

# Internet Evolution, Real Estate Revolution

A Closer Look at the Technology Behind (and in Front of) Today's Default Servicing

STORY BY // **CARRIE BAY** EXCLUSIVE TO DS News

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In the labor-intensive, paper-laden world of default servicing, technology advancements in every aspect of the business have helped streamline processes. Technology has automated analysis, increased exposure, and cut sales time. Just ask Tony Isbell, CEO of Alabama-based RealtyBid. “If you ask what impact technology has had on the industry, I would sum it up with one word—efficiency,” he said.

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The consensus among industry professionals seems to be this: Had the current down cycle and the challenging market conditions of today come just ten years earlier, the industry as a whole would be in a world of trouble. Instead, today there is an optimistic mindset that perhaps technology will be the element that helps the industry pull ahead of the current housing crisis.

The sword has two edges, according to Isbell, who says efficient technology is partly to blame for the situation that we're in now. “It allowed us to create this problem that we have because of the efficiencies of the loan origination process,” he said. Online access made it easier for more people to obtain home loans. Combined with lax lending practices, these same homeowners soon found themselves in mortgages

that were well beyond their means, sinking beneath subprime and Alt-A (near-subprime) rates.

## Weathering the Subprime Storm

Technology is also emerging as a critical tool in weathering the current subprime storm, Isbell says. Because of the automation and efficiencies technology brings, the servicing and real estate industries are better able to handle the ballooned



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REO inventories seen as a result of the subprime crisis and its mounting foreclosures. “The people who have spent their money and spent their time solving problems with technology, those are the ones that are able to handle the large volumes of properties now,” Isbell added.

Tony Isbell has been in the real estate auction business selling REO properties for 25 years. If you look at what is done now in the online space compared to what was done using just traditional live auctions, it’s possible to handle almost 10 times the volume of properties in a wider geographic area simultaneously because of online resources, he says.

### Expanding Marketing Reach

Ben Clark, VP and general manager at San Francisco-based Vast Real Estate, describes online property sales as ubiquitous. “When we were liquidating residential and commercial portfolios during the late ’80s and early ’90s, we were talking about disposition of portfolios through auction companies that were printing lots of thick books about properties and sending faxes and FedExes all over the country,” Clark said. “And what we have today is a multimedia interface for commerce and information at the desktop of every workspace and in the kitchen of every home. Now that we’re at a down cycle, there’s an opportunity for those in the default servicing industry to quickly get information about available properties through the proper

channels and to the broadest number of potential buyers.”

According to Lisa Lauroesch, Bid4Homes’ VP of business development and REO sales, through its partnership with RealtyTrac, her company has expanded its property exposure to more than 3 million potential buyers. “That’s tremendous value for REO asset managers,” said Lauroesch. “It only makes sense to capitalize on the efficiencies of the Internet, particularly in a slow market.”

The Internet approach to sales has undoubtedly lengthened the reach and marketing scope of REO sales. According to the National Auctioneers Association, online residential real estate auctions have increased 46.6 percent since 2003. By utilizing an Internet-based venue, banks no longer have to worry about geographic distribution. They can send any number of properties from any number of locations to a single online auction house or property listing service. No longer does the servicer or its representative have to be physically present to hold a live sales event. “From an ease-of-use and efficiency standpoint, for the lenders and servicers, it gives them a lot more flexibility in selling properties,” Isbell said.

RealtyTrac VP of Marketing Rick Sharga agrees. “Exposing a thousand properties to 3 million people on one Web site is a whole lot more efficient than assigning those same thousand properties to maybe 500 brokers across the country and trying to sell them to individuals one at a time,” Sharga said, adding that

doesn’t mean the two can’t work in tandem. “We’re certainly not anti-Realtor or anti-broker. They need to be involved, and there’s almost always going to be some human element involved in the actual sale. But to expedite the process, to get the buyer and seller closer to that final transaction more cost-effectively and more quickly, that’s where you’re going to see the change in the market dynamics.”

Sharga acknowledges that in a typical homeownership scenario—for first-time buyers or for someone relocating their family—it is as much an emotional purchase as it is an economical consideration. While for these home buyers, there is usually a necessity for human intervention and a desire to actually touch the walls and “kick the tires,” Sharga estimates that approximately 20 to 30 percent of property purchases are made as investments rather than for owner occupancy. “That’s a big chunk,” he said. “And if all we did was move most of that online, imagine how much more efficient it would be for everyone involved; imagine how many more transactions we might see.”

Lauroesch agrees. “Since the market became soft, 58 percent of all properties we’ve sold have gone to out-of-state buyers. Greater reach means more bidders, and more bidders mean more properties move quicker at higher prices. Our online auctions can dramatically expand the pool of potential buyers and help sell property faster at the price the seller needs,” she said, noting that since 1999, Bid4Homes and

its sister site, Bid4Assets, have sold more than 53,000 properties across America.

To illustrate the efficiency of Internet sales, Isbell describes a recent transaction his company managed. “We actually sold a property in the United States, an REO property, to a female soldier in Iraq that was bidding from a satellite laptop computer,” Isbell said. “She was bidding on a property in her hometown, so she could have it when she got out of the service, when she got through with her tour.” He has sold U.S. REO properties to buyers from as faraway as the U.K. and even Australia.

### Cutting the Sales Time

The online approach to offloading REO properties not only expands the reach of a bank’s marketing efforts, but it also automates and streamlines the sales process, making it much quicker and more cost-efficient than traditional methods for both the online auction houses and the banks trying to bring down bulging REO inventories.

According to Bid4Homes, in 2008 to date, 32 percent of the properties listed on their site have sold within 30 days. Online servicers can have the same property sold in a fraction of the time, its enthusiasts maintain. RealtyBid, which has sold more than 15,000 properties online since 2004, says its process takes just 23 days, start to finish.

But that kind of efficiency is not without some very deep compromises.

“The sacrifice or difference in the process for the banks, though,

is that they have to discount the properties to sell them that fast," Isbell said. "But by discounting them some today, and selling them quickly, they don't have the carrying cost for the next nine months. So what they lose in a discount today in price, they gain by not carrying that property on their books for almost a full year."

**Getting Ahead of Foreclosures**

In the past few years, the jump in the number of foreclosed homes has been tenfold or even more in some instances. Sharga

says lenders have recounted tales of going from foreclosing on 2,000 homes in 2006 to foreclosing 21,000 in 2007.

Gene Ross, president of Virginia-based Loancare Servicing Center, a wholly owned subsidiary of LandAmerica Financial Group, says his company and others like it are employing "smart" technology to help lenders and servicers reach out to customers and facilitate workouts to help curb swelling REO inventories.

"The difficulty that a lot of servicers have is trying to reach the customer. The customer won't

call back or they won't respond to direct mail," Ross said. Tools like LandAmerica's home retention Web site—which gives homeowners in default a friendly, nonconfrontational channel to learn about their options—as well as skip tracers and predictive auto dialers are all forms of technology that financial institutions and their subservicers are using to contact homeowners and initiate workout plans before the homes fall into foreclosure.

In addition, there are loss mitigation tools that intelligently predict solutions that may be

plausible for an individual homeowner, such as a modification of terms or a repayment plan, or even a short sale or foreclosure—all based on embedded rules and data from a simple phone interview or a financial statement. According to Ross, applications such as this allow for outcome consistency among an institution's service reps or loss mitigation specialists.

There are also robust technology tools that are capable of predicting homeowners' behavioral payment patterns and identifying which loans may be problematic or worthy of loss mitigation or

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a modification. Ross says such tools can provide servicers with a sort of road map to prioritize where attention should be directed for a specific portfolio. “It’s particularly helpful to investors in the scratch-and-dent market because they’re buying distressed portfolios and they certainly want to know as much as they can about that portfolio before they acquire it,” he said.

According to Clark, there is a small sector within the industry of companies that provide foreclosure information to subscribers, using the Internet to expedite

condition, and the agent is able to help the seller get out from underneath their debt, Clark says.

### Ensuring Compliance

So does the automation afforded by technology help eliminate the chances of mistakes due to human error? Gene Ross thinks so. “In my case [as a subservicer], my risk is not that I hold an asset that may become distressed,” he said. “My risk is that I make a mistake in providing the service. That mistake can be clerical or it could be regulatory. Those are things that keep

of the biggest obstacles to its widespread use is that the primary players in the secondary market, Freddie Mac and Fannie Mae, do not accept them. “Where we think it will be useful is in the distressed servicing market, where investors are buying home loans that are not agency loans and are seeking to modify them. Then e-signatures can come into play,” Ross said.

### Looking to the Future

While technology isn’t the end-all to today’s problems in the housing market, it is helping streamline processes, prioritize

are also looking to add online buyer prequalification and home valuation services to their arsenals. Bid4Homes claims to be ahead of the game, having verification processes and prebid deposit capabilities already in place to validate buyers and secure sellers. Mapping technology and virtual home and neighborhood tours seem to be in the future plans of nearly every online auction house and property listing site as well.

Despite the technology advancements that have already been introduced to streamline and automate the business, according to Sharga, the industry is nowhere near the point it should be in terms of technological progress. “I think the truth of the matter, depressingly enough, is that technology hasn’t had nearly the impact on this part of the business that it either could have or should have,” he said. “For as much as a lot of people in the industry have talked about how technology in general and the Internet specifically have revolutionized business processes, the real estate industry and the default servicing part of the real estate industry are still incredibly labor-intensive, paperwork-driven, and, in some cases, archaic from a procedural standpoint.”

He says he does think the market is seeing some movement toward efficiencies. “Because of the sheer volume and the need for efficiency in the default part of the market, we’re going to see a lot of changes coming out of this cycle that are not just going to change default processing, but are also going to ultimately change the entire real estate industry,” Sharga said. **DS**

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communication of foreclosure filings. The companies identify, at the courthouse level, properties that have gone into foreclosure notice or notice of default and get information about that local filing immediately into the hands of investors and agents at the click of a button. “I think this is an outstanding service to many sides of the industry,” Clark said. “It helps potentially prevent some homeowners from going into default. An investor might be able to come in and help that homeowner out, or an agent can come in with a buyer who is able to get the property at a reasonable price before it actually has to go to foreclosure.” In the latter case, the bank doesn’t have to go through the painstaking foreclosure process, the buyer gets a property at a price that reflects its current financial

us all up at night—the propensity for compliance mistakes. I don’t think there’s a servicer out there that doesn’t worry about that.”

He also points to e-signatures, e-recording, and e-releasing as tools that not only make the paper-intensive servicing business more efficient and less costly, but also eliminate a lot of the paper work involved, which can be prone to compliance errors. “When you’re doing a modification, where applicable, an e-signature modification can expedite the process because you’ve got the customer captured right there and you can get their signature by doing it online, while at the same time avoiding the chances of manual mistakes,” Ross said.

The electronic signature, however, is not widely accepted throughout the industry. One

workloads, and drive down costs in the servicing sector, says Ross, who expects the next generation of technology solutions to take on even greater sophistication and open up even more doors of opportunity.

Internet-based sales agents across the board are looking to augment their roles by adding value-added services, all carried out online, says Sharga. “Our vision at RealtyTrac has always been to become an online marketplace for these kind of properties, and to me, that goes beyond just making it possible for people to find properties,” he said, adding that his company envisions a one-stop shop where buyers can get an appraisal, obtain title insurance, secure financing, and transact without ever leaving their desk. Other companies like RealtyBid