

# Mortgage Servicing News

HOME | EVENTS | MY ACCOUNT | ADVERTISE | FEEDBACK | CONTACT | RSS | LOGIN

## Subprime Securitization May Re-Emerge (If Yields Rise)

### ROUNDTABLE

SERVICERS' BUSINESS CONTINUES to be largely shaped by the lingering mass of underperforming legacy loans in the secondary market, but there have been signs that those assets' performance is improving, making even the eventual return of new subprime securitizations seem possible should future regulatory boundaries allow it.

But in the meantime, while progress has been made, there still are a lot of problem loans and related challenges to work out, especially in the default arena.

At the recent Mortgage Bankers Association's National Secondary Market Conference, *Mortgage Servicing News* assembled a panel to discuss these challenges as well as what the future could hold for the industry.

Surprisingly, some of the panelists felt that subprime securitization, dead in the water since 2007, could make a comeback.

Subprime servicing has been a

*Continued on page 29*



**Bruce Backer** thinks B/C could return unless the US intervenes. **Bob Yeary** says defaulting customers are hard to reach.

*Mortgage Servicing News* July 2010

### ROUNDTABLE

*Continued from page 1*

black hole for lenders, but if the yields get attractive enough, the industry could see them again, panelists felt.

Panelists were Gagan Sharma, president and CEO, BSI Financial Services Inc., Irving, Texas; Bruce Backer, president of LoanSifter Inc., Appleton, Wis.; Robert Yeary, CEO, Reverse Mortgage Solutions, Spring, Texas; Philip DeFronzo, president, Norcom Mortgage, Avon, Conn. Moderators were *MSN's* Mark Fogarty, Lew Sichelman and Bonnie Sinnock.

**MSN:** *Is there a chance that there will be any new subprime mortgage securities in the next five years?*

**SHARMA:** If the yield is high enough.

**BACKER:** I think in the absence of the government shutting them down, it will re-emerge.

**MSN:** *Are investors going to come back with some kind of strength like they did before?*

**SHARMA:** The guys who are probably more sophisticated, who have a better sense of

the underlying collateral and the underlying loan will probably jump in first...It would be seem that just like any other market, if they could deliver some good performance others will see that good performance and then they'll want to replicate a portion.

**MSN:** *The HAMP program is ratcheting up from doing tens of thousands of modifications now into the hundreds of thousands range. What do you think is the likelihood of success in helping millions of customers and also how many do you think will redefault?*

**SHARMA:** HAMP historically has had a re-default rate...from what we've seen from statistics in comparable servicers, between 30% and 50%. Even if one gets more aggressive and says 20% there is still a significant chunk of permanent HAMPs that are going to redefault and that doesn't count a lot of the ineligible people who didn't even qualify get to the trials, who didn't get to the permanent part. So I remember a statistic like the total eligible loans for HAMP is like 1.5 million to 2 million and we've got maybe about 300,000 permanent HAMPs right now, so even if you double the permanent HAMPs, that gets you to about 6,000. So there's at least another million who are probably not going to be helped from a HAMP perspective. There may be other ways to help them. We are cau-

tiously optimistic about the HAPA program.

**MSN:** *Any idea how long the flood of foreclosures will take to work through the system. Three years, five years, 10 years?*

**SHARMA:** What I'd say is three or more.

**MSN:** *There's such an enormous load of short sales and deeds-in-lieu...are they going to be effective?*

**SHARMA:** They are tough transactions...and I think the industry will have to ramp up for that. We did that for HAMP.

**YEARY:** It's the age-old problem. When the borrower goes into default they don't want to talk to you. Doorknockers, repetitive phone calls, robophone calls. That's the only way you can get through.

**SHARMA:** There isn't a silver bullet for it. You've got to try different approaches because different borrowers respond to different communication methods.

**MSN:** *We've seen a tremendous consolidation on the servicing side...The top five control 50% or 60% of the market do you see that continuing or do you see a role for the smaller and midsized player going forward?*



**Gagan Sharma:** "There is still a significant chunk of permanent HAMPs that are going to redefault, and that doesn't count a lot of ineligible people."

**SHARMA:** One thing that we see is on the special servicing side is there is a need for more agile, smaller institutions to deal with those workouts. When you get into conforming, clean portfolios there are certain economies of scale that come into the picture. The question comes is there a diseconomy of scale that you get so large that growth beyond that point actually leads to decrease in quality? ♦