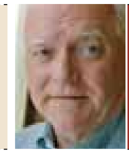

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Managing the Rising Tide of REO Bulk Sales

Mortgage bankers can improve their portfolios' efficiency and value with segmentation

Last year, the Federal Housing Finance Agency (FHFA) began to consider selling Fannie Mae and Freddie Mac's inventories of real estate owned properties (REOs) through bulk sale, a potential course of action that has put a spotlight on the practice of segmenting bank-owned properties based on risk and value for bulk sale. With a combined inventory of more than 1 million delinquent loans on their books — many of which could end up in foreclosure — Fannie Mae and Freddie Mac's traditional marketing channels could soon be swamped if the FHFA goes through with its plan.

Bulk sales of this size almost certainly will remain the province of government-sponsored enterprises and only the very largest banks. Facilitating bulk sales is only one application of a loan segmentation strategy, however. More and more lenders, servicers, investors, mortgage insurers and mortgage bankers are turning to segmentation to bolster the efficiency and value of their portfolios. Whether applied to individual or bulk assets, segmentation models are extremely valuable for both large and small servicers, as investors will only benefit by lowering their losses.

To meet the demand, new software programs are coming on the market that are powerful portfolio risk-management, pricing and operational tools. Some real estate segmentation models, for instance, can look at losses, costs and timelines to provide information that is useful to investors buying and managing bulk REO portfolios. For instance, a model may analyze a portfolio's expected return across a variety of times frames — 90 days, 120 days or even longer.

Certain real estate segmentation models for bulk properties can be used by investors to forecast prices and to market to current portfolios — functionalities that may be extremely useful. In today's changeable and highly localized real estate marketplace, one of the most difficult challenges many servicers face is determining when and how to market their REO inventory to individual homebuyers or other investors.

Segmentation can help mortgage servicers, investors, hedge funds and mortgage insurers to determine the best marketing or disposition strategy for an REO portfolio. These strategies may include rentals, holds, quick sales, repairs, donations or auctions, based on market and property data. By reducing their costs, lowering their severity numbers and exceeding all compliance requirements, loan and real estate segmentation models can help servicers separate themselves from the competition.

Loan segmentation strategies also can help servicers better manage their portfolios, but often with a different result. For mortgages that have been delinquent for 60 days to 120 days, these programs can help servicers assess their options based on information about the borrower and the loan. Loan segmentation software helps to channel loans through either a liquidation strategy or a retention strategy, based on data variables from the loan and the borrower.

Segmentation software can expedite the traditional delinquency time by as much as several months. As more and more servicers adopt segmentation strategies, software tools may become even more useful across the spectrum of loan types in lenders' and investors' portfolios. •

Steve Cook is managing editor of Real Estate Economy Watch and UPI Real Estate, Web-based news sites covering the residential real estate marketplace for professionals and consumers. Real Estate Economy Watch was recognized as one of the best real estate news sites by the National Association of Real Estate Editors. Cook also provides communications-consulting services and was vice president of public affairs at the National Association of Realtors. Reach him at scook@commsconsulting.com.

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