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Ocwen Boasts Loan Mod Success in Transition

Florida-based subprime servicer Ocwen Financial is touting much greater success with loan modifications than what the Office of the Comptroller of the Currency found to be the industry-wide norm.

Ocwen said its "loan-by-loan approach and proprietary, scalable technology and analytics" allow the firm to hold 60-day delinquencies on modified loans to just 24.6 percent after six months. The OCC said its surveys show more than 53 percent of modified loans become 60-days late within six months of modification.

"The salient issue is not the efficacy of loan modification as a loss mitigation tool, but whether mods are properly designed," said Ocwen CEO William Erbey. "Our loan approach achieves the twin objectives of keeping homeowners in their homes and maximizing the net present value of the mortgages to the investors who own the loans."

Paul Koches, Ocwen's executive vice president and general counsel, noted that "virtually all of our loans are in securitized REMICs," and he's confident that the pooling and servicing agreements "permit us to do this and arguably require it where the modification is in the best interest of the investor as opposed to foreclosure."

"I think the key to it is a customized approach," Koches said. "We really get down and roll up our sleeves. We first analyze whether the borrower has a genuine interest in staying in the home, and then we work very hard to basically re-underwrite the loan perhaps the way it should have been done at origination." The company uses the same modification techniques that other servicers use: rate reductions, term extensions and principal forbearance.

Ocwen reported the seventh-largest subprime servicing portfolio in the country in the third quarter, at $41.75 million, according to *Inside B&C Lending*, an affiliated newsletter. The company specializes in servicing subperforming and re-performing mortgages.

"Proper loan modifications require a highly particularized process – one tailored to the specific facts and circumstances surrounding the homeowners' financial situation, the terms and conditions of their mortgage loan and the current value of the property," Ocwen President Ronald Faris said. "The process involves robust technology that is scaleable to handle the unprecedented volumes of delinquencies."

Over the past 10 years, Ocwen has invested more than $100 million in developing technology systems, which Koches said are major factors in the modifications' success. The company recently established a psychology department to help its analysts integrate behavioral sciences into decisioning models.

With positive net income of $15.6 million in the third quarter, Ocwen appears to be aligning itself for an even stronger financial position. On Nov. 15 it asked the Federal Reserve Bank of

Dallas for permission to buy Kent County State Bank, a $15.1 million-asset local bank in Jayton, TX, and become a bank holding company.

Some sources have speculated that buying a bank would position Ocwen to get a capital infusion from the government's Troubled Asset Relief Program. Company officials wouldn't comment on the TARP angle, but they described the bank purchase "as part of our ongoing effort to diversify the sources of funding for our servicing basis and on an overall basis obtain the most cost-effective combination of financing."

On a November conference call, Erbey said the company is "working hard on several different structures and sources of financing." In the meantime, he said he is running the business "assuming that we will receive no new financing and that no existing financing lines will be renewed," and the company has sufficient liquidity to sustain its current business. ▶