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Real Estate Crisis: How Outsourcing Could Soften the Blow

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Amit Arya shares his thoughts on the mortgage industry — where it is headed in the near future and the opportunities it presents for an outsourcing provider.

Q. The U.S. mortgage industry has been through a major downturn in the last three-and-a-half years or so. Can you shed light on the crisis and its impact on the industry as well as the economy?

A: Mortgage delinquencies and foreclosures are on the rise, causing ongoing crisis. These started in the subprime segment and drew other segments into it as well, hence the apt term real estate crisis. A significant portion of the mortgages issued to homeowners in the last few years (which eventually led to issues) were adjustable rate mortgages linked to interest rates or some financial index. Fluctuations in such indices and an increase in the prime lending rate led to people defaulting on their mortgages. The resulting foreclosures made a larger number of homes available for sale. This high availability of homes further declined the price of the houses. Eventually, the equity in houses also weakened which led to mortgages that were more expensive for consumers compared to the actual worth of the home. This, in turn, led to people opting for strategic default — where people do have the finances to pay for the mortgage but choose not to pay. This vicious cycle of dropping home prices along with a lowered equity and increasing number of foreclosures is at the heart of this crisis.

The mortgage crisis did have an impact on the outsourcing industry; small and pure mortgage service provider units were the most severely hit as many large corporate houses filed for bankruptcy. This crisis first impacted the loan originations side of the business, and the focus later shifted to the loan servicing side as the delinquency rate increased.

Q. What are the current trends shaping the industry and the factors causing the continued downturn?

A: The factors causing continued downturn are actually interlinked. Unemployment rate in the U.S. has been around 9.5 percent for the last 12 months, which has led to delinquency and foreclosures. There are already way too many homes in the market, so more foreclosures will only add more supply to the market. Due to this, the real estate prices have gone down. Furthermore, lenders have really tightened mortgage lending standards. It is now much harder to get a home loan in the U.S.; if fewer people qualify for a mortgage it means that fewer people will be out there buying homes.

Because of the above mortgage crisis, the following trends have been in play:

- Default management
- Foreclosures
- Collections

The above trends are driving loan modifications and there has been more focus on other loss mitigation options.

Q. Can you share your thoughts on loan modifications, their performance and impact on the mortgage industry?

A: With foreclosure rates on a high, the U.S. government is looking at loan modifications as a solution to stop foreclosures. Loan modification is a compromise between a lender and a homeowner to alter the terms and conditions of an existing loan. Besides preserving home ownership, modifying loans favors borrowers with lower

interest rates, reduced monthly payments and extended loan periods. The loan modification has two distinct segments, which are:

- Loan modifications by banks, offering less stringent conditions
- Home Affordable Modification Programs (HAMPs), which are government structured

The banks' mortgage loan modifications outnumber HAMP mortgage loan modifications by almost four to one. The HAMP, which is government-structured, has more stringent guidelines and requires the homeowners to stay in contact with the bank, faxing and re-faxing documents as per the bank's request, and with regular follow-ups.

Loan modification has achieved the critical goal of providing immediate relief to struggling homeowners. It has helped transform the way the entire mortgage servicing industry operates. As per some reports published, 20 months into the program, close to 1.4 million homeowners have entered into HAMP trials. Not only this, but reports suggest that re-default rate of HAMP modifications is much lower than that of historical private sector modifications. This indicates that the quality of modifications has improved.

Home retention strategies have changed dramatically since the initiation of HAMP. As per the federal guidelines, a homeowner who is not qualifying for a HAMP has to be evaluated for alternative modification programs or other loss mitigation options before starting foreclosure proceedings. This opens up a lot of avenues for the outsourcing industry.

Q. Given the expertise of WNS in the mortgage domain, can you elaborate on the capabilities you offer?

A: A true partnership model with the provision of differentiated services in line with the changing industry environment helps us serve the client need for flexibility and innovation to adapt to changing business and industry environments. With deep mortgage domain expertise, Business Process Outsourcing (BPO) companies such as WNS have the capability to cater to the needs of retail lenders, wholesale lenders, investors, lender service providers, servicers and private mortgage insurance companies. Our loans and mortgage process portfolio continues to evolve as we continually migrate and deliver higher value processes in this domain.

A list of successfully executed processes across the stages of the mortgage cycle, is given below:

- Lien release
- Customer service – Payoffs and authorizations
- Investor / Trustee reporting and reconciliation
- New loan set-up
- Credit reporting and billing
- Customer service
- Flood certification
- Investor reporting
- Loan modification
- Mailroom operations
- Obtaining tax amounts due on real estate
- Post closing follow-up
- Title examination
- HUD preparation and follow-up
- Payoffs
- Loan amount revision

Q. How can an outsourcing service provider like WNS help mortgage-servicers and borrowers reduce the turnaround time?

A: We, at WNS, are uniquely suited to help mortgage-servicers with our next generation of process management capabilities and our progressive approach to transforming businesses along with delivering predictable operations outcomes.

We create sustainable business impact for our clients through the innovative use of process, people, platforms and partnerships. Our services are expected to bring significant cost savings through productivity enhancements and process improvements.

Our process improvement programs have yielded dramatic results for our clients. To ensure continuous improvement, WNS has deployed quality management tools such as Failure Mode Effect Analysis (more commonly known as FMEA) to ensure every step of the process is evaluated for potential failure.

With effective management of shifts, and substantial process improvements, WNS is able to deliver significant improvement in the turnaround time for our clients.

To learn more, please write to us at **info@wns.com**