

LESSONS LEARNED:

WHAT THE 2008 MORTGAGE CRISIS CAN TEACH US



Mortgage
Industry

**Pandemic
Summit**

Hosted By



MAY 6

12:30 p.m. – 1:30 p.m.

Ben Purser – *Chief Risk Officer, RoundPoint Mortgage Servicing*

Gagan Sharma – *President and CEO, BSI Financial*

Michael Waldron – *Managing Director and Chief Compliance Officer, Bayview Loan Servicing*

David Griege – *Chairman, Paramount Bank*

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DAVID GRIEGE
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LESSONS FROM THE LAST CRISIS

BEN PURSER

Chief Risk Officer

RoundPoint Mortgage Servicing

2008

- Economic issues centered in housing and related industries and spread from there
- Much looser lending standards in preceding years
- “Too many” foreclosures
- Operational issues and capacity at servicers
- Limited regulatory focus on or knowledge of servicing operations
- No standardization of loss mitigation practices

2008 Response What We Got Right

- **CENTRALIZED AND COORDINATED GOVERNMENT RESPONSE**
 - TARP
 - Office of Financial Stability
 - Close Coordination with FRB, Housing Agencies
 - MHA offered standardization of loss mitigation practices
 - Industry engagement
 - Varied programs for different industry sectors
 - FRB had additional programs

2008 Response

What We Didn't Get So Right

- Too many program changes
- Stated income switching to documentation required
- Expectations of servicer capabilities for change
- Trying to solve every problem
- Too much emphasis on “moral hazard”

2008 vs. Today Compare and Contrast

- Economic impact is universal and much more extreme
- We have solved the “too many foreclosures” problem
 - At the expense of servicer liquidity
- “Stated need” forbearance is actually a good idea
- Patchwork state and federal approach with no centralization or significant oversight mechanism thus far
 - States “urging” actions is not helpful as it creates confusion and lack of consistency and allows for different treatment via investor guidance
- Programs announced even earlier in the “build” process, which also creates confusion



2008 AND NOW: COMPARE AND CONTRAST

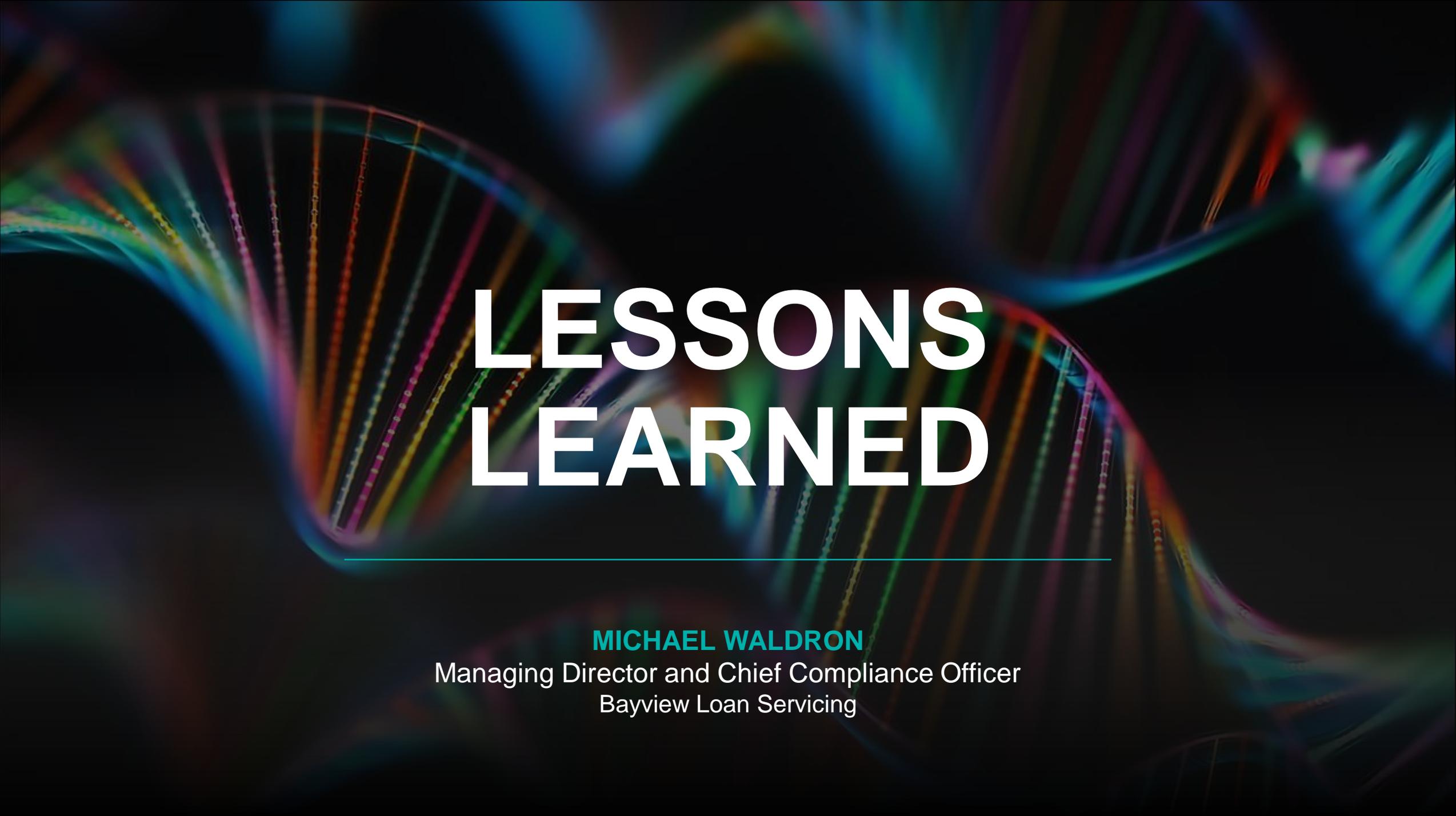
GAGAN SHARMA
President and CEO
BSI Financial Services

2008: Events & Challenges

- Over leverage in housing led to an economy-wide financial crisis
- Events unfolded over 12-24 months from 2006 to 2008
- Government programs evolved over the following three to four years, including TARP, loan sales by GSEs/HUD
- Frequent changes to guidelines from federal and state level for servicing
- Tighter control over lending over the last decade
 - Better documentation, more equity
- Industry has invested in technology over the last decade
 - Digital, mobile tools for borrower communication
 - Greater use of automation

COVID-19: Our View

- Similar to a natural disaster but nationwide
 - Industry has a playbook, but this is bigger and deeper
- Speedy response by various government agencies
 - Evolving answers on servicer liquidity and post forbearance scenarios
- Key risk will be the medical result of search for vaccine/ treatment
 - Impact on duration & severity of state lockdowns
 - Impact on unemployment (permanent vs. temporary)
 - Impact on borrower income in the “new normal”
- Important for industry to educate regulators and consumers/media
 - Common goal of foreclosure prevention & sustainable homeownership



LESSONS LEARNED

MICHAEL WALDRON

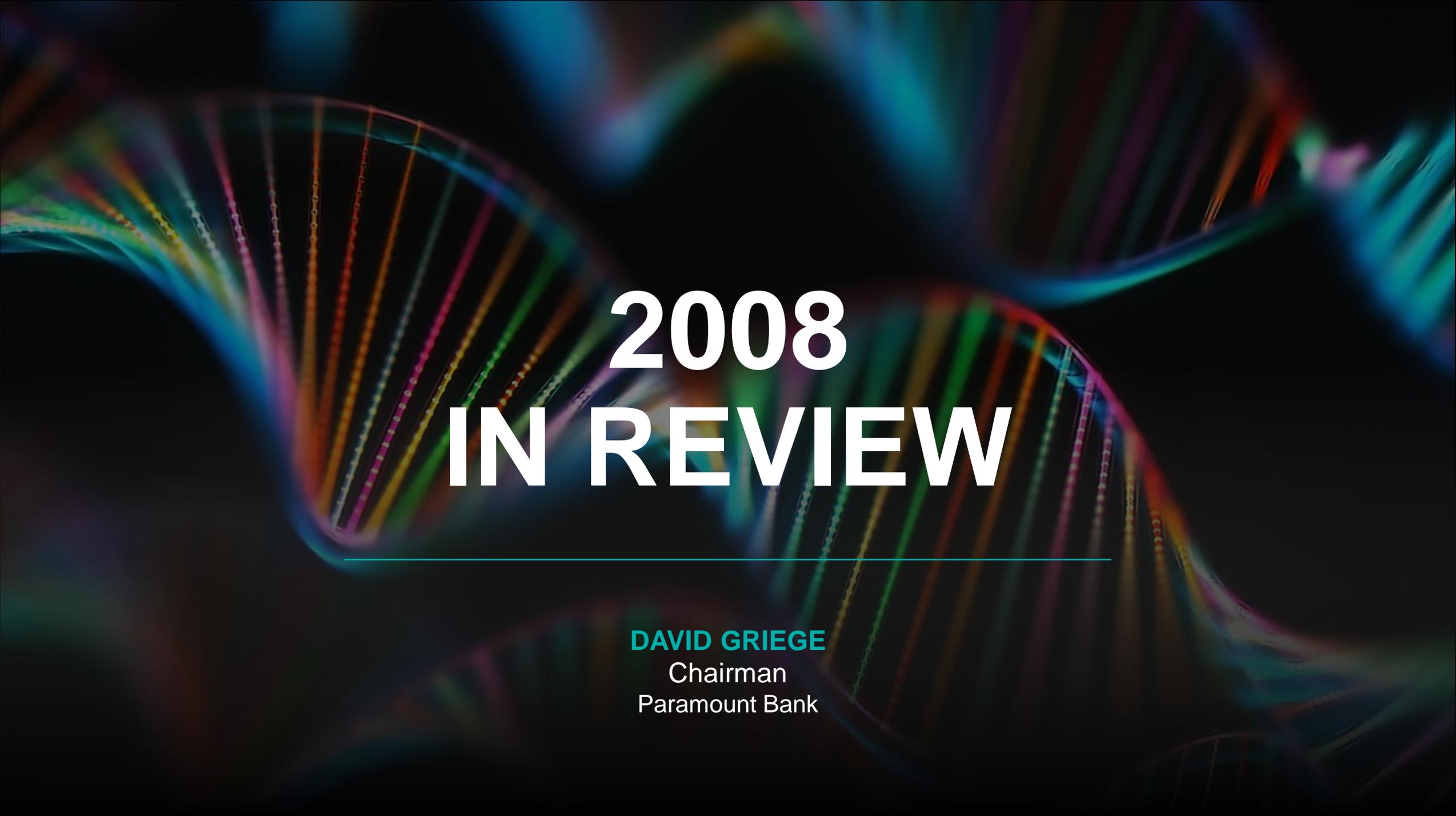
Managing Director and Chief Compliance Officer
Bayview Loan Servicing

LESSONS LEARNED

- What the Implode-O-Meter Taught Us
- Look-backs and Servicer Settlements
- The CFPB Effect and Regulatory “Stability”
- Investments in People, Process and Technology

LESSONS LEARNED

- Industry Cohesiveness/Cooperation
- The Importance of the Customer – Customer Education and Empowerment
- The Power of the Playbook
- Top of the Waterfall – Compliance Management Systems
- What We Failed to Learn



2008 IN REVIEW

DAVID GRIEGE
Chairman
Paramount Bank

In 2008,
underlying economy
was much weaker as
compared to 2020
pre-crisis:

- **UNEMPLOYMENT RATE WAS 7.3% AND GREW TO 9.9% IN EARLY 2009**
 - GDP was -0.1% and worsened to -2.5% in 2009
 - Massive overleverage and speculation in the real estate market
 - Top 4 banks controlled a significant percentage of the mortgage marketplace, including mortgage servicing
 - Pre Dodd-Frank so there were very few barriers to entry in the mortgage industry
 - Aggregators and warehouse lenders disappeared overnight

WHAT HAVE WE LEARNED

- **2008 EXPERIENCE MADE US BETTER LEADERS TODAY**
 - Communicating better and more often
 - Being proactive vs. reactive in all respects
 - Using improved technology to track and monitor risks
 - Learning from the past makes it easier to say no to loan officers and borrowers
 - Don't originate loans unless you have multiple outlets
 - Vendor management and due diligence is critical

GOING FORWARD...

- **BIG ADVANTAGE WORKING DIRECTLY WITH THE AGENCIES:**
 - Fannie, Freddie, GNMA and FHLB
- Consider diversifying your warehouse lenders by including community banks in your area
- Preserving capital is crucial and add more if you can
- Just like in post 2008 crisis, there will be significant consolidation among banks and independent mortgage bankers and/or brokers
- Tremendous opportunity for the survivors

Q&A



**THANK YOU
FOR ATTENDING**

