



White Paper:

Increasing Portfolio Value and Reducing
Risk by Perfecting Loan Collateral and
Document Custody



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Every loan has a value at origination. The loan officer makes their commission, and based on the secondary market, the investor pays for a loan in accordance with the underwriting basis for which it was closed. This value should survive the life of the loan—but we all know it may not. Sure, the value may be impacted by a refinance for a better interest rate or default by the borrower, and this is taken into account based on statistics. However, there is an exposure that exists with the condition of the collateral file, which is not often taken into consideration up front. Having a solid process of tracking and maintaining (at a minimum) of the mortgage note, recorded mortgage and title policy at origination is key.

Of course, in a perfect world, you would originate all of your loans and have that process put in place. Now enter the complex world of mortgage banking, where your portfolio was not self-originated, rather acquired or purchased. Then add into the equation that your purchases include re-performing or non-performing assets. Again, if the collateral file is the underlying basis of your loan value, how do you manage to a complete and perfected file regardless of the origination source?

In this paper, we will discuss some of the problems we are seeing in this area today, the risks this presents to industry players, and what a better solution would look like.

The growing need for a more complete custody process

Before the financial crash, investors focused their loan origination requirements on a solid loan underwriting process. The assumption was that a good process would reduce the risk of loss should the borrower have a problem. We all know that this wasn't the case, and suddenly, the collateral file became the most important factor to sell a loan, foreclose or even successfully release the lien. The problem was, while everyone was focused on the underwriting factors, the collateral file management was a secondary afterthought at best.

Since the crisis, the needed controls on managing a perfected collateral file have become more of a priority at origination, but we are still seeing literally hundreds of thousands of collateral

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files with important documents missing, sometimes even the promissory note. Regardless of whether or not you know the condition of the file, a perfected collateral file will be required for ALL life of loan events—which may be much more costly to manage when required than a proper review and remediation upfront.

For example, this caused serious problems during the foreclosure crisis because servicers were not able to provide the courts with proper documentation indicating their right to foreclose. In judicial foreclosure states, this problem proved to be very costly. In some states, the inability to produce the signed note meant the servicer's entire case was lost. As a result, servicers are now required to validate their standing prior to first legal proceedings. This process includes not only a review of the collateral file but also a comparison to current land records to ensure all assignments of record are considered in the determination of the lender of record. While the number of loans in default has returned to pre-crash levels and loss mitigation efforts are much more successful, this costly review process is still impacting the cost of servicing overall.

Successful loss mitigation, you say? Today, we have a new problem. The market for non-performing and re-performing loans (NPL/RPL) is expanding rapidly. What this means is that now we are dealing with the possible neglect of the collateral files in bulk. Purchasing and/or selling these assets typically requires loan review factors such as the underwriting and the mortgage position, as well as the condition of the actual collateral file validated with the land records. Typically, in today's environment, this process could include: (1) a due diligence firm, (2) a title company, (3) a custodian, (4) a collateral remediation expert, (5) attorneys, and then the custodian again. Not only does each contributor charge at a minimum a per order intake fee to begin the work; the compilation of results from all parties in this fast-moving market is taking too long. To further complicate matters, the results are inconsistent, causing further delays.

The result is that some buyers are finding it difficult or impossible to combine analytics from all of these parties relating to the loan in time to know the real value of the portfolio so they can make a quick resale back into the market.

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If a firm that has just purchased a portfolio with the intention of turning them right away can't quickly and accurately assess the value of the loans, they are likely to undersell. We have personal experience with a firm that, after successfully completing a project of the type outlined in this paper, increased their purchase price by \$50 million from the data compiled vs. the data confirmed. This suggests that the downside risk of not succeeding here will be measured in tens of millions of dollars lost.

Clear signs that the industry needs a better solution

Today's NPL/RPL market is a seller's market, and deals are happening quickly. The industry needs a way to ensure that information about the collateral files travels just as quickly. That doesn't happen today, with exception reports often taking up to 60 days to return from due diligence firms, servicers or document custodians.

In our work of helping portfolio sellers prepare their pools for sale, we have found that the exception reports are often inaccurate even when reviewed by multiple firms. The non-note collateral is often improperly married to the note collateral and improperly handled trailing documents fill backlogged queues. Worse, where each of the parties investigating the files returns a different result, it must be re-reviewed to resolve the discrepancies.

These problems ripple up through organizations, touch multiple departments, and impact companies operating all across the sector. The resulting errors impact loans throughout their entire lifecycle, regardless of where they were originated.

Some origination based issues that should be considered are:

- Ensuring you have proper controls for Agent and/or Correspondent Follow-up
- Building a tracking and reporting vehicle that incorporates third party data sets
- Testing the basis for all seasoned loans to proactively resolve known issues
- Complete due diligence on all file locations

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Validate MERS compliance including a file to land record comparison

Quantifying the high risks in the current system

These problems result in lost time and money for everyone involved. Financial services firms are paying too much to involve several different companies and sometimes still only getting a partial solution. This exposes them to risk, because without timely and accurate information, it is impossible to make good decisions about what to sell, how to price it or what to buy.

Document Custody has traditionally been the last line of defense for a quality portfolio and the first source of information for a loan under inspection, but without the research and remediation components, it simply can't get the job done. The result is that portfolio sellers must remediate the collateral files on a reactive basis. This is costly for a number of reasons, including:

- Investor Penalty/Fines and Missed Deadlines
- Regulatory Enforcement Action
- Statutory Penalties
- Assignment Chain Issue
- Consumer Escalations
- Endless side letter exceptions to manage post sale
- Repurchase of loans not able to be remediated in the time given

In terms of time, it can be up to 60 days before the buyer receives the exception report from the document custodian. Then, the buyer must wait even longer for another firm—which charges an additional intake fee—to validate and fix the problems. By the time the pool is finally ready for sale, the market may have shifted, impacting the demand and price. Worse, the seller can price the pool without good information on the loans within it, and undersell it by tens of millions of dollars or oversell and be flooded with side-letter exceptions as well as buybacks.

What a better system looks like

Whether it's foreclosure, portfolio sales, compliance or some other reason that the industry must call upon the loan's

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collateral file for information, the industry will continue to struggle until it can combine all of the important elements into a single solution. Without fixing the problem of effective document custody, investors can't even effectively put a value on the loans they own.

As a consequence, the job of the document custodian must evolve. It must involve more than just the task of stacking up documents and storing them away. A custodian must be a partner to the investors and servicers, with solid procedures in place to ensure the integrity of the collateral over time.

After studying this problem for at least the last decade, we have arrived at a set of core functions that must be included in a complete process that can solve the problems the industry is encountering today. These include:

1. Secure document custody. To keep the documentation safe, the solution must offer a state-of-the-art vault with advanced physical security, fire and other disaster protection, and climate control. This is the foundation, but alone it is an incomplete solution.
2. Effective remediation support. Building upon the foundation laid by document storage, the solution must offer the ability to perfect the files by locating missing documentation or creating new documents if required. Expert staff should be able to source information from the custodian's exception report, the servicer or sub-servicer, the public record, and its own researchers to complete the file.
3. Efficient collateral review. When it's time to determine the value of the loans in a pool, the solution must be able to provide fast, efficient information about the collateral files. In order to keep pace with a fast-moving market, the solution must be able to scale.

The document custodian of the future must be able to house and remediate massive pools quickly to keep the industry moving. It must also be able to report status on very short timelines, providing ample time for effective decision making.

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Furthermore, an ideal solution would allow the industry to move beyond the snapshot model of loan collateral and become more dynamic, keeping pace with changes that occur over time and may impact the loan collateral. This requires a Life-of-Loan approach that tracks important changes to the loan collateral over time.

This goes well beyond the scope of today's document custody providers, but it is essential if we are to have any hope of solving the problems we have seen in the past and continue to experience today.

Last October, NTC launched its Curative Vault Solution, a new, innovative answer to document custody challenges, designed to provide a complete custody process that goes well beyond storage and inventory. This included a collateral review to real-life industry standards, remediation exception reports, perfecting of the collateral file, and more. In the process, we discovered some additional functionality and capabilities that must be included in any complete solution. These include:

Large Secure Storage Facilities

With a capacity of up to two million files, NTC's vault satisfies all custodian requirements, including: (1) two hour fire rating, (2) UL fire rated floor space, (3) VEDSA fire detection, and (4) separate badge access and security system.

Efficient File Intake and Review

NTC's file intake process inventories collateral files, images its contents, audits each document to the client's specifications, and identifies all remediation needed to perfect the file. This service, incorporated into an overall exception tracking and remediation process, ensures that all files are complete and ready for shipment to a buyer.

Exception Curative Services

Unlike traditional custodians, NTC has services available to remediate virtually all exceptions noted during an audit, including title policy recovery or replacement, recorded document retrieval, assignment chain curative services, 3rd party document chasing (from closing agents, underwriters, prior servicers and sellers), allonges, Lost Note Affidavits, and more.

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The comprehensive solution is integrated with our collateral services in order to perfect the collateral files for sale (or securitization) and increase the overall value of the client's loans while also minimizing side-letter items and holdbacks.

Comprehensive Document Tracking

NTC has integrated tracking the receipt and status of files and documents across all services. Therefore, if an order is received for any ancillary service, the status of the collateral file will be considered and then updated accordingly. For example, when NTC receives a recorded assignment, it will be filed into the collateral file and, if appropriate, the collateral records will be updated to reflect the new Lender of Record. This integration will maintain an accurate record of all loans at all times, regardless of their disposition.

Trailing Documents Tracking

For each document received, NTC audits, images and indexes it as needed. This information is then updated to each loan record to reflect not only receipt, but the impact to the collateral exception report. This process is also responsible for making sure that the image file retained by NTC is an exact match to the paper file at all times.

File Request Module

File requests are tracked as to the request source, shipment tracking info, and receipt acknowledgement of each file. This information is retained within NTC's system so that we can account for location of all files from request to receipt. Requests can come from several different sources for payoffs, charge-offs, foreclosures, and loan transfers. Files shipped and then returned to NTC are re-audited and tracked through this module to identify any changes in the file since it was originally shipped.

Loan Transfer Assistance

NTC can provide the assignment of mortgage process, MERS status validation, and any allonges required. NTC also provides assistance with getting the files to the buyer for review purposes and answers to rebuttals on initial exceptions—including post sale tracking of exceptions—in conjunction with the asset sale team.

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Loan Disposition Management

NTC will track and manage the request for collateral when a loan defaults by preparing any assignment needed to a foreclosing entity and providing an assignment chain report showing the correct “foreclose in the name of” entity.

Payoff Processing

NTC will track and manage payoff requests by preparing and recording a lien release or reconveyance within the required state compliance time frame as well as facilitate any collateral or notification to the borrower.

File Arrangement

Upon initial receipt of the collateral file as well as receipt of all trailing documents, NTC processes the document through the intake, inventory, and audit process but then also reviews the contents of the file for relevance. For example, if the document is a recorded modification that replaces an existing modification, the replaced document will be segregated accordingly. This relevance check keeps the file current and easy to review, minimizes exception reporting, and simplifies custodial transfers.

Imaging and Indexing

NTC has both in-house and on-location imaging services that not only support the contracted services, but also special projects as needed. NTC will integrate with your servicer’s and/or buyer’s imaging system to provide images of both collateral files and curative documents in a format that can be easily ingested.

Pre-Purchase Due Diligence

The above services can be customized to provide thorough due diligence for any buyer.

The benefits of a complete system

Whether investors are seeking to securitize, sell, or retain portfolios, NTC offers a flexible service package that can be configured to cater to specific portfolios, investors, and objectives. NTC's Curative Vault Solution includes:

- Secure Storage Facility
- File Intake and Review
- Exception Curative Services

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- Comprehensive Document and Exception Tracking
- Loan Transfer Assistance
- Imaging and Indexing
- Pre-purchase Collateral Due Diligence
- Coordination between Sellers, Buyers, Custodians, and Due Diligence Firms
- Everything described as a requirement in this paper

As part of its service, NTC obtains missing documents wherever they may be and assists with curing any assignment and endorsement exceptions. Then, the company prepares or facilitates acquiring any additional required documents to support loan sales and other Life-of-Loan events. NTC's research and document teams have more experience than any other company in the space, making it possible and cost-effective to validate land records against the collateral itself.

The benefits offered by this new service have been nothing short of amazing. Chief among them—at least from the perspective of portfolio sellers—is increased portfolio value and profits.

All files processed by NTC under this program exceed industry standards and are in accordance with all state and local guidelines. Reports are available with this service that identify mortgage lien position and determine assignment chain status for every loan.

After a full audit and inventory is completed, NTC begins the remedial process of retrieving crucial documents through the most cost-effective methods possible. Once the file is restored, NTC can then provide subsequent processes including assignment/allonge preparation, document recording, e-recording, and tracking. As a result, owners will receive:

- Validation of lien position
- Remediation of collateral issues
- Collateral review and perfection
- Trailing document intake during transition

The overall benefits are impressive, regardless of the note owner's plans for the portfolio.

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As a result, we're seeing portfolio sellers invest in perfecting their collateral files before they ever put the pools up for sale. It gets them a better price for their assets, but it also eliminates all of the cost and hassle of responding to requests for additional information during and after the sale. Even so, wouldn't it be better if document custodians could just provide complete documentation for every loan file in their care?

Find out more today

Nationwide Title Clearing, Inc. (NTC) is an award-winning, expert research and document service provider in the residential mortgage industry for over 25 years. We provide services to most of the nation's largest mortgage lenders, servicers and investors, including document tracking, imaging, audits, collateral storage and remediation.

Our Curative Vault Solution has changed the way collateral files are treated across the industry and impacted how loans are traded on the secondary market to the benefit of everyone in the value chain. Find out more by contacting Nationwide Title Clearing, Inc today.