



Federal Housing Finance Agency

Fannie Mae and Freddie Mac Joint Servicing Market Survey

Executive Summary

Understanding the Current Mortgage Servicing Market Landscape

The mortgage servicing landscape has changed dramatically since 2008, with the costs of servicing having risen due to a combination of a surge in mortgage delinquencies, increased regulatory oversight, and required investment in technology in order to comply with the new regulatory framework. To better understand these factors, the Federal Housing Finance Agency (FHFA) directed Fannie Mae and Freddie Mac (the Enterprises) to conduct a mortgage servicing market survey.

As part of the 2017 Enterprise Scorecard, the Enterprises conducted the servicing market survey with the aim of identifying current challenges facing the mortgage servicing industry and opportunities to support a deep, liquid, and stable mortgage servicing market. The Enterprises invited 643 industry stakeholders from 278 organizations to participate in the survey. These organizations represented a diverse group of stakeholders including banks, nonbanks, sub-servicers, investors, consumer advocacy groups, and mortgage servicing vendors.¹ In total, the Enterprises received over 220 responses to the survey.² As part of the survey, the Enterprises also conducted targeted interviews with industry executives to gain a deeper understanding of challenges currently facing the industry.

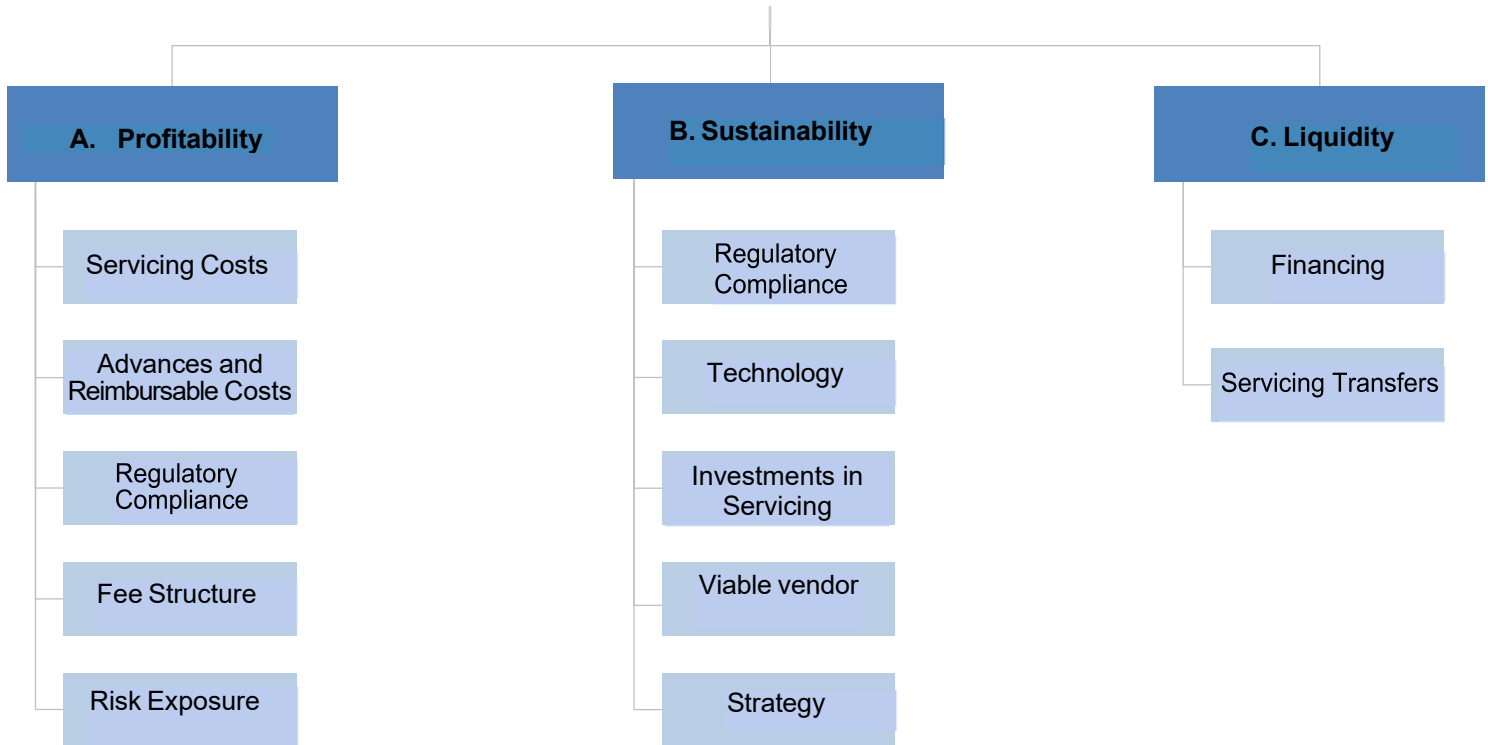
General Themes

Three general themes emerged from the survey results: profitability, sustainability, and liquidity.

¹ FHFA and the Enterprises worked with an external survey consultant to develop a robust combination of closed-ended and open-ended survey questions generating quantitative and qualitative results from respondents.

² When classified by organization type, 45 percent of survey respondents were banks, 37 percent were nonbanks, 7 percent were investors, 6 percent were credit unions, and 5 percent were “other.” According to portfolio size, 51 percent of respondents represented institutions with portfolios with less than 100,000 loans, 31 percent had between 100,000 and 999,999 loans, and 18 percent had portfolios greater than 1 million loans.

Servicing Market Analysis General Themes



Profitability

Continued profitability – including the ability to generate positive cash flow from operations, manage costs, and maintain compliance with laws and regulations – was a main concern for respondents. More than 90 percent of respondents reported that regulatory compliance was the largest factor in rising servicing costs. Most respondents attributed these higher servicing costs to the need for additional compliance staff to address requirements imposed by regulators and investors.

Respondents also pointed to inadequate compensation for default servicing and foreclosure prevention measures as a threat to profitability. Survey participants emphasized that the current flat fee structure has failed to keep pace with a servicing market where servicing costs for delinquent loans have risen to five times larger on average than for performing loans.

Sustainability

A sustainable servicing market is characterized by the ability of servicers to maintain and grow their portfolios in an expanding market and contract dynamically as market demands decline. To gauge market participants' commitment to the industry, the survey sought to explore short- and long-term plans for future growth. The survey also focused on challenges to growth, and whether policy alignment by Fannie Mae and Freddie Mac has improved mortgage servicing efficiency.

Overall, respondents indicated that they planned to increase their performing loan portfolios. Nonbank respondents stated they planned to be more aggressive in their growth by increasing their performing portfolios significantly within the next year or two.³ For those servicers who indicated they did not plan to grow their portfolios, they pointed to the higher cost and increased resources needed to effectively service non-performing loans.⁴

The survey also solicited feedback on the impact of the Servicing Alignment Initiative (SAI). A majority of respondents indicated that the policy alignment has been beneficial by creating symmetry in Enterprise servicing policies. However, there was general consensus that policy alignment does not, by itself, mitigate the need to staff distinct servicer teams because operations differ enough between the two Enterprises.

Liquidity

An inability of financial institutions to manage their servicing portfolios in an economically efficient manner could jeopardize their capacity to withstand a market downturn. With this in mind, the survey asked respondents about whether market liquidity needed further support. There were notably different answers to this question between regulated and non-regulated institutions – mostly with respect to mortgage servicing rights (MSRs). While MSR financing is not a major concern for depository institutions (as they typically do not rely on external financing),⁵ nonbanks and smaller servicers noted that the cost of capital was a key concern impacting MSR liquidity.⁶

Respondents further signaled that broader market adoption of uniform data standards would promote the liquidity of MSRs by allowing market participants to adopt more uniform technology platforms and implement more standardized compliance frameworks.

³ Nonbank respondents stated that they would include non-performing loans in their portfolio growth.

⁴ The survey showed similar trends among sub-servicing portfolios, with larger banking institutions planning to increase performing and decrease non-performing sub-servicing portfolios. FHFA and the Enterprises expect to continue to research concentration by market participants in sub-servicing.

⁵ Depository institutions cited capital requirements associated with Basel III as a significant challenge.

⁶ Nonbanks indicated the risk of holding MSRs in volatile markets is difficult without in-house expertise and hedging techniques to mitigate risks.

Next Steps in 2018 and Beyond

The Enterprises' market survey is the first step in producing a multi-year strategic plan to seek opportunities for the Enterprises to improve liquidity, efficiency, and the borrower experience in mortgage servicing. The market survey results will help inform FHFA and the Enterprises in this process. The focus for 2018 is to build on the survey assessment by researching potential solutions for increasing the efficiency of the servicing market in a safe and sound manner. Areas of inquiry may include the current servicing compensation structure, technology enhancements to support servicing operations, and data standardization.