to multifamily homes (five or more units); it is extending its ‘linked loan’ offering that supports emerging developers to allow for the financing of noncontiguous two-to-four-unit properties (Freddie Mac 2022, 59). And both EHFPs plan to explore standardizing best practices to make them fairer, such as tenant protections and housing choice voucher acceptance (Freddie Mac) and security deposits (Fannie Mae), all positive steps leading to broader market adoption of more equitable rental markets.”

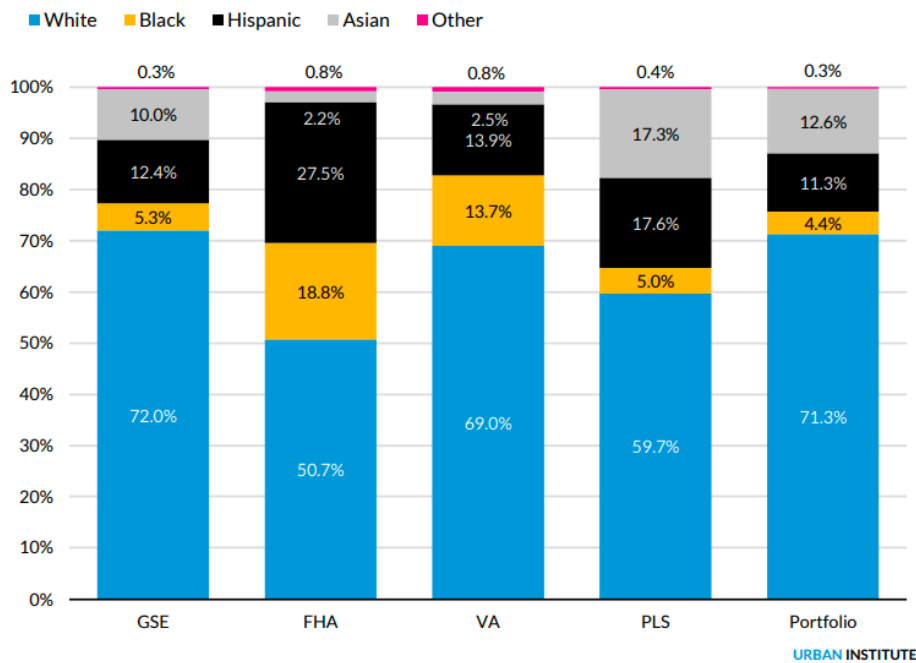
One major concern of the authors is that neither Fannie Mae nor Freddie Mac’s plan recognizes the GSEs’ role in the current racial homeownership gaps as evidenced by the purchase loan channel shares by race and ethnicity exhibited below.

“Both plans discuss how historical systemic racial discrimination has led to the homeownership and wealth gaps for people of color, but neither plan has a section on how GSE policies perpetuated these gaps and inequities,” found the authors. “Home Mortgage Disclosure Act data confirm the GSEs do less mortgage lending to Black and Hispanic borrowers than the Federal Housing Administration (FHA) and U.S. Department of Veterans Affairs (VA) programs; 2021 Home Mortgage Disclosure Act data show that Black borrowers are 5.3% of GSE purchase lending, 18.8% of FHA purchase lending, and 13.7% of VA purchase lending. GSE lending to Hispanic borrowers shows a similar pattern: 12.4% of GSE purchase lending, 27.5% of FHA purchase lending, and 13.9% of VA purchase lending. These numbers were noticeably absent from both reports.”

Authors Ratcliffe, Goodman, and Stegman conclude their analysis by pointing out the GSE’s missed opportunities and unresolved issues, including:

- » Leveraging the power of Credit Risk Transfers (CRTs), pilot programs, and the retained portfolio to expand equity in a safe and sound manner
  - » Increasing public data disclosure
  - » Increasing impact through collaboration among the GSEs
  - » Increasing impact through collaboration between the GSEs and the FHA
  - » Building a lasting commitment to equity
- “The EHFPs are an important step in attempting to close the racial homeownership gap, and there is a lot to like in these plans. But the plans have weaknesses, including trying to tackle too many issues, with a lack of focus and no emphasis on measurable outcomes. And several items are missing from these plans, including collaboration between the GSEs, the interaction between the GSEs and the FHA, and steps to insulate these plans from political whims.”

2021 Purchase Loan Channel Shares, by Race or Ethnicity



Source: 2021 Home Mortgage Disclosure Act data.

Notes: FHA = Federal Housing Administration; GSE = government-sponsored enterprise; PLS = private-label securities; VA = US Department of Veterans Affairs. Includes purchase loans only. Shares are based on loan counts.



# FHA PROPOSES CHANGES TO MANUFACTURED HOMES RULES

The Federal Housing Administration (FHA) has proposed a rule in the Federal Register to increase and index the loan limits for its Title I Manufactured Home Loan Program, a program that insures loans used to finance manufactured homes titled as personal property. The rule seeks public comment on FHA's proposed data-driven methodology to calculate loan limits for the program on an annual basis. Publication of the rule is the latest step in FHA's efforts to promote manufactured homes, an important component of the Biden administration's May 2022 Housing Supply Action Plan.

"Adjusting loan limits to current market conditions will make Title I a much more useful source of affordable loan financing for manufactured homes," FHA Commissioner Julia R. Gordon said. "This proposal is the next step in FHA's ongoing work to support manufactured housing as an affordable and attractive option in a challenging housing market."

To compensate for the lack of affordable housing nationwide, the Biden administration announced its Housing Supply Action Plan earlier this year to ease the burden of housing costs over time by boosting the supply of quality housing in every community. The Plan includes legislative and administrative actions that will help close America's housing supply shortfall over five years, beginning with the creation and preservation of hundreds of thousands of affordable housing units in the next three years.

Under the Plan, the Biden administration will:

- » Reward jurisdictions that have reformed zoning and land-use policies with higher scores in certain federal grant processes, for the first time at scale.
- » Deploy new financing mechanisms to build and preserve more housing where financing gaps currently exist: manufactured housing (including with chattel loans that

the majority of manufactured housing purchasers rely on), accessory dwelling units (ADUs), two- to four-unit properties, and smaller multifamily buildings.

- » Expand and improve existing forms of federal financing, including for affordable multifamily development and preservation. This includes making Construction to Permanent loans more widely available by exploring the feasibility of Fannie Mae's purchase of these loans; promoting the use of state, local, and Tribal government COVID-19 recovery funds to expand affordable housing supply; and announcing reforms to the Low Income Housing Tax Credit (LIHTC), which provides credits to private investors developing affordable rental housing, and the HOME Investment Partnerships Program (HOME), which provides grants to states and localities that communities use to fund a wide range of housing activities.
- » Ensure that more government-owned supply of homes and other housing goes to owners who will live in them—or non-profits who will rehab them—not large institutional investors.
- » Work with the private sector to address supply chain challenges and improve building techniques to finish construction in 2022 on the most new homes in any year since 2006.

Loan limits for the Title I Manufactured Home Loan Program were last updated by the Housing and Economic Recovery Act of 2008. The proposed methodology will be used to establish indexes that annually calculate and adjust loan limits using sale prices, the number of sections of the manufactured home, and property data collected by the U.S. Census Bureau. FHA's proposal includes separate indexes for single-section manufactured homes and multisection manufactured homes for the three loan categories covered under the Title I Manufactured Home Loan Program:

- » Manufactured Home Loans used for the purchase or refinance of manufactured homes only.
- » Manufactured Home Lot Loans used for the purchase or refinance of the land where the home will be installed.
- » Manufactured Home and Lot Combination Loans used for the purchase or refinance of both the home and the land on which the home will be installed.



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# Investment

*The latest insights into the single-family rental sector, the secondary market, and more.*



# HOMEOWNERS BECOMING LANDLORDS TO RETAIN RECORD-LOW MORTGAGE RATES



According to a new report from Redfin, the median U.S. asking rent rose nearly 10% year over year in September to \$2,002, the slowest growth since August 2021 and the first single-digit increase in a year. September was the fourth-consecutive month in which annual rent growth decelerated, with rents climbing at half the pace they were six months earlier.

“The rental market is coming back down to earth because high rents and economic uncertainty have put an end to the pandemic moving frenzy of 2020 and 2021 when remote work fueled an enormous surge in housing demand that would’ve otherwise been spread out over the coming years,” Redfin Deputy Chief Economist Taylor Marr said. “Rising supply is also causing rent growth to slow. Scores of apartments that have been under construction are now coming on the market, and more homeowners are choosing to become landlords instead of selling in order to hold on to their record-low mortgage rates.”

## Rents Rose 20% or More in Oklahoma City and Pittsburgh

In Oklahoma City, Oklahoma, asking rents increased 24.1% year over year in September, the largest jump among the 50 most populous U.S. metropolitan areas. Pittsburgh saw an increase of 20%. Next came Indianapolis, Louisville,

Kentucky, Nashville, Cincinnati, Raleigh, North Carolina, and New York, all with gains of more than 15%.

### Top 10 Metro Areas With Fastest-Rising Rents Year Over Year:

1. Oklahoma City, Oklahoma (24.1%)
2. Pittsburgh, Pennsylvania (20%)
3. Indianapolis, Indiana (17.9%)
4. Louisville, Kentucky (17.5%)
5. Nashville, Tennessee (17%)
6. Cincinnati, Ohio (16.5%)
7. Raleigh, North Carolina (16.4%)
8. New York, New York (15.4%)
9. Portland, Oregon (14%)
10. San Antonio, Texas (12.5%)

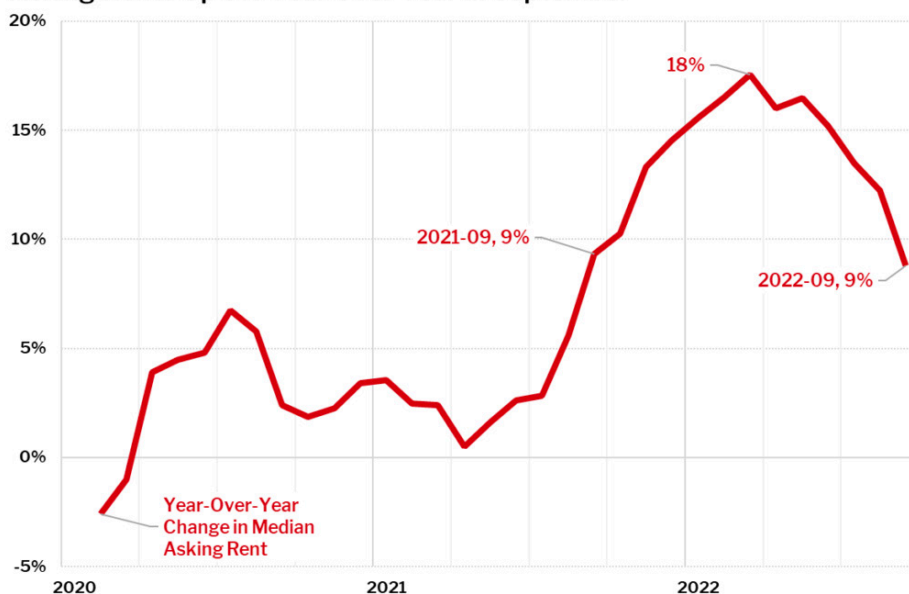
Five of the 50 most populous metro areas saw rents fall in September from a year earlier. Rents declined 14.3% in Milwaukee, 8.8% in Minneapolis, 2.8% in Baltimore, and less than 1% in Houston and Chicago.

### Metro Areas Where Rents Declined Year Over Year:

1. Milwaukee, Wisconsin (-14.3%)
2. Minneapolis, Minnesota (-8.8%)
3. Baltimore, Maryland (-2.8%)
4. Houston, Texas (-0.6%)
5. Chicago, Illinois (-0.5%)

“We expect rent growth to slow further into 2023 as Americans continue to hunker down and more new rentals hit the market,” Marr concluded.

## Asking Rents Up 9% Year Over Year in September



Source: Redfin analysis of asking rents

**REDFIN**



# HOME SELLERS REPORT DROP IN PROFITS DURING Q3

According to ATTOM Data, profit margins on median-priced single-family homes and condominiums across the country decreased to 54.6% as home prices declined for the first time in nearly three years. This data comes by way of ATTOM's third-quarter 2022 U.S. Home Sales Report.

The decrease in typical profit margins from 57.6% in the prior quarter; this drop coincided with a 3% drop in the median national home value, which now stands at \$340,000.

"Rapidly rising mortgage rates have not only resulted in fewer home sales but have begun to impact home prices as well," said Rick Sharga, EVP of Market Intelligence at ATTOM. "With rates the highest they've been in over 20 years, homebuyers face serious affordability challenges, with monthly payments in some markets up 50% year over year. It's very likely that home prices will continue to weaken in many markets in the coming months."

On a yearly basis, the typical investment return for home sellers remained above levels recorded a year prior during the third quarter of 2021 which stood at 48.8%. The national median home price also stayed near its all-time high—more than double where it stood a decade earlier.

"But the investment-return decline during this year's summertime home-selling season marked the largest quarterly downturn since 2011 when the nation was mired in the aftereffects of the Great Recession that hit in the late 2000s," ATTOM wrote in its report. "The third-quarter reversal also represented the first time since 2010 that seller returns went down from a second-quarter to a third-quarter period."

Gross profits also decreased from the second quarter to the third quarter of 2022, dropping 6% on the typical single-family home and condo sale across the country to \$120,100. That quarterly decrease was the largest since early 2017.

The decrease in third-quarter profits came amid growing signs and speculation that the market will face a significant downturn after a decade-long housing boom. At the same time, average mortgage rates have doubled in the past year and have now eclipsed 6% for a 30-year fixed mortgage. The high rate of inflation and a recent stock market slump have not helped the situation either; foreclosure activity by lenders has also quietly doubled over the past year.

"Those forces have raised homeownership costs for buyers, cut into resources available for

down payments on purchases, and eaten into overall household budgets," ATTOM wrote. "They also have boosted the supply of homes for sale, putting further downward pressure on prices."

Typical profit margins—the percent change between median purchase and resale prices—decreased from the second quarter of 2022 to the third quarter of 2022 in 127 (68%) of the 186 metropolitan statistical areas around the U.S. with sufficient data to analyze. Typical profit margins increased quarterly in just 59 of the 186 metro areas analyzed (32%).

Median home prices in the third quarter of 2022 decreased from the prior quarter or stayed the same in 98 (53%) of the 186 metro areas with enough data to analyze; however, they were still up annually in 180 of those metros (97%).

The national median home price fell to \$339,815, down 2.7% from \$349,266 reported during the second quarter of 2022, but it was still up 9.4% from the \$310,500 during the third quarter of 2021.

"If the Federal Reserve's objective was to slow down the housing market, it has succeeded spectacularly," Sharga noted. "The market has gone from double-digit annual home price appreciation to below 3% and declining quarter-over-quarter prices. But the impact of 6-7% mortgage rates means that many homes are still out of the reach of prospective buyers, even with prices declining slightly."

The report also found that the average home seller during the third quarter of 2022 had owned their home for an average of 5.98 years, up from the 5.84 years from the second quarter, but down from 6.28 years on a yearly basis.

Home sales following foreclosures by banks and other lenders again represented just 1% of all single-family home and condo sales in the third quarter of 2022—tied for the lowest portion since at least 2000.

The latest portion of REO sales was the same as the 1% level recorded in the second quarter of 2022 and down from 1.2% in the third quarter of last year. REO sales represented only 1-in-98 sales in the third quarter of 2022, a rate that was a thirtieth of this century's high point of 1-in-3 in the first quarter of 2009.

Nationwide, all-cash purchases accounted for 35.7% of all single-family home and condo sales in the third quarter of 2022. The third quarter of 2022 number was down slightly from 36% in the second quarter of 2022 but still up from 33.9% in the third quarter of last year.



# RENT GROWTH DECELERATES FOR FOURTH CONSECUTIVE MONTH

CoreLogic has released its latest Single-Family Rent Index (SFRI) analyzing the latest figures on rent growth for August 2022, which found that rent growth has slowed for the fourth consecutive month to an annual rate of 11.4%.

The SFRI revealed that U.S. single-family home rental costs posted an overall 11.4% year-over-year increase in August, marking the fourth straight month of annual deceleration. Even so, rental costs remained elevated, with annual growth running at about five times the rate than in August 2020 amid the COVID-19 pandemic. A shortage of available rental units continues to fuel price growth, although inflation and worries over a looming recession should begin to temper increases.

“Single-family rent prices in August were 26% higher than before the onset of the pandemic, adding an average of \$400 per month to tenants’ monthly costs and compounding other household expenses caused by inflation,” said Molly Boesel, Principal Economist at CoreLogic. “While annual rent growth is projected to continue increasing throughout the rest of 2022,

those gains will likely moderate further in 2023.”

Even though rent prices have backed off recent highs, rental costs remain elevated as annual growth is running about five times the rate which was recorded in August 2020 due to a severe shortage of rental units which in turn fuels price growth.

To gain a detailed view of single-family rental prices, CoreLogic examines four tiers of rental prices. National single-family rent growth across the four tiers, and the year-over-year changes, were as follows:

- » **Lower-priced** (75% or less than the regional median): 12.9%, up from 7.4% in August 2021
- » **Lower-middle priced** (75% to 100% of the regional median): 12.8%, up from 8.3% in August 2021
- » **Higher-middle priced** (100% to 125% of the regional median): 12.3%, up from 9.4% in August 2021
- » **Higher-priced** (125% or more than the regional median): 10.1%, down from 10.7% in August 2021

Of the 20 metro areas looked at, Miami posted the highest year-over-year increase in single-family rents in August 2022 at 25%, continuing its year-plus streak as the country’s hottest rental market. Orlando, recorded the second-highest gain at 20.8%, while Atlanta ranked third at 11.7%. St. Louis posted the lowest annual rent price gain at 4.2%.

Differences in rent growth by property type emerged after COVID-19 took hold, as renters sought standalone properties in lower-density areas. This trend drove an uptick in rent growth for detached rentals in 2021, while the gains for attached rentals were more moderate. However, this trend has recently shifted, and attached rental property prices grew by 11.8% year over year in August, compared to the 10.6% increase for detached homes. However, detached rental price growth is still outpacing that of attached homes on a two-year basis, a respective 23.7% compared with nearly 20%.

The next CoreLogic Single-Family Rent Index will be released on November 15, 2022, featuring data for September 2022.

# Property Preservation

*Updates and news impacting the property  
preservation sector, from market breakdowns  
to the impact of natural disasters.*





# VACANT HOMES IN FORECLOSURE RECORD THIRD CONSECUTIVE QUARTERLY INCREASE

ATTOM has released its fourth-quarter 2022 Vacant Property and Zombie Foreclosure Report showing that 1.3 million (an estimated 1,264,241) residential properties in the United States sit vacant. That figure represents 1.26%—or one in 79 homes—across the nation.

The report also reveals that 284,423 residential properties in the United States are in the process of foreclosure in Q4 of this year, up 5.2% from Q3 of 2022, and up 27.4% from Q4 of 2021. A growing number of homeowners have faced potential foreclosure since a nationwide government moratorium on lenders pursuing delinquent homeowners, imposed after the Coronavirus pandemic hit in 2020, was lifted at the end of July 2021.

Among those pre-foreclosure properties, 7,722 are zombie foreclosures—pre-foreclosure properties abandoned by owners—in Q4 of 2022,

up 0.2% from the prior quarter, and 3.9% from a year ago. The count of zombie properties has grown in each of the last three quarters.

“The government’s foreclosure moratorium dramatically reduced the number of properties in foreclosure,” said Rick Sharga, Executive VP of Market Intelligence at ATTOM. “Vacant and abandoned properties were among the few homes that could still be foreclosed on during the moratorium, so the number of zombie properties shrank as well. Now that the foreclosure ban has been lifted, we’re likely to see a gradual return to pre-pandemic levels.”

Despite the increase, the number of zombie foreclosures remains historically low, representing just a tiny segment of the nation’s total stock of 100.1 million residential properties. Just one of every 12,963 homes in Q4 of 2022 is vacant and in foreclosure, meaning that most neighborhoods

still have no such properties. That ratio is almost the same as in Q3 of this year, although up 2.5% from one in 13,292 in Q4 of 2021.

The portion of pre-foreclosure properties that have been abandoned into zombie status, meanwhile, continues to decline, from 3.3% a year ago to 2.8% in Q3 of 2022 and 2.7% in Q4 of this year.

The latest trends—zombie foreclosure numbers up slightly but remaining tiny—again reflect one of many high points from a housing market that has seen 11 years of nearly uninterrupted gains. Median home values nationwide have more than doubled since 2012, home-seller profits have shot up over 50% and the vast majority of homeowners have equity built up in their homes. Those forces provide an enormous incentive for owners behind on their mortgages to do everything they can to avoid abandoning their properties even as foreclosure activity increases.

Home values dipped over the Summer of this year amid rising interest rates, a declining stock market, and soaring inflation that have cut into what buyers can afford. However, that has yet to significantly boost the presence of vacant properties in foreclosure.

### Zombie Foreclosures Inch Up Again but Remain a Small Portion of the Overall Market

A total of 7,722 residential properties facing possible foreclosure have been vacated by their owners nationwide in Q4 of 2022, up slightly from 7,707 in Q3 of 2022 and 7,432 in Q4 of 2021.

While zombie foreclosures continue to be few and far between in most neighborhoods around the U.S., the biggest increases from the third quarter of 2022 to the fourth quarter of 2022 in states with at least 50 zombie properties are in Kansas (zombie properties +32%, from 44 to 58); Nevada (+25% from 81 to 101); Connecticut (+15%, from 65 to 75); Georgia (+15% from 72 to 83); and Indiana (+13% from 239 to 270).

The biggest quarterly decreases among states with at least 50 zombie foreclosures are in Michigan (zombie properties -23%, from 99 to 76); New Jersey (-12% from 240 to 211); North Carolina (-10% from 144 to 130); Ohio (-9% from 925 to 841); and Maine (-7% from 72 to 67).

New York has the highest overall number of zombie homes to all residential properties (1,995 pre-foreclosure vacant properties), followed by Florida (1,030), Ohio (841), Illinois (780), and Pennsylvania (368).

“Low vacancy rates are also a major factor in there being few zombie homes,” Sharga added. “And with demand from both traditional homebuyers and investors still relatively strong, and the inventory of homes for sale still very low, vacancy rates for residential homes is about as low as it’s ever been,”

### Overall Vacancy Rates Dip for Third Straight Quarter

The vacancy rate for all residential properties in the U.S. has dropped for three quarters in a row. It now stands at 1.26% (one in 79 properties), down from 1.28% in Q3 of 2022 (one in 78) and from 1.33% in Q4 of last year (one in 75).

States with the biggest annual drops are Tennessee (down from 2.3% of all homes in Q4 of 2021 to 1.25% in Q4 of this year), Minnesota (down from 1.18% to 0.81%), Wisconsin (down from 1.02% to 0.69%), Georgia (down from 1.79% to 1.5%) and Oregon (down from 1.14% to 0.94%).

### High-level findings from Q4 of 2022:

- » Among metropolitan statistical areas in the U.S. with at least 100,000 residential properties and at least 100 properties facing possible foreclosure in Q4 of 2022, the highest zombie rates are in Wichita (12.7% of properties in the foreclosure process are vacant); Peoria, Illinois (9.9%); Syracuse, New York (8.2%); Toledo, Ohio (7.8%); and Cleveland, Ohio (7.1%).
- » Aside from Cleveland, the highest zombie-foreclosure rates in major metro areas with at least 500,000 residential properties and at least 100 homes facing foreclosure in Q4 of 2022 are in Baltimore, Maryland (6.1% of homes in the foreclosure process are vacant); Pittsburgh, (5.6%); Portland, Oregon (5.5%); and Indianapolis, Indiana (5.4%).
- » Among the 26.8 million investor-owned homes throughout the U.S. in Q4 of 2022, about 868,000 are vacant, or 3.2%. The highest levels of vacant investor-owned homes are in Indiana (6.8% vacant); Kansas (5.8%); Oklahoma (5.3%); Alabama (5.3%); and Ohio (5.2%).
- » Among the roughly 5,000 foreclosed, bank-owned homes in the U.S. during Q4 of 2022, 9.3% are vacant. In states with at least 50 bank-owned homes, the largest vacancy rates are in Illinois (21.2% vacant); Ohio (13.3%); New York (12.3%); Florida (11.4%); and Maryland (11.2%).
- » The highest zombie-foreclosure rates in U.S. counties with at least 500 properties in the foreclosure process during the fourth quarter of 2022 are in Baltimore County, Maryland (12.4% zombie foreclosures); Broome County (Binghamton), New York (11.5%); Peoria County, Illinois (11.2%); Pinellas County (Clearwater), Florida (9%); and Onondaga County (Syracuse), New York (8.6%).
- » Among 424 counties with at least 50,000 residential properties homes facing possible foreclosure in Q4 of 2022, zombie foreclosures represent the highest portion of overall residential properties in Broome County (Binghamton), New York (one of every 620 properties); Peoria County, Illinois (one of every 1,184); Cuyahoga County (Cleveland), Ohio (one of every 1,226); Suffolk County, New York (eastern Long Island) (one of every 1,259), and Bronx County, New York (one of every 1,347).

**“Low vacancy rates are also a major factor in there being few zombie homes. And with demand from both traditional homebuyers and investors still relatively strong, and the inventory of homes for sale still very low, vacancy rates for residential homes is about as low as it’s ever been.”**

—Rick Sharga, Executive VP of Market Intelligence, ATTOM



## CASE STUDY: IMPACT OF FLOOD RISK ON PROPERTY VALUES

By current CoreLogic estimates, the recent landfall of Hurricane Ian caused anywhere between \$41 to \$70 billion in damage, marking the sixth consecutive year a slow-moving tropical system destroyed part of the country.

Climate change will only exacerbate severe weather events in the years to come, so CoreLogic asked the question, “What effect does flood risk have on a home’s value?” and studied property values in Miami to answer this question. Miami was chosen due to its vulnerability to hurricanes.

Buyers typically push for a discount on homes in Federal Emergency Management Agency (FEMA) flood zones to offset the cost of carrying government flood insurance, even when those homes have desirable features, such as being waterfront property.

But there are certain risks some borrowers take when insuring a home—purchasing flood insurance is not mandated to receive a mortgage for a property outside of a 100-year flood zone, as designated by FEMA, even though its flood risk is not necessarily zero.

On the other hand, the study found that if borrowers are presented with a comprehensive flood risk model before buying, in return this could cause home values in flood-prone areas to drop as buyers move on to another property with less risk.

A Special Flood Hazard Area (SFHA) is defined as an area that will be inundated by a 1% annual chance of flood, which is also referred to as the base flood or 100-year flood. Zone X500 is a 500-year floodplain with a 0.2% of annual

chance of flooding. Zone A, AE, and AH are 100-year floodplains with a 1% of annual chance of flooding. Zone VE is for coastal areas with a 1% of annual chance of flooding and an additional hazard associated with storm waves. Zone X denotes areas of minimal flood hazard, which are areas outside the SFHA and higher than the elevation of the 0.2% annual chance of flooding.

“The above analysis clearly indicates a property in flood zones sells for less and appreciates slower over time than a similar property outside flood zones, given everything else is equal, in Miami,” said CoreLogic. “Is there any way to mitigate the risk and improve the property value? Building homes at a higher elevation will help. Regression results suggested that every foot of elevation can increase home value by 1.6% in a noncoastal flood zone. If not in a flood zone, every mile away from the 100-year floodplain can add 2.2% value to a property. Being close to a fire station is another advantage since the fire service provides a vital role in responding to flood events.”

# MORE HOMEOWNERS INVESTING IN CLIMATE RISK PROTECTION

Redfin reports that more than half (58%) of U.S. homeowners have invested in making their homes more resilient to climate threats, based on a survey of roughly 1,000 homeowners commissioned by Redfin in August 2022. The share was higher among Florida homeowners, nearly three-quarters (71%) of whom have spent money to protect their homes from climate risk. While Floridians are more likely than the country, as a whole, to invest in climate resilience, many are still vulnerable to flooding and storms.

Hurricane Ian, which tore across Florida last month, may turn out to be the costliest storm in state history, as CoreLogic estimates found total flood and wind losses will hit between \$41 billion and \$70 billion. This estimate includes wind loss, reevaluated insured and uninsured storm surge loss, and newly calculated inland flood loss for residential and commercial properties. Hurricane Ian is the costliest Florida storm since Hurricane Andrew made landfall in 1992.

By risk type, homeowners nationwide are most likely to invest in combating extreme heat, with 26% saying they've spent money to make their home more resilient to this risk. Next comes extreme cold (22%), flooding (16%), hurricane/other major tropical storms (14%), poor air quality (13%), and tornadoes (12%). Earthquakes and wildfires both came in at 11%. In Florida, 40% of homeowners have invested in making their homes more resilient to hurricanes or other major tropical storms—nearly triple the national share.

“Americans are shelling out cash to fortify their homes against natural disasters as they increasingly move to at-risk areas despite intensifying climate change. Unfortunately, their investments aren't always enough—a reality that came into focus when Hurricane Ian destroyed scores of homes, many of which lacked flood insurance,” Redfin Chief Economist Daryl Fairweather said. “Homeowners should be aware that their property value could drop over time if their area becomes uninsurable and/or uninhabitable due to climate change.”

A 2021 Redfin analysis found that more people have been moving into than out of the U.S. counties with the largest share of homes at high

risk of natural disasters. Many of these areas are attracting homebuyers because they're relatively affordable, have lower property taxes, and have access to nature and sunshine. Cape Coral, North Port, and Tampa—three Florida metros hit hard by Hurricane Ian—consistently rank on Redfin's list of top migration destinations, which is based on how many more Redfin.com users are looking to move in than leave.

In Florida alone, Redfin found that pending home sales fell 58% year over year in the Cape Coral, Florida, metro area during the four weeks ending October 16 in the aftermath of Hurricane Ian. That total is near twice the nationwide decline of 32%. Pending home sales also slumped in the nearby Naples (-52%) and North Port (-51%) metro areas over that same time. Other Florida metros were impacted by the storm, as sales fell 47% in Miami, 46% in Jacksonville, and 43% in West Palm Beach, while sales were down more than 40% in the Deltona, Tampa, and Orlando metros.

“Many of the newer homes are still standing after Hurricane Ian, but even those have damage after getting inundated with nine feet or more of

water. But a lot of the old houses are gone,” said Isabel Arias-Squires, a Redfin Agent in Cape Coral, Florida, which was hit hard by Hurricane Ian. “In the past, storms have destroyed fences and roofs in Cape Coral. This time, people lost their entire home.”

One-third (33%) of homeowners have spent \$5,000 or more to fortify their homes against climate risk, while roughly one-quarter have spent up to \$4,999, and 42% have invested nothing.

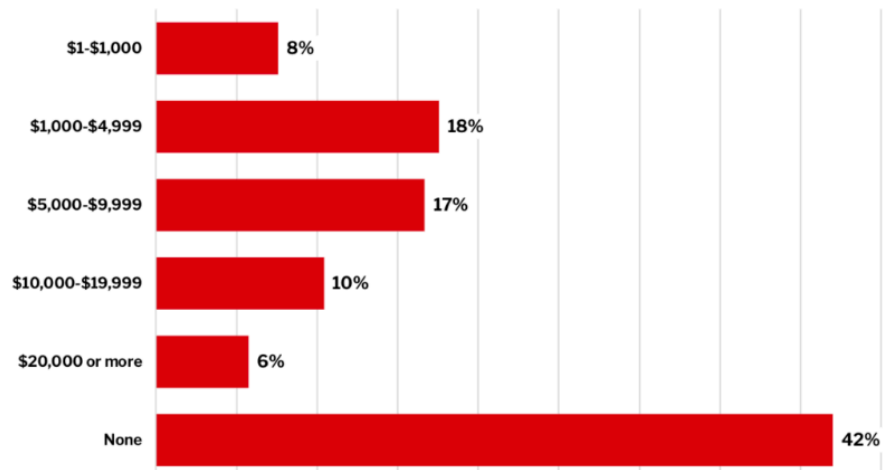
“A lot of homeowners may just end up walking away because the cost of rebuilding is too high,” Arias-Squires added. “Let's say you need a new \$20,000 roof and insurance only covers \$15,000. You might not have the additional \$5,000 out of pocket, and by the time the roofers show up in six months, the total cost of the new roof might have increased to \$30,000.”

Thirty-six percent of homeowners have an insurance policy covering flooding, making it the most common climate risk homeowners have coverage for. Next came tornadoes (33%), hurricanes/other major tropical storms (29%), wildfires (24%), and earthquakes (18%).

The share of homeowners with coverage has increased over the last year and a half for most risks. Redfin posed the same question in a February 2021 survey. Hurricanes/other major tropical storms saw the biggest jump; the share of homeowners with coverage rose from 19% to 29%. Wildfires came next, with the share climbing from 15% to 24%.

## The Cost of Climate Resilience

“How much have you invested in making your home more resilient?”



Source: August 2022 Redfin survey of roughly 1,000 U.S. homeowners

**REDFIN**

# SOUTHERN REGIONS EXPERIENCE SURGE IN MIGRATION

As many struggle to afford a mortgage—let alone their dream home—nationwide, many are migrating in search of more affordable areas to obtain homeownership and/or avoid being cost-burdened. CraftJack has analyzed Census Bureau data in order to determine which states Americans are moving to and from the most across the country, and the reason behind their moves.

The reasons people move may vary; however, regarding the current housing market, many are motivated to relocate due to economic inflation. Like birds in the winter, many people are flocking further toward South where year-round temperatures and winters are historically better.

More than 1 in 4 (26%) Americans moved out of state in the last five years. It may be no surprise, 1 in 5 moved in 2021, following the onset of the COVID-19 pandemic. So far, 13% report moving in 2022.

As for why Americans are moving, the number one reason is for a job,

followed by moving closer to family, wanting a lower cost of living, wanting to live in a new place, and wanting to live in a warmer climate.

Many Americans are also changing the type of area where they live. More than half (55%) reported leaving the suburbs, 29% left urban areas, and 15% left rural areas. Meanwhile, 48% moved to the suburbs, 37% to urban areas, and 15% to rural areas. The average cost of moving was \$3,946.

Overall, most people (88%) are happy with their move. Among the 12% who are not, 88% say they would move back to their former state. Moving again wouldn't be unlikely, as the average American reports moving six times and living in two different states.

Although not everyone has moved in the last five years, 63% of Americans say they've thought about it. The top reasons why people are considering moving include wanting a change of scenery (25%), wanting a lower cost of living (22%), and wanting to live in a warmer climate (10%).

## STATES PEOPLE ARE MOVING TO

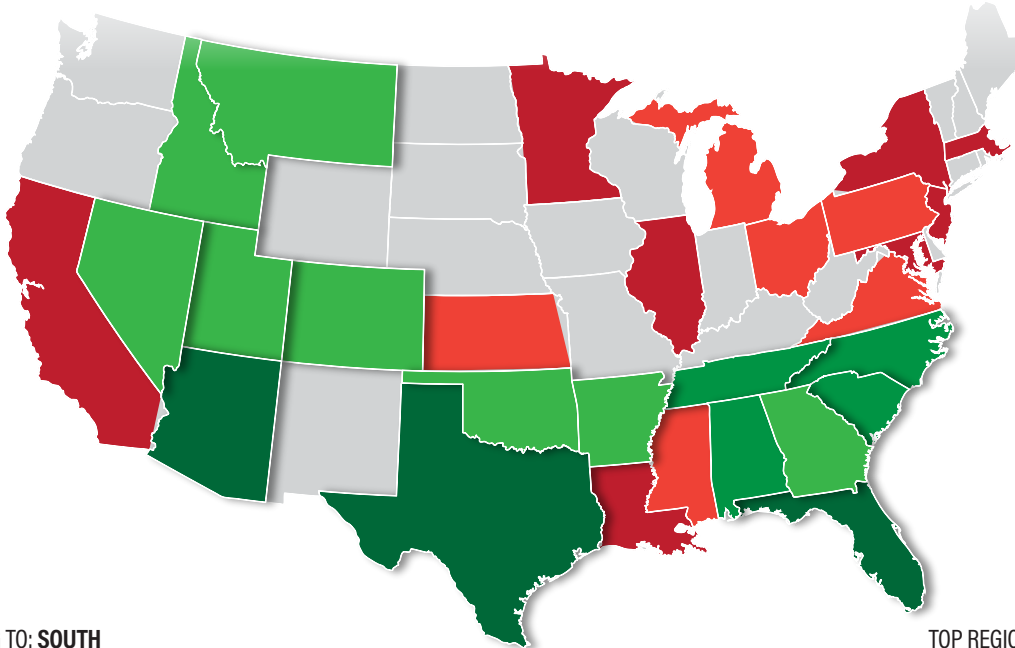
- FLORIDA
- TEXAS
- ARIZONA
- NORTH CAROLINA
- SOUTH CAROLINA
- TENNESSEE
- GEORGIA
- IDAHO
- UTAH
- NEVADA
- OKLAHOMA
- ALABAMA
- MONTANA
- COLORADO
- ARKANSAS

TOP REGION MOVING TO: **SOUTH**

## STATES PEOPLE ARE MOVING FROM

- CALIFORNIA
- NEW YORK
- ILLINOIS
- MASSACHUSETTS
- NEW JERSEY
- LOUISIANA
- MARYLAND
- HAWAII
- MINNESOTA
- MICHIGAN
- VIRGINIA
- PENNSYLVANIA
- KANSAS
- OHIO
- MISSISSIPPI

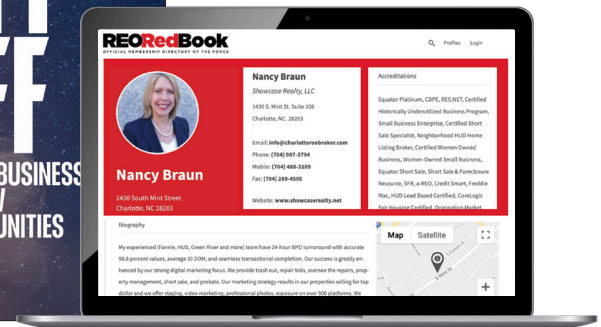
TOP REGION LEAVING: **NORTHEAST**



Source: CraftJack report, "United States of Moving: Which States Americans Are Moving to and From"

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