PROPERTY PRESERVATION EXECUTIVE FORUM
A Five Star Institute Membership Group

SUMMER 2021

Property Preservation Review

CHAIR LETTER

Welcome,

As we arrive at the halfway point of 2021, we continue to see concerns arise because of COVID-related moratoria. It remains imperative that we work together as an industry to resolve these issues now while we await the inevitable industry wave that will hit when those moratoria are lifted.

Construction materials and labor costs have increased significantly in the last year, adding to the strain on our industry. When the pandemic began, manufacturers scaled back production due to safety and social distancing requirements. At the same time, consumers began making improvements on their homes while they were stuck there, unable to spend money on other discretionary purchases, such as travel and vacations. The resulting supply and demand issue saw material costs skyrocket.

Cost estimators are designed to calculate based on current pricing. With costs rising every day, even a brief lag in pricing updates can be cause for concern. By the time an over-allowable is approved, the pricing may no longer be sufficient. As a result, money is often lost and work may not be completed in a timely manner, causing issues for all stakeholders involved.

In recent discussions with servicers, we were able to identify a few of their biggest concerns regarding property deterioration in the wake of COVID moratoria:

- Guidance on inspection requirements regarding property deterioration has been vague
- Potential unknown vacant properties may lose insurance proceeds based on the date of loss
- Code violations may be issued on potential unknown vacant properties now that grass is growing

As our clients and business partners face these concerns, we must continue our outreach and research to find clarification and help alleviate some of these concerns.

With 2021 Q1 reporting, New York changed its registration and reporting requirements related to delinquent and vacant properties. This change includes the requirement that any property that is delinquent for 90 days must be reported, and if maintenance is not being performed on the property an explanation is required. This is an easy way for code officers to target properties. There are questions about borrowers in forbearance plans and whether that delinquency should apply to them. In addition, there is some confusion related to the fact that if a property is occupied, servicers will not perform maintenance on it.

We are working diligently to gain clarity on these issues so that we can protect the assets of our clients while continuing to keep our neighborhoods safe.

Best regards,

Caroline Reaves

Caroline Reaves
Chairwoman of the Board, MCS

INDUSTRY INSIGHT

To Protect and Preserve

Even in tough times, mortgage field services providers adjust to deliver quality.

By Tim Rath

Protecting and preserving properties is imperative to ensuring communities do not become overrun with blight and properties remain secure. In the early stages of the COVID-19 pandemic, mortgage field services providers were challenged with maintaining these consistent, high servicing standards. As states began issuing stay-at-home or shelter-in-place orders, they had to address issues in the field as they arose and complete work in areas where it was not prohibited completely.

Now that we are halfway through 2021 and health orders are being lifted in states across the country, mortgage field services providers need to shift their focus on three key areas of their businesses to ensure mortgage servicer portfolios remain secure and protected. The FHA conveyance process, in addition to mitigating book loss while ensuring quality results, and scaling for volume are some areas that would benefit from streamlined processes as properties emerge from forbearance.

FHA: How to Successfully Convey a Property Within 30 Days

The FHA Single-Family Housing Policy Handbook requires a handful of very specific conditions in which the property must be before conveying the loan back to HUD:

- The property is undamaged by Big 6 damages
- The property is secured and, if applicable, winterized
- All insured damages including theft and vandalism are repaired per the scope of work
- Interior and exterior debris are removed, and the property is in broom-swept condition
- The property's lawn and all vehicles and any other personal property are maintained
- The property has a good and marketable title

Before the foreclosure sale, if your disposition strategy takes the property down the path of conveyance back to HUD, then the goal should

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"To Protect and Preserve" continued from Page 1

become getting the property into conveyance condition apart from debris removal, before the foreclosure sale.

Once the foreclosure sale is held, debris is removed, and the property is ready to convey to HUD. Servicer generated allowable(s) to cure extenuating conditions such as mold, roof, and water reduce the risk of further damage and elongated timelines.

Repairing Big 6 damages concurrent to the conclusion of a hazard insurance claim once the adjustor has been dispatched to the property coupled with an allowable for supplement claims greatly reduces the timeline post-sale.

A Simple 5-Step Approach

Step 1: Initial Secure—Address all conditions pre-sale apart from debris to increase on-time conveyance by a large margin

Step 2: Damages—Identify and document all damages.

Step 3: Claims—Repair concurrent to the claim conclusion proceeding the adjustor's visit

Step 4: Allowables—Provided for issues such as mold, roof, and water rather than walking away from the property and risking further damage

Step 5: Disposition—Capitalize on an opportunity where gains are possible. (i.e., good property, buy and rehab; off-set losses on other properties)

Mitigating Book Loss

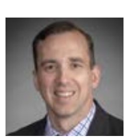
Paying for property preservation services but not being able to claim the expense to the insurer or investor is a top concern for mortgage servicers. There are several specific processes that lead to book loss that can be improved.

- Over-allowable requests sent to HUD (MCM) getting denied for non-timely foreclosure: The best practice we have seen is designating a specific point of contact to receive these denials, ensuring clients have a workload system so they can track the open requests to their attorney network. Once the chronology is returned, have someone carefully review, add in servicing details (bankruptcy, loss mitigation activity, etc.) and make sure all time periods are covered. Ensure it is complete before appealing the denial.
- Incomplete assessment at first entry: All liability shifts to the mortgagee upon first entry into the property. You either document it or you pay for it. Safeguard has stood up a practice where we complete a second, independent review of initial secure work orders 45 days after the first review. We are confirming that the secondary processes of bids, appeals, and damages were completed fully and accurately, and revalidating the complete assessment.
- Bid after the fact (BATF): Given all the rules at play and the possibility of having multiple orders open at the same time, it is possible to run over allowable limits unintentionally. We have stood up practices to systemically check investor set limits versus expenditures and proactively launch over-allowable requests to cover the expense.

Scaling for Volume

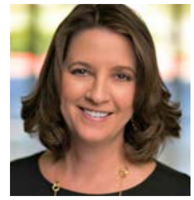
Over the past few years, there has been a significant downturn in volume, allowing time to adjust business practices and prepare for fluctuations in the market. It also has been an opportunity to adjust processes for the latest crisis, the COVID-19 pandemic. Mortgage field services companies have scaled their vendor networks in anticipation of the pending volume. To do so, they have implemented the following processes.

- Streamline Vendor Onboarding Process
  - Introduce an expedited vendor program that allows vendors to immediately sign up and access orders same day
  - Roll out a quick start insurance program, which allows potential vendors to test working within the property preservation industry before meeting required insurance thresholds/requirements
  - Reorganize the credentialing process to get vendors into an active network quicker, while also ensuring that they have the necessary tools and information to succeed in the field
  - Partner with a third party to provide background checks for vendors, eliminating the need for them to obtain on their own
- Enhance Technology for Vendors
  - Make enhancements to optimize the vendor-facing website
    - These changes help the vendors navigate themselves through the onboarding process
  - Create an online learning portal to allow vendors to self-learn processes and mobile applications on their own time instead of via scheduled facilitated conference calls
- Increase Vendor Recruiting Efforts
  - Partner with new third-party recruiting companies to assist with the onboarding of vendors in areas that have been challenging in the past
  - Tap into multiple, innovative new channels to recruit talent across the U.S. and Puerto Rico



Tim Rath *is the Assistant VP of Business Development for Safeguard Properties. He can be reached at tim.rath@safeguardproperties.com.*

MCS CEO Caroline Reaves Announces Retirement



July 1 transition plan moves Reaves to Chairwoman of the Board.

Mortgage Contracting Services (MSC) has announced the retirement of longtime CEO Caroline Reaves. She will become Chairwoman of the MCS Board, while Chief Relationship Officer Chad Mosley has been promoted to President of MCS.

"Chad and I have been working together on a transition plan for quite some time," Reaves said. "Our primary focus has been on creating a smooth transition that ensures MCS will continue to deliver exceptional service to our clients. Effective June 1, 2021, Chad will assume day-to-day responsibility for the company, and on July 1, 2021, I will officially retire and move up into the role of Chairwoman of the Board."

Mosley has been with the company for 13 years, and as Chief Relationship Officer, he has overseen all of MCS' customer-facing functions, including management of MCS' client teams, as well as the company's Business Development and Marketing functions. Previously, he served as COO and SVP of Business Development.

"We are also beginning an internal and external search for a CEO who will lead MCS into the future by allowing us to focus on our core field services market while also quickly growing our adjacent markets," Reaves said. "This new structure will allow a specialized team to focus on more targeted development in this area while ensuring that the field services business that has defined MCS for so many years remains successful."

The new role for Reaves will allow her to step away from her current day-to-day duties while maintaining the continuity of the leadership team that MCS has had in place for over a decade.

"While I will certainly miss the daily involvement with the business, I am so looking forward to this next chapter in my life with family, faith, and friends," said Reaves. "Having the ability to focus on those things while continuing to be involved in the business provides me with the best of both worlds, both personally and professionally."

Mosley added, "This is an exciting time for Caroline, and I want to thank her for all she has done for MCS, our clients, and our team members. Her leadership has set a high standard, one we're ready to follow."

INDUSTRY INSIGHT

The Impact of Building Material Pricing and Availability on the Mortgage Field Services Industry

Supply chain challenges can lead to opportunity with flexibility and perseverance.

By Jim McDermott

As we navigated through the economic impacts of the COVID-19 pandemic, the mortgage industry has fought first and foremost to keep people in their homes. Now, a year later, as more vaccinations are becoming available and more businesses are reopening, we are starting to see the light at the end of the tunnel. However, many in our industry will be feeling the effects of the pandemic in the longer term. Specifically, mortgage servicers will be facing a variety of challenges due to massive disruptions in the housing supply chain.

Challenges Ahead for Mortgage Servicers

The pandemic shutdowns understandably snarled the global housing supply chain, escalating material costs, delaying shipments, and creating a shortage of key commodities for the property preservation industry such as lumber, steel, insulation, and much more. Against the background of this disruption, servicers are likely to encounter additional pain points in the industry including:

- 2021 conveyance targets
- Increasing permit pricing and delays
- Competitive retail construction industry taking qualified labor
- Pricing limitations due to industry quality standards
- Demands and liability on work performed
- Moratoria being extended

As we prepare for moratoria to end, existing shortages and cost increases could become exponentially more visible across the board at higher volumes. Some vendors and manufacturers have reduced their territories while others have had to make the difficult decision to exit the business altogether. Costs associated with field services such as E&O and Workers Compensation insurance can make it challenging to maintain an operation with reduced volumes. In the meantime, the companies who have drawn from their reserves to keep active are finding it difficult to hit industry timelines as they wait for enough volume in geographic areas before traveling to complete the orders, thus creating a compound effect on timeliness and services. While it is too soon to tell, there could be repercussions down the line where we may see a more limited roster of vendor partners.

Zooming in on Material Pricing and Availability

The three main factors in ongoing material shortages are an outsized demand for new products, pandemic-related implications on manufacturing, and concurrent demand for new homes. Additionally, changes enacted with manufacturers and in warehouses to keep workers socially distanced and safe may have further interrupted or changed production timelines. If products or components come from overseas, freight is another significant obstacle with an imbalance in imports and exports creating a shipping container shortage. For the mortgage field services industry, all these factors can put a strain on the timely execution of inspections, repairs, and ultimately preserving a property.

We are seeing record-high pricing for materials. Random Lengths, a market and research firm focused on the lumber industry, saw lumber shoot up 232% in April with the price per thousand board feet of lumber reaching an all-time high of $1,188. Across all categories, prices paid for goods rose by 6.8% over the 12 months ending in January 2021, according to the Producer Price Index report by the Bureau of Labor Statistics.

Not only have materials risen erratically in price, but a shortage in skilled labor emerges as another hurdle. Existing skilled workers have driven up labor pricing, fostering a competitive cycle of demand. While we are seeing this shortage of skilled labor across all industries, there is hope for an influx of interest with economic recovery and those seeking opportunities as the world opens up again.

Creating Capacity as Moratoria Lift

While these challenges exist, if we can stay flexible and be proactive, the road ahead is bright. To achieve this, our industry will need to adjust long-accepted practices and consider the following:

- Work in partnership with HUD and government-sponsored enterprises to review data for increases in defined allowable expenses such as board-up pricing, roof repair, doors, framing, and window reglaze and replacement
- Keep the supply chain healthy to increase capacity. Companies should consider increased cost during bid reviews, work with cost estimate providers to accurately reflect bids/estimates with region-specific spikes, consider how the industry can work collectively to keep vendors going, and streamline connections with cities and other authorities that have jurisdiction to enforce codes in addressing violations and issuing permits to improve compliance and timeframes
- Determine the potential for HUD to increase the conveyance timeframe. This change will help improve servicer compliance, reduce MCM labor costs for extensions and over allowable appeals, lower the risk of unrecoverable expenses and shorten the timeframe to get properties on the market and new occupants in the home

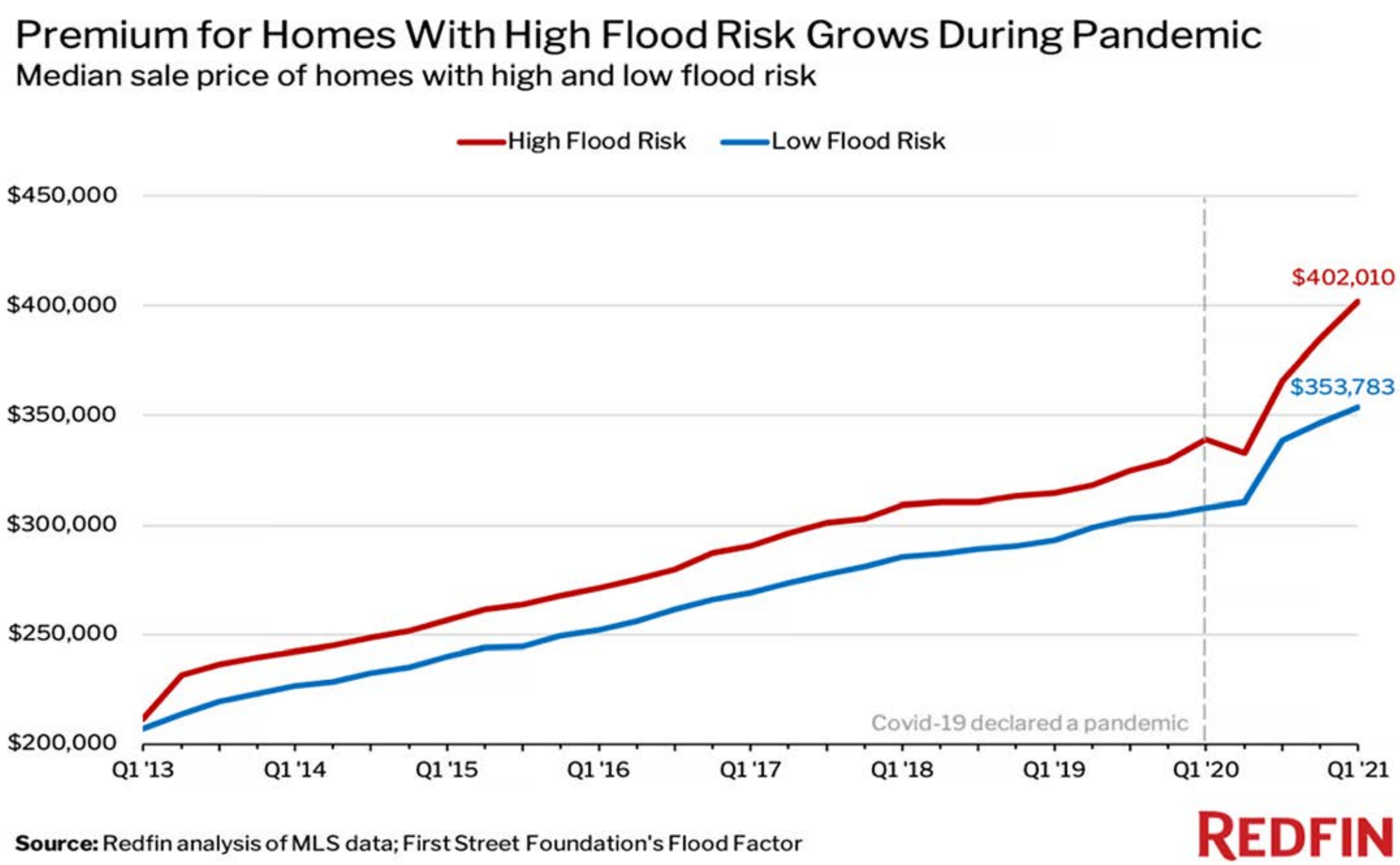
As material pricing and availability continue to fluctuate and moratoria lift, servicers face many challenges. However, we expect we will get to some level of normalcy with outsized demand stabilizing and the supply chain recovering. Moving forward, servicers must take more ownership of their roles in the supply chain by remaining nimble and optimizing bid pricing and estimates.

***Jim McDermott**, SVP, Property, Valuation & Data Services for Xome. With more than 25 years of experience, McDermott is a seasoned leader with expertise in various facets of the mortgage industry. In his role, McDermott oversees strategic direction for Xome's Field Services, Valuations, Data Analytics, and Recapture Solutions teams*

INDUSTRY INSIGHT

Premium for High-Flood-Risk Homes Rose During Pandemic

Pandemic-abandoned coastal homes hold appeal for those seeking waterfront property, prices at a premium.



Much has been reported on homeowners' pandemic-year migration trends, mainly that they are leaving expensive coastal areas for more affordable locales. But a subset of home shoppers is seeking out that expensive beachfront property they have always wanted, and not only are these homebuyers taking on more risk, they also are paying much higher prices than homebuyers in areas at less risk of flooding.

This is according to a Q1 Redfin report, which showed the median sale price of homes with high flood risk was $402,010 in the first quarter of 2021, compared with $353,783 for homes with low flood risk. Since 2013, homes with high flood risk have sold for about 7% more than homes with low flood risk on average, Redfin reported, likely because many of them are luxury waterfront properties.

"Americans are buying the beach houses they always dreamed of because they have the flexibility to work from wherever they want," said Redfin Senior Economist Sheharyar Bokhari. "While flood risk is intensifying in many parts of the country, it doesn't seem to be a deal-breaker for a lot of homebuyers. This may be because buyers are not aware, they are purchasing a home in a flood plain, or just do not view it as an immediate danger. Places with high flood risk are also often home to large concentrations of retirees, many of whom do not see climate change as a threat they need to worry about in their lifetime. Florida is one example."

While home prices and sales growth are both higher for high-risk homes, homes with low flood risk are more likely to fetch more than their owners ask for.

In the first quarter, 47.2% of low-flood-risk homes went for more than they were listed for, compared with 37.4% of high-flood-risk homes. That 9.8-percentage-point gap is the largest on Redfin's record, dating back to 2013.

Places that are prone to flooding are also seeing stronger growth in home sales. Sales of high-flood-risk homes rose 18.6% year over year in the first quarter—about double the 9.6% gain in sales of low-flood-risk homes.

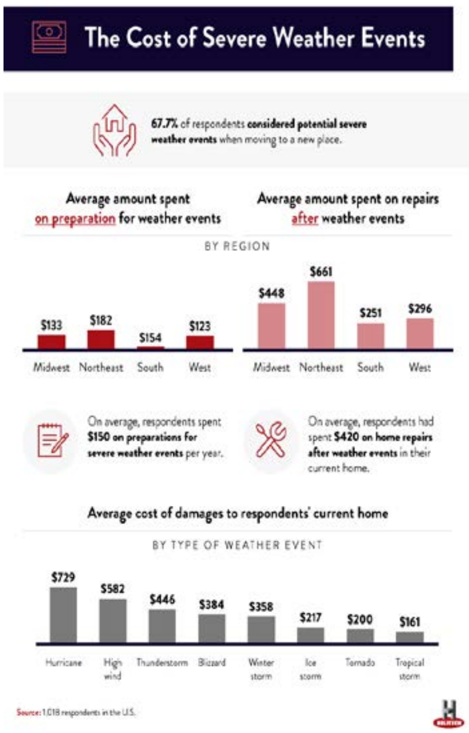
Properties with low flood risk typically cost less than properties with high flood risk because they are less likely to be on the beach with waterfront views, one Redfin agent explained. "Because low-risk properties are more affordable, they face more competition, which means buyers are more likely to bid up the prices."

Other research has shown that many homebuyers consider flood risk when looking for a home, and one in five homeowners has invested in making their home more resilient to flooding, according to another Redfin survey.

NEWS BRIEF

How Property Owners Prepare for Severe Weather

As severe weather season approaches, climate conditions could spell disaster for homeowners.



The 2021 hurricane season plus general worsening climate conditions could spell disaster for millions of homeowners in the coming months. A CoreLogic study estimates some 8 million homes with more than $1.9 trillion in reconstruction cost value are at risk of storm surge damage in 2021.

The survey from Helitech provides a strategic mix of economic, geotechnical, and structural solutions to residential and industrial clients. The study specifically examines the ways property owners prepare for and react to risky weather conditions and the damage that tends to ensue.

"It's no secret that the housing market has been booming this year, but new property owners might not realize that homes in different states come with different preparations," note the authors of the study. "Severe weather events such as hurricanes, tornadoes, and high winds can cause serious damage to our homes."

From 1,000 respondents, they learned that about three in five people consider potential severe weather events before moving to a new place.

"Severe weather can fluctuate wildly based on where you live," researchers noted. "Residents in Southern California might not need to spend as much time preparing for blizzards as they do for wildfires, and people on the opposite side of the country in Florida might be more concerned with hurricanes than earthquakes."

Respondents reported spending an average of $150 per year to prepare for severe weather and $420 on home repairs after a disaster occurs.

The study found residents in the northeast can expect to spend the most on repairs after an event costing about $661, on average, while residents in the south will spend two times less.

And, true to what we learned from CoreLogic's report, Helitech found hurricanes are the costliest weather event for homeowners and result in an average per household $729 worth of damages.

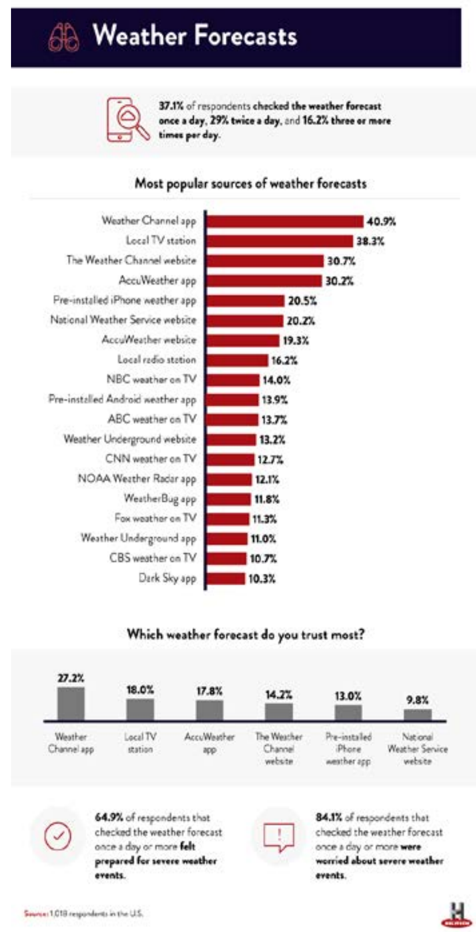
As a threat, hurricanes are followed by high winds, which cost an average of $582 per household; thunderstorms, at $446 per; and blizzards, costing homeowners about $384.

The study examined more homeowner behaviors—for example, it found most respondents said they trust The Weather Channel App to track dangerous conditions, above alternatives.

"Among the more than 1,000 people surveyed, 37.1% of Americans stated they checked the weather forecast once a day, followed by 29% who checked the weather twice daily and 16.2% who checked the forecast three or more times every day," Helitech reported.

One in three respondents said they had at some point refused to evacuate during a severe weather warning and local evacuation recommendations.

And, participants said they were most worried about tornadoes, hurricanes, and excessive heat. The authors point out that while ice and snow conditions were left out of the top three concerns, much of the country in February witnessed a



historic outbreak of winter weather, record-low temperatures, snow, and ice.

Overwhelmingly, people were the least likely to take warnings for frost (44.1%), coastal floods (50.7%), and thunderstorms (67.2%) seriously, according to Helitech.

As CoreLogic experts previously explained, mortgage lenders and financial servicers who are better prepared are positioned to anticipate and accelerate local economic recovery and protect homeowners, by extension protect scheduled mortgage payments, in case of a natural disaster.

Read the full Helitech report at Helitechonline.com.

NEWS BRIEF

Five Common Challenges Servicers Face During the Flood Tracking Process

As severe weather approaches, servicers need to stay vigilant to identify potential risks to portfolios.

By Mark Hanson

On the heels of a year marked by extreme weather and natural disasters, a global pandemic, and record-breaking origination and refinance volumes, those who work in the mortgage industry have certainly felt the impact of these events on their lives and livelihoods. Operating in a business-as-usual manner was not possible in 2020, and likely will not be for quite some time as volumes—though tapering off a bit—continue to remain steady. With experts predicting another tumultuous hurricane season, servicers should work to identify issues that may leave their portfolios open to risks as early as possible, to prepare for the road that lies ahead.

I have been in the flood business for 30 years, and I have seen servicers face many challenges throughout that time. While much has changed in that period, servicers must continually consider the following factors when it comes to managing their portfolios: risk mitigation, streamlining operations, minimizing losses, reducing costs, and elevating the borrower experience. Tools and technology, coupled with a strong flood determination and tracking partner who can help inform decision-making, can help servicers better manage their flood portfolios and make the process more efficient in the end.

"Flood Tracking Process" continued on Page 8

"Flood Tracking Process" continued from Page 7

Here are the top five most common challenges servicers face when managing properties in their flood portfolios, after the initial flood zone determination has been completed and the loan is closed.

1. Large Revisions That Affect the Portfolio

Over the years, the Federal Emergency Management Agency (FEMA) has undergone a map modernization process, improving the products used for making determinations and updating paper maps to digital images. Through the FEMA Map Service Center process, new maps are typically issued on a twice-monthly cadence, with anywhere from five to 10 counties receiving mapping revisions. Of the determinations revised, around 2% to 3% are impacted by an insurance change according to the National Flood Association's annual member survey results (2009-2020). To cite a recent example: Charleston County, South Carolina's maps were revised in January 2021, and roughly 10% of the determinations tracked by ServiceLink were impacted by an insurance change, mapping these properties outside of the required flood zone. That is great news for the borrower in this instance, but that is not always the case. These revisions sometimes mean mapping into a flood zone, which necessitates the addition of flood insurance. One way servicers can ensure they are creating efficiencies for themselves is to keep their portfolios up to date by getting inactive loans cleaned up.

2. Letter of Map Changes for Individual Properties

A Letter of Map Change (LOMC), defined by FEMA as a letter that reflects an official change to an effective Flood Insurance Rate Map (FIRM), can impact a servicer's properties at the address (LOMA) or panel (LOMR) level. Keeping up with these changes can be a challenge, and if multiple properties are impacted in a servicer's portfolio at once, that can increase workload and have a domino effect with multiple borrowers (from a small handful to many more) disputing the change within the same timeframe. By leveraging flood tracking tools and technology, a servicer can stay apprised of these changes in real-time and work swiftly to remediate any issues and help borrowers at the same time.

3. Flood Zone Discrepancies Between the Lender and the Insurance Provider

During the servicing of a loan, discrepancies between lenders and insurance providers can occur which can cause confusion and frustration for the borrower (or other parties involved in the Life of Loan process). Some of the most common reasons for these discrepancies include flood map limitations, differences between available map resources, close calls, and Letter of Map Changes. Diving a bit deeper: during the flood map revision process, entire watersheds encompassing potentially thousands of acres can be included in a singular map revision. For the engineers completing a study, "connecting the dots" between cross-sections can inadvertently neglect to capture natural areas of high or low elevations between benchmarks. These structures that lie on the fringe of the Special Flood Hazard Area account for a great deal of the Letter of Map Amendment applications. In addition, discrepancies between paper and digital map types could result in zoning variations as both types hold the same weight in FEMA's eyes, yet may vary slightly. Lastly, close calls—due to researchers using different mediums to determine a flood zone—and lack of a comprehensive library of historical LOMC data can also cause a difference in determinations. While these discrepancies are bound to happen from time to time, working with a trusted partner can help servicers determine the best portfolio strategy.

4. Evolving Regulatory Requirements

Changes to regulatory requirements and guidelines to flood tracking—such as flood insurance requirements for a secondary structure or the expiration of the flood form and reauthorization of the National Flood Insurance Program (NFIP)—keep many servicers up at night. With multiple channels and sources to stay informed, it can be easy to miss issues that may impact servicers and their portfolios; that is why staying vigilant is key. Signing up for relevant industry newsletters and visiting the NFIP and FEMA sites often for updates can be one small tactic servicers can leverage to stay informed.

5. Notification of Cancellations and Payoffs

Life of Loan is often an afterthought in flood tracking, unfortunately, because if a flood determination provider is tracking the loan for future map revisions, the lender is complying. However, when there is a large map revision that affects the portfolio, tracking additional loans becomes confusing and cumbersome if the lender is being notified of map revisions that are no longer in their portfolio. Maintaining an efficient portfolio tracking process and sending paid-off loan and service release notifications to flood determination and tracking partners on time can help alleviate stress and reduce workloads.

While we cannot control natural disasters or prevent flooding from occurring, we can control our preparedness and response to them. Understanding and keeping up with evolving regulatory changes, addressing today's challenges with tools and technology while keeping long-term implications in mind, and leaning on a trusted partner are all tactics a servicer should consider leveraging on a go-forward basis.

***Mark Hanson** currently serves as the SVP for ServiceLink National Flood. With over 30 years' service in the flood determination and mortgage compliance industry, Hanson can draw upon significant experience and knowledge to facilitate customer and professional needs. His current position involves oversight of business planning, integrations, claims management, facilities, contracts, and order processing. He maintains memberships in the National Flood Association, the Texas Floodplain Managers Association, and the Association of State Floodplain Managers and has been a Certified Floodplain Manager since 2002.*

Altisource Named a Most Valuable Company by *DS News*

Altisource is a leading and trusted provider of a full end-to-end suite of innovative solutions for servicers, originators, and investors in the real estate and mortgage industries. Altisource has been helping companies maximize results, minimize costs, and mitigate risks since 2009. By combining operational excellence and best practices with the company's integrated services and technologies, Altisource's dedicated teams can provide clients with the tailored solutions they need to fulfill the demands of their complex, highly regulated industries on a nationwide scale.

MCS Promotes Chad Mosley to President

With the recently announced retirement of MCS CEO Caroline Reaves, Chad Mosley has been appointed President of MCS assuming daily oversight of the company. Mosley was most recently the company's Chief Relationship Officer.

Safeguard Properties CEO featured in *DS News* July 2021 Cover Story

Joe Iafigliola, CFO, Safeguard Properties is among the experts featured in *DS News*' July 2021 cover story on disaster response. Iafigliola stresses the an early response to damage is critical. "Although the property may already have damage, if we allow the elements to continue to damage the property, it may go from thousands of dollars of damage to a total loss. It is essential to immediately prevent damages from worsening."