

SERVICING MANAGEMENT

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Experience Serves Company Well

Joe Smith II has parlayed technology efficiencies to propel his company to success.

BY CONNIE LEPORE

Experience earned at a number of companies engaged in consumer financial issues served Joseph C. Smith II well after he landed at Provident Consumer Financial Services Inc. in 1997.

Along the route to PCFS, a unit of Cincinnati-based Provident Financial Group that includes banks, Smith held down assignments in his native South, the Midwest and Canada in the productivity measures, loan origination, lending, securitization, claims management and commercial leasing arenas.

Those were not the only qualifications Smith would take to Provident. He was also well schooled in high-technology issues. Knowing computers and software applications have proved invaluable for Smith, the executive vice president of the consumer financial services division.

"After I joined Provident, we started the servicing operation for the bank," says Smith. "The first four securities were serviced by Advanta, but we eventually brought these back." The 18-year-old system his shop had to work with would soon be dispatched to the junkyard to make way for a new online, real-time package from Interlinq.

"We grew the portfolio to \$5.5 billion in securitized loans," says Smith, who has lost none of his early affection for the sea. "We were one of the first to use Fortracs as a default management system tied to Interlinq."

The excellent results at Provident had their genesis in experience at several previous positions, principally at Banc One, where he headed the commercial leasing systems and operations.

"We leased just about everything - from small office equipment all the way up to jumbo jets, and we did about \$2 billion a year." While there, he installed a system that "reduced expenses and increased productivity. The system is still being used 10 years later."

The Leasepak system "was one of the first that actually worked with client-server enterprises.

"It is run mainly from tables established by the

users to set the rules for processing. It is the same basis for the Interlinq servicing system that we converted to here two years ago. It is also an online, real-time system that allows for immediate updates and month-end processing until midnight on the last day of the month."

The system at Provident never leaves his servicing personnel in information limbo more than a few minutes. The situation with the old equipment was that it was updated at night, meaning no new transactions would be inputted until the end of the next day. Now, there are continuous updates.

That's a big issue for a service operation, Smith stresses, because it saves time. "Why make a phone call asking where the payment is, when it's just been posted?"

PCFS didn't reach its efficient, high-tech operational level by divine intervention. Smith and PCFS' first priority

at the company was to persuade colleagues at the bank to go from servicing conforming loans with a ratio of five people handling 35,000 loans to a ratio of 35 people handling 10,000 nonconforming loans.

In meeting the challenge, it helped that Smith had run a subprime auto company where the same issue applied. The objec-

tive of increasing the employee-to-loan ratio was to identify potential problems early and tackle them firmly.

"You have to be the first person these borrowers hear from, and you have to stay in front of them, or they will pay their other bills before they pay their mortgage," explains Smith.

Initially, his servicing shop had one collector for every 600 active accounts, which the systems conversion and some other improvements has raised to 900, and one hard-core collector for every 150 accounts more than 60 days past due.



Joe Smith

Despite the added staff overhead, he says, "We were still able to show a very profitable servicing operation." Also, his shop was able to show a "reduction in 30-plus day delinquencies on a static pool basis versus the servicer of our first four securities. We then worked closely with sales and originations on volume forecasts to staff 90 days ahead of volume so we could be trained when the additions arose."

The final project in building the servicing operation was establishing loss-forecasting and loss-mitigation management.

He says he had to convince the bank, analysts, etc., that loss severity and the use of short sales along with early foreclosures was the way to manage loss.

The loss-mitigation plan at PCFS with nonconforming customers is to work accounts aggressively. The goal is to keep the accounts current, using a number of steps:

- Do a "hello" call on all new loans.

- The first call at five days past due, and there's a follow-up every two to three days until payment arrangements are made. (His shop uses a predictive dialer for the hello calls and accounts one to 29 days past due.)

- Send the usual notices and use billing statements. (PCFS has established a call center at the University of Cincinnati for the "hellos" and 1 to 29 days past due accounts.)

- "Intent to Foreclosure or Demand Letter" is sent at 31 days past due, unless needed sooner, for first-payment defaults or refusals to pay.

- Begin foreclosure 30 days later. (Selected campaigns on the dialer as well as manual calling are used on 30+ past due accounts.)

- Begin loss mitigation with a recovery account at 60 days. Now that the account is referred, see if that got the borrower's attention and he's willing to work with you. If not, file with attorney at 70 days past due and loss mitigation tries and workout the loan.

Loss mitigation uses many tools, including deferments and forbearances. The major objective is the borrower is either in a plan workout or has the house up for sale. If neither, then fast-track the foreclosure because there is probably a valuation issue.

"Non-conforming borrowers past 90 days are rare to get back on

track without working with them. Our cure rate out of the 60-to-90 day buckets is around 65 percent using loss mitigation.

"Being part of a bank, and with security accounting, we are not able to do replacements, etc., into securities," Smith says. "We must leave delinquent loans in the portfolio until they are liquidated or resolved."

The regulatory restrictions compel the bank to do whatever it takes to keep a loan from going REO, a very expensive situation, says Smith. "You also don't want to lose a loan and have to pay off because the borrower went and got refinanced or sold the home. The reason for that is that it stops that loan in the security - and there are triggers set in the security against prepayment."

Today's economic environment, Smith notes, places lenders between a rock and a hard place. "You have all the good customers out there trying to refinance to a lower rate, and then on the downside you've got a lot of loans that aren't performing. A lot of the borrowers will go out and get refinanced or they'll sell their homes, and those are also prepaids. When you ultimately sell it in real-estate owned, it is a prepay as well as a delinquency."

What to do? "Well, the best solution is to get the loan performing again. Our process is designed to either get it performing or get it off the books as soon as possible," he answers.

Loss mitigation is also where Smith tries to prevent any possible predatory lending and fraud problems, a major concern for Provident, which has what it calls a "fraud unit." It's spurred to action when the company finds there's something wrong in the origination of a loan, which it might have bought from a correspondent or broker.

The fraud team may discover a fraud as well as a scam, such as property flippings or low property value. "You may find," Smith says, "that the investors buy it today for \$30,000 and sell it to John, another investor, tomorrow for \$40,000. He's going to sell it, and in a week's time we'll have a value up from \$30,000 to \$90,000. "These transactions do not have a cash value. They do have inflated appraisals and sometimes unethical companies involved. By the time it is done, a \$30,000 home has a \$72,000 mortgage (80%)

and \$42,000 in cash back to the investors as well as their original \$30,000."

Of no less concern is a predatory-loan situation, says Smith, whose hobbies include sailing and rugby. One case he's dealing with involves children preying on their parents. The children had power of attorney, and they set up a refinance and cash-out, leaving their "mother, who isn't quite altogether there, high and dry, and wondering what the hell's going on. That would be considered predatory."

Smith addresses such incidents by pulling the loans out of the securities, paying the security off and writing the loans down from a "10 or 11 percent interest rate to a 7 percent rate because they are elderly citizens who have been taken advantage of."

Regardless of who swindles senior citizens, Smith says, with a foghorn chuckle, "The last thing I want to do is to be taking a disabled person or an elderly person's house from them."

The media have been loaded with stories about the industry's merger frenzy. Smith has not felt its effects, but Provident's origination unit has, particularly because GSEs are "buying deeper" - approving loans with a low credit score at a loan-to-value ratio of 70% at a 7.85% interest rate.

"I was originally worried about the GSEs' practice because, at first, they were leaving it with their conforming servicers to handle the loan. I think they very quickly have seen the potential pitfalls in that, and they now are going out to specialized servicers - and non-conforming servicers - to handle these loans."

PCFS does have a separate subservicing operation in Atlanta that uses these same processes and supports several large outside investors. **SM**

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