



THE STATE OF THE DEFAULT SERVICING INDUSTRY

ALTISOURCE'S ANNUAL INDUSTRY SURVEY

JANUARY 2021

THE STATE OF SERVICING

This annual Altisource® Default Servicing Report analyzes the results of an in-depth survey conducted by independent firm Echo Research. It was conducted online between August 17 and 29, 2020 among 200 professionals with three or more years of experience in the U.S. mortgage default servicing industry. The purpose of this report is to help servicers optimize operational and marketing strategies by giving them a look at the elements shaping the industry today, including core services and features critical to servicers of default assets. It also reveals how these professionals plan to increase growth and efficiency.

As expected, the pandemic, which greatly impacted the world this year, influenced some of the responses to the survey. The current biggest challenge facing default servicers is mortgage forbearances and they expect loan modification to be the greatest post forbearance plan to leverage. The greatest concerns for default servicers when moratoriums are lifted are market instability and technology challenges.

Based on the data, now is the time for companies to work with vendors offering solutions to help mitigate losses and streamline processes during the default lifecycle. Many are already doing it by seeking a single vendor with tech-enabled tools and complete asset management capabilities to provide more, if not all, of the essential services. Some are also reevaluating their current vendors as often as once a month to determine if they need to look elsewhere for what they need.

We hope this valuable information helps you determine your key default strategies and goals for the year ahead. Even in these challenging and unpredictable times, there are plenty of opportunities available, and this report highlights some of them.

Regards,

Travis Britsch
Vice President, Auction

THE IMPACT OF COVID-19 ON SERVICING

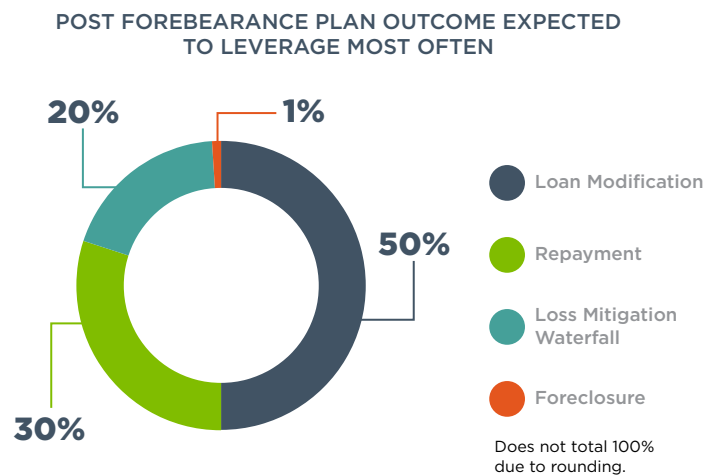
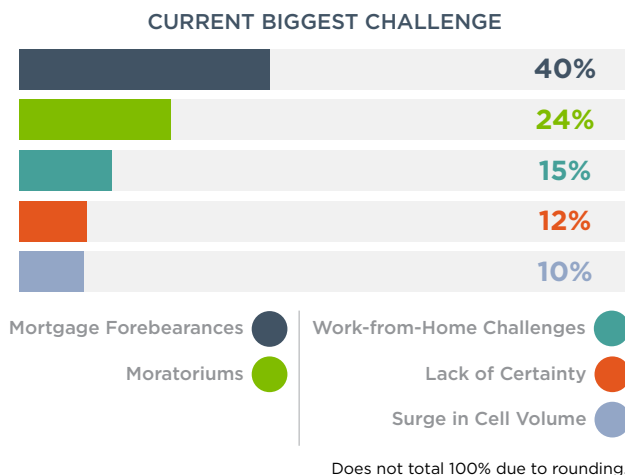
With its impact on work/life balance, the economy and the industry, COVID-19 is expected to be the single most important factor over the next one to two years, yet the impacts on the default industry will likely be felt over the next five years or longer. It's believed that the foreclosure moratoriums are going to expire in the foreseeable future, but the timeline to get the foreclosure process back up and running is expected to take six months to a year in some or most of the judicial foreclosure states.

Furthermore, when foreclosures do start back up, it's very likely that the overall bandwidth of the foreclosure system is going to be drastically reduced compared to what we saw in 2019. This is due to changes made to the foreclosure processes in various states that limit throughput in order to help borrowers stay in homes and also manage COVID-19 transmission risks at the foreclosure sales themselves (i.e., only one sale can be held at a time, all bidders have to register ahead of time and maintain six feet of social distancing, and the sales can be moved or canceled if the safety procedures aren't followed).

Servicers who responded to the survey cited "mortgage forbearances" (40%) and "moratoriums" (24%) as the biggest challenges they face at the moment. This is understandable. Federal assistance programs instigated an unprecedented surge of calls to servicers from borrowers asking about forbearance, repayment and loan modification plans. It's threatening to overwhelm call center capacity, so some are seeking third-party support to meet demand.

After forbearances end, half (50%) expect "loan modification" to be the most leveraged outcome. Almost a third (30%) of respondents are anticipating "repayment" as the most utilized post forbearance plan. Repayment was expected to be a popular choice because so many homeowners have substantial equity in their property, largely stemming from the recent years of strong home appreciation in most markets.

CURRENT BIGGEST CHALLENGE / POST FORBEARANCE PLAN OUTCOME EXPECTED TO LEVERAGE MOST OFTEN

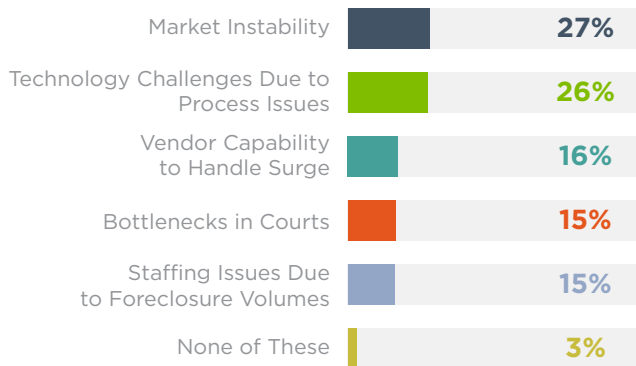


The large number of delinquent loans point to the possibility of a surge of properties coming on the market once moratoriums and forbearances end. This includes traditional sales, equity and short sales, as well as foreclosures. This will likely cause a surplus in the market and an adjustment on home prices in many markets. The two main concerns default servicers have about government pandemic-related foreclosure moratoriums ending are “market instability” (27%) and “technology challenges due to process issues” (26%). “Vendor capability to handle surge” is far behind at 16%, which may indicate servicers have confidence in vendor abilities.

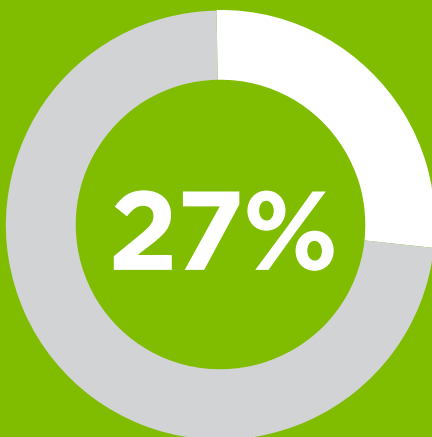
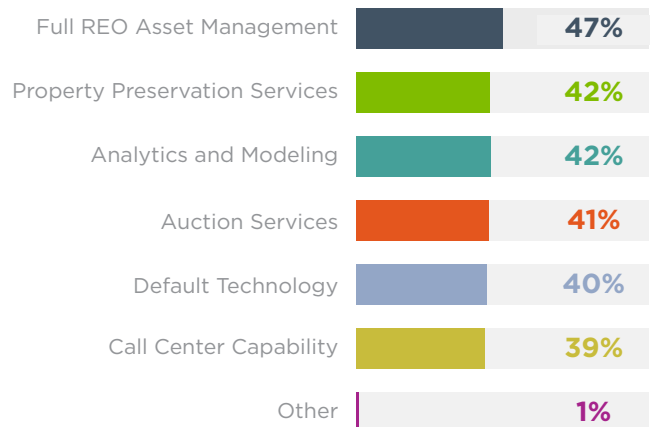
Replies about the type of assistance needed from service providers post moratorium are almost even. That’s because all of them will be essential to help handle the massive amount of expected default inventory. “Full REO asset management” is the front-runner at 47%, followed by “property preservation services” and “analytics and modeling” (tied at 42%), “auction services” (41%), “default technology” (40%) and “call center capability” (39%).

MAIN CONCERN WHEN FORECLOSURE MORATORIUMS ARE LIFTED / TYPE OF ASSISTANCE NEEDED FROM SERVICE PROVIDERS POST MORATORIUM

MAIN CONCERN FOR WHEN FORECLOSURE MORATORIUMS ARE LIFTED



TYPE OF ASSISTANCE NEEDED FROM SERVICE PROVIDERS POST MORATORIUM

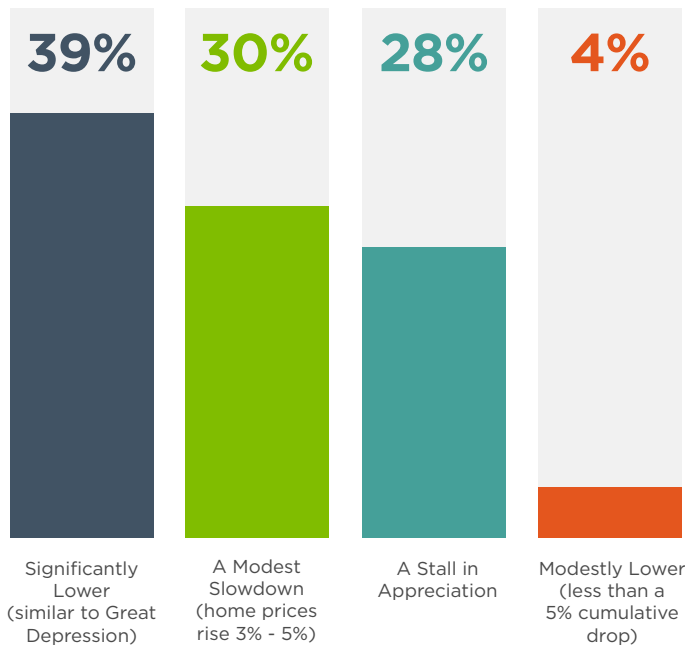


OF DEFAULT SERVICERS STATE MARKET INSTABILITY AS THE MAIN CONCERN FOR WHEN FORECLOSURE MORATORIUMS ARE LIFTED

Now is the time for banks and servicers to seek third-party vendors with the proven expertise to manage REO assets throughout the entire process and provide preservation services to maintain property values as they are sold off. Vendors with national foreclosure auction services, including analytics and data modeling, are also vital to help mitigate losses by selling assets quickly, no matter where they are located. Finally, increased call center capacity will be necessary to field the landslide of questions from borrowers looking for options.

Despite consistently rising home prices,¹ 39% of the respondents expect COVID-19 to push home values significantly lower than the Great Recession of 2008. Yet, over half (58%) of the respondents feel values will be only moderately lower with 30% seeing “a modest slowdown in prices” and 28% looking at “a stall in appreciation.”

SERVICERS' PREDICTIONS ON THE IMPACT OF THE COVID-19 RECESSION ON HOME VALUES



Does not total 100% due to rounding.

¹ <https://www.nar.realtor/blogs/economists-outlook/october-2020-existing-home-sales-climb-to-6-85-million>



MORE THAN

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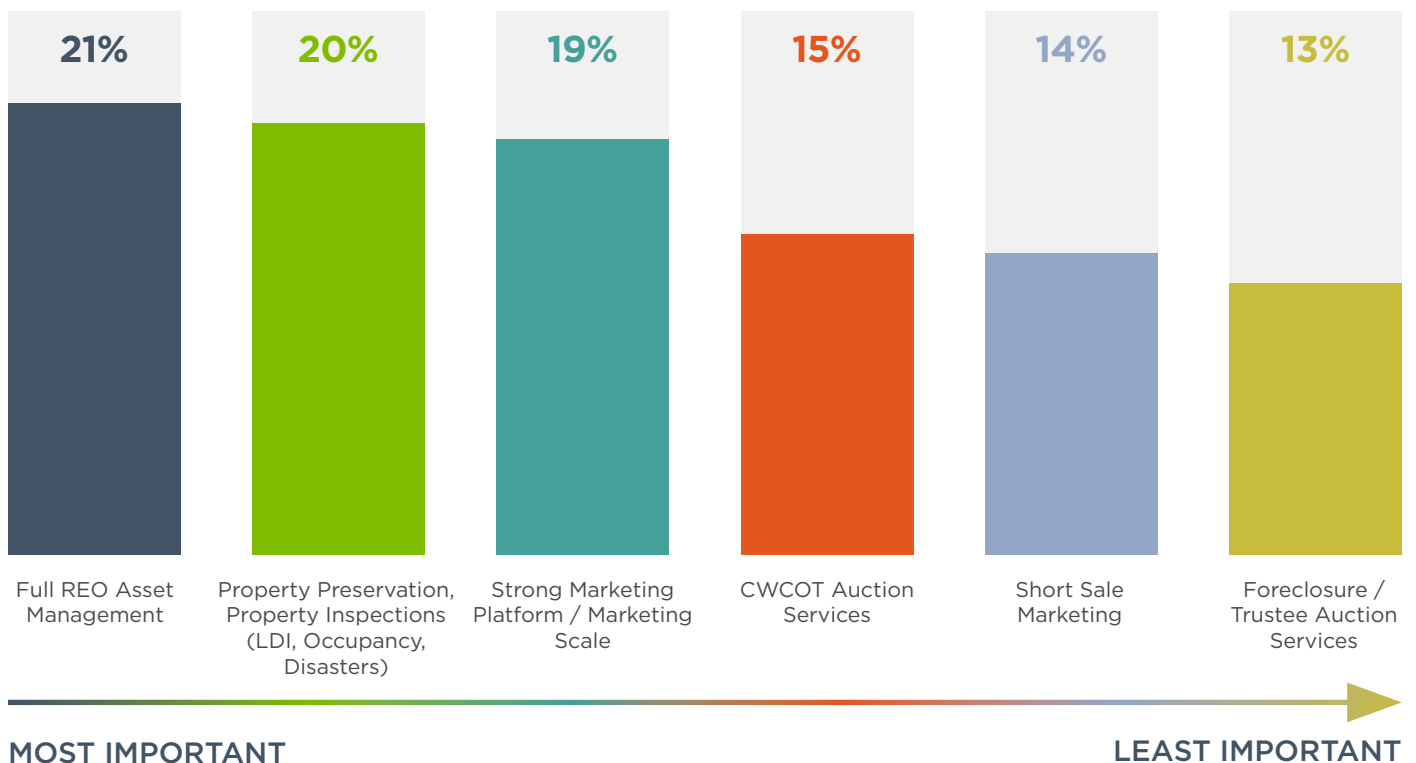
EXPECT COVID-19 TO PUSH HOME VALUES SIGNIFICANTLY LOWER THAN THE GREAT RECESSION OF 2008

PORTFOLIO MANAGEMENT

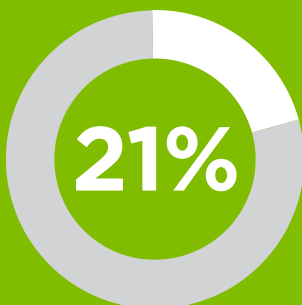
The three most important aspects when managing a default portfolio, according to respondents, are “full REO asset management” (21%), “property preservation” (20%) and “marketing scale” (19%). Even though full REO asset management is cited as the main aspect, according to the chart on page 11, it’s also the most difficult with which to engage. That’s why servicers are engaging third-party vendors to help.

The ability to control the entire REO lifecycle, including property preservation and foreclosure sales, with any size asset portfolio is crucial. It helps reduce operating costs while maximizing efficiency by applying streamlined workflow and process control solutions.

RANKED ORDER OF IMPORTANCE WHEN MANAGING DEFAULT PORTFOLIO

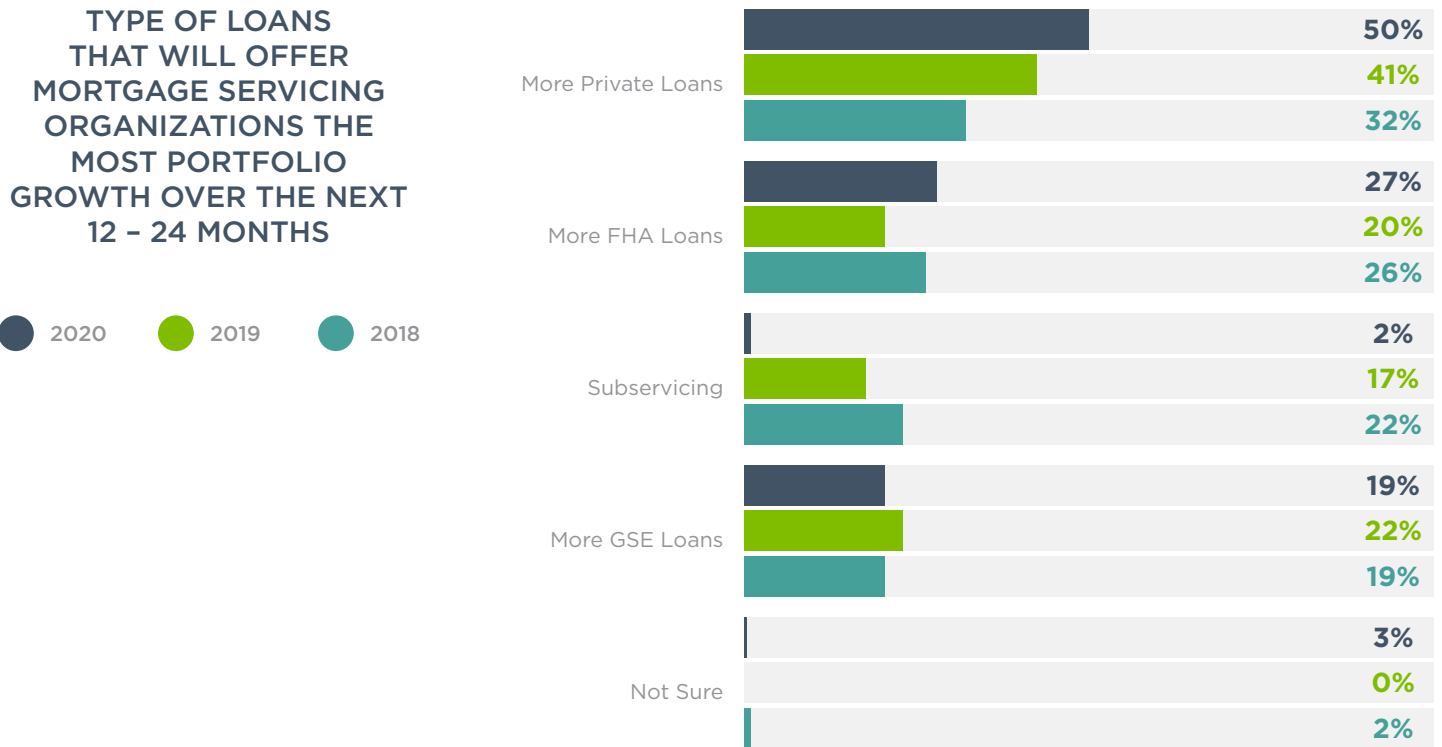


Does not total 100% due to rounding.



CITE FULL REO ASSET MANAGEMENT AS THE MOST IMPORTANT ASPECT WHEN MANAGING A DEFAULT PORTFOLIO

When asked to choose the type of loan that will offer mortgage servicing organizations the most portfolio growth over the next 12 - 24 months, half of the professionals who responded cited “more private loans.” That’s a 9% increase over last year and an 18% jump from two years ago. “More FHA loans” was second at 27%, which is 7% more than 2019 and only 1% higher than 2018. “More GSE loans” came in third at 19% — a 3% drop from 2019 but even with 2018.

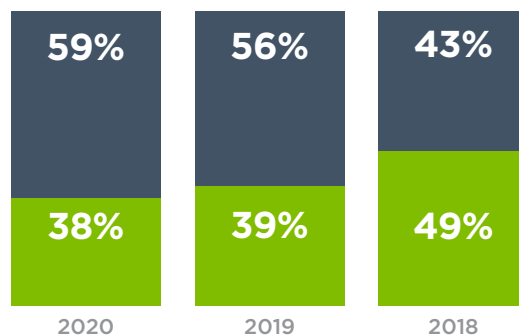


The number of default servicing professionals who currently use data analytics and modeling within their CWCOT program management but feel they “could do better” has risen steadily since 2018. This year over half of respondents reported utilization (59%). That’s only a 3% increase from 2019 but a surge of 16% since 2018. The number of organizations that currently use but “feel they are already maximizing the potential” has decreased the past three years.

Many default servicers who feel they can do better are looking at third-party auction companies offering extensive data modeling that can help enable them to make more informed decisions about their CWCOT programs. With real-time pertinent data, they can project costs and timelines more accurately as well as develop auction sales strategies that help mitigate losses and maximize overall proceeds.

USE OF DATA ANALYTICS AND MODELING WITHIN THEIR CWCOT PROGRAM MANAGEMENT

- Currently use but could do better
- Currently use and feel that we are already maximizing the potential



There was little change in the long-term auction strategies for asset disposition from 2019 to 2020. Default professionals once again view online auctions as a viable strategy with a total of 88% currently using them. Nearly three-fourths (72%) “currently use,” consistent from last year, and only 16% “currently use but would like to stop or do less,” which is down 1%. Another 8% “would like to use.”

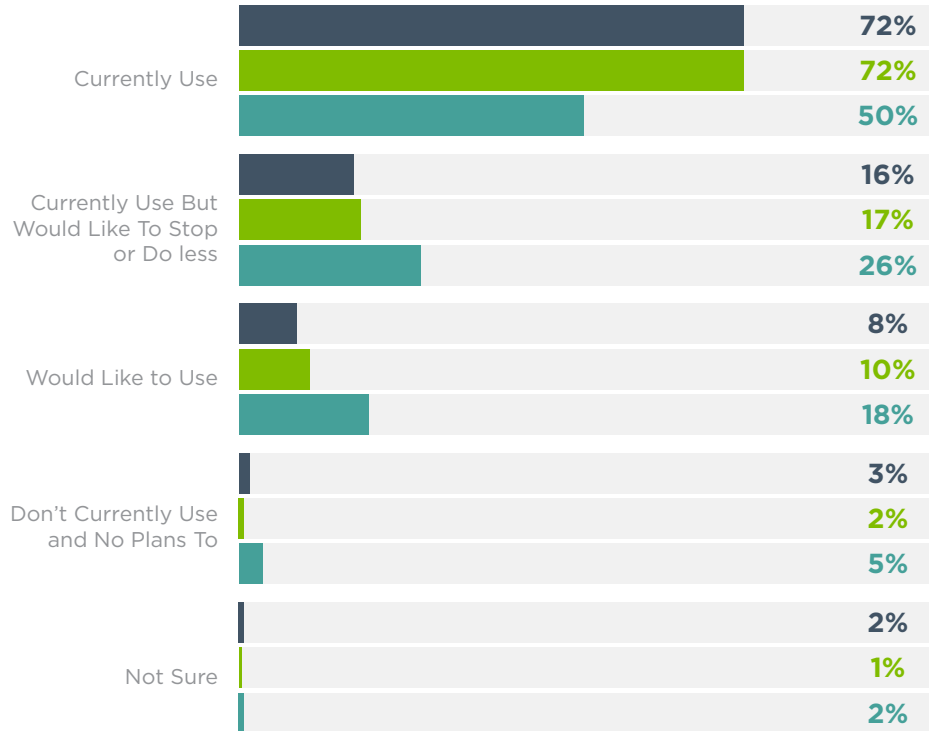
ONLINE AUCTION STATEMENTS: LONG-TERM STRATEGY FOR ASSET DISPOSITION

● 2020 ● 2019 ● 2018



88%

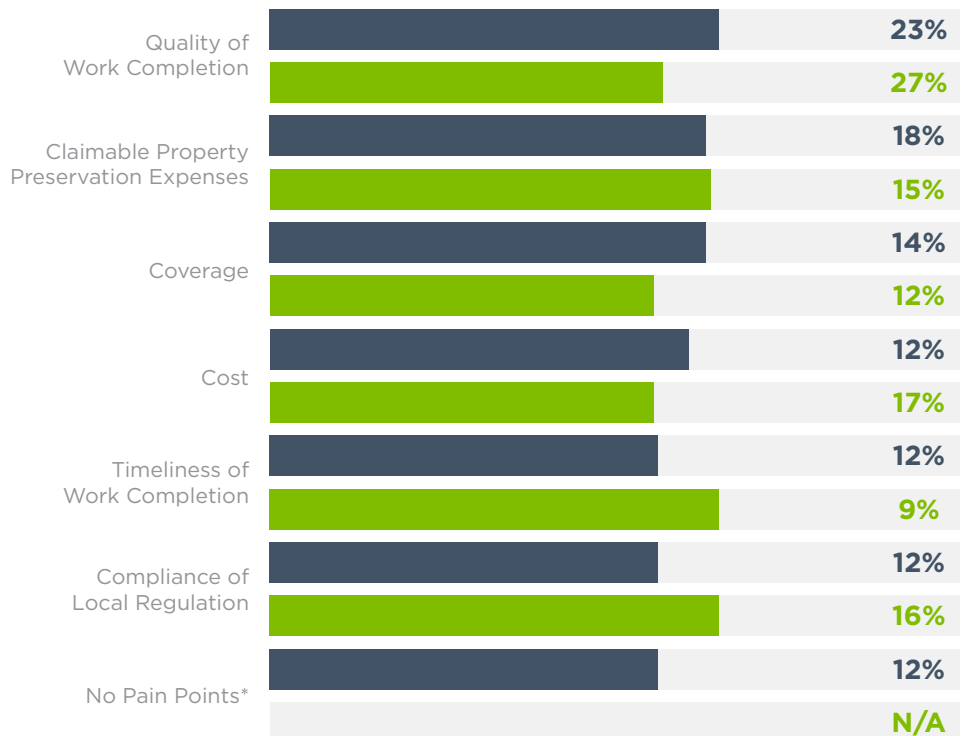
CURRENTLY USE ONLINE AUCTION (VS. 89% IN 2019)



The biggest pain point for servicers managing field services activities remains “the quality of work completion” again this year at 23%, which decreased 4% from 2019. “Claimable property preservation expenses” came in second at 18% (up 3%) and “coverage” (14%) is third (up 2%). The other four options tied at 12%, including “compliance of local regulation,” which was the second biggest pain point in 2019 but dropped 4% this year.

RANKED HIGHEST TO LOWEST PAIN POINT FOR SERVICERS MANAGING FIELD SERVICES ACTIVITIES

● 2020 ● 2019

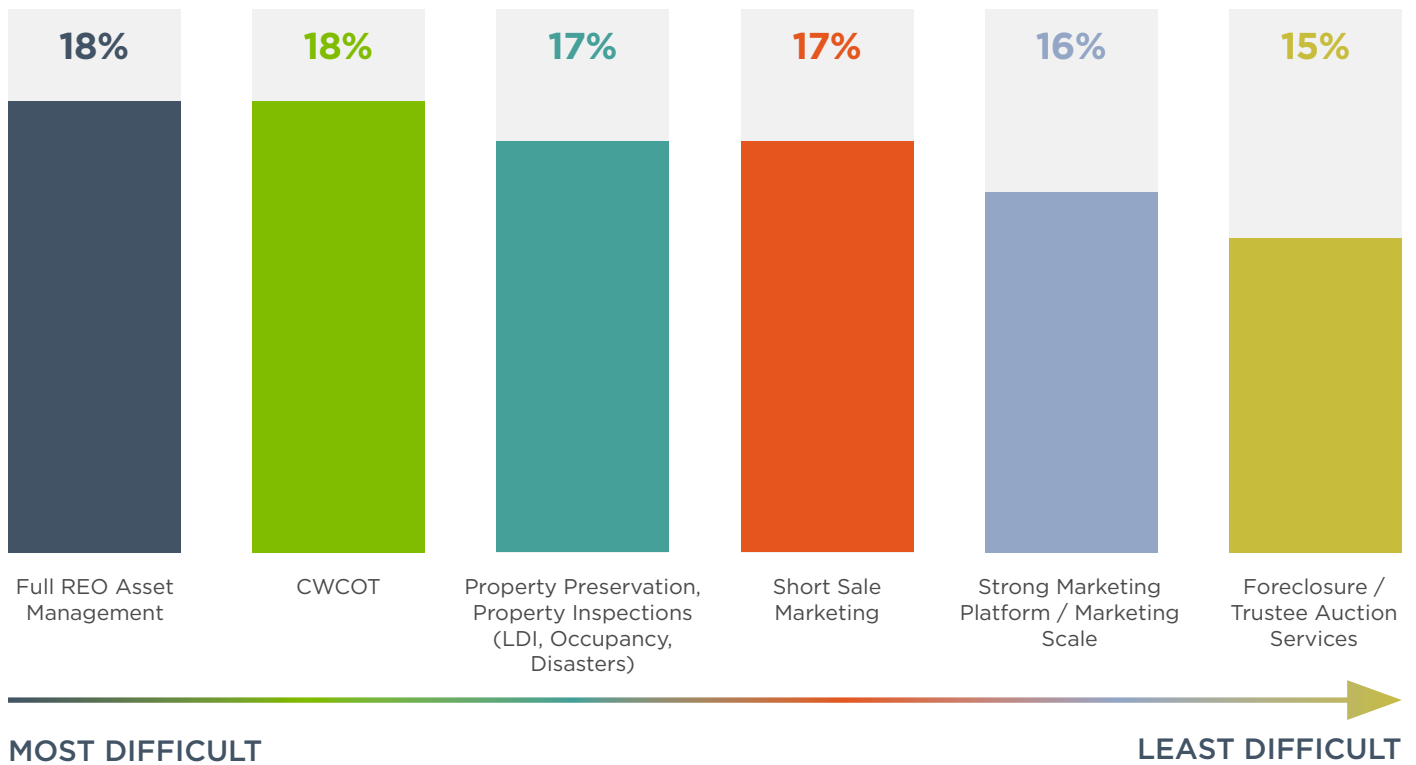


* Asked only in 2020

VENDOR MANAGEMENT & ENGAGEMENT

The responses were very close when respondents ranked how difficult it is to engage vendors for certain default portfolio services. “Full REO asset management” and “CWCOT auction services” tied at 18%. Yet, full REO asset management was also selected as one of the most important aspects of managing a default portfolio (see page 7). “Property preservation, property inspections” and “short sale marketing” tied for second at 17%. “Strong marketing platform, marketing scale” followed at 16% with “foreclosure / trustee auction services” right behind at 15%.

RANK ORDER OF DIFFICULTY OF IDENTIFICATION AND ENGAGEMENT

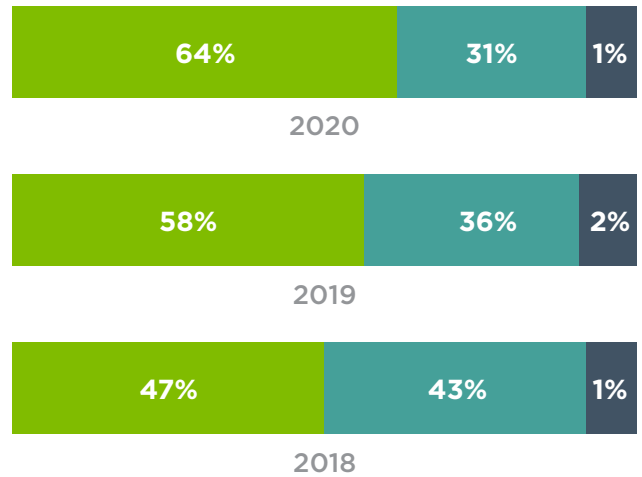


RANKED FULL REO ASSET MANAGEMENT AND CWCOT AUCTION SERVICES ON HOW DIFFICULT IT IS TO ENGAGE VENDORS FOR CERTAIN DEFAULT PORTFOLIO SERVICES

The trend to work with a single default services vendor continues to grow. A majority of the professionals who responded this year (64%) once again said they would be likely to choose a single vendor to provide multiple services. That is a 6% increase over 2019 and a significant jump of 17% since 2018.

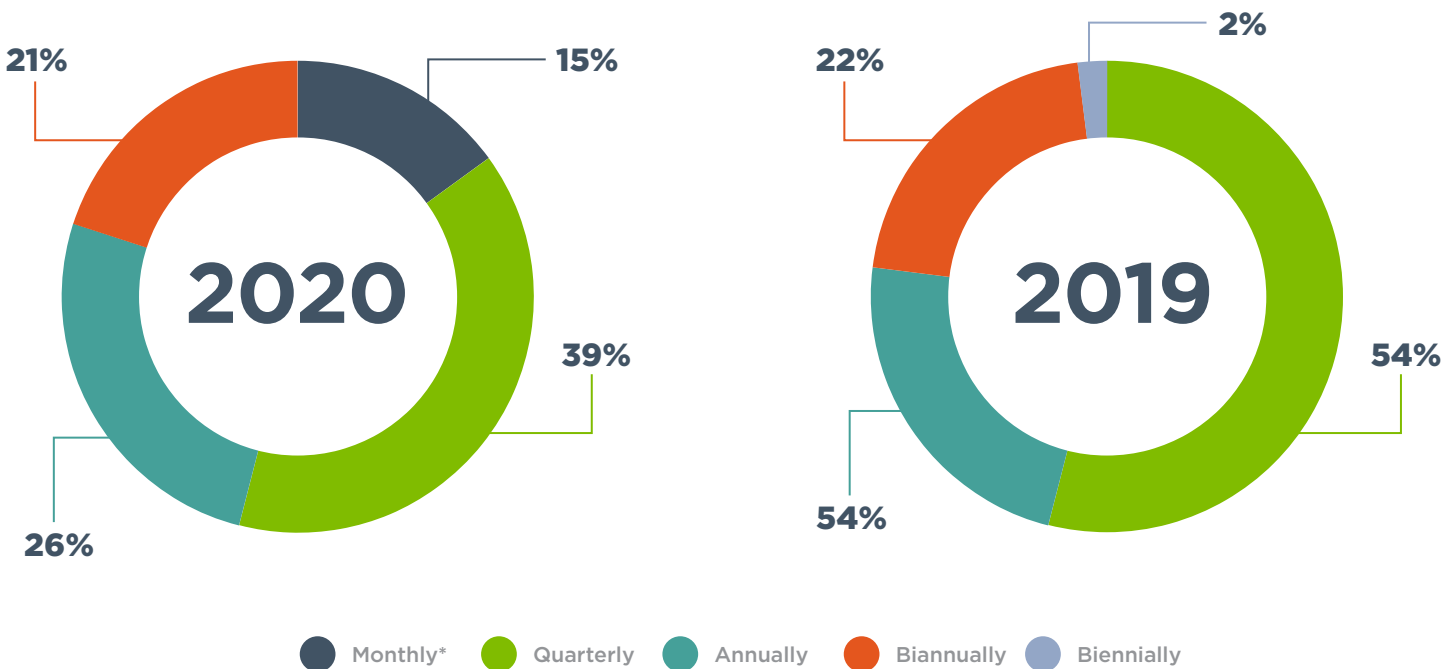
- Very likely
- Somewhat likely
- My company already uses a single vendor

LIKELY TO SELECT A SINGLE VENDOR TO PROVIDE MULTIPLE DEFAULT PORTFOLIO SERVICES



When asked how often they reevaluate vendors, 39% of servicing professionals cited they do a review every quarter. Others (26%) do it annually and 21% review on a biannual basis. Some (15%) are doing it as often as every month, which indicates how closely servicing professionals are monitoring vendor performance.

FREQUENCY OF REEVALUATING VENDOR SELECTION - NEW OR REPLACEMENT



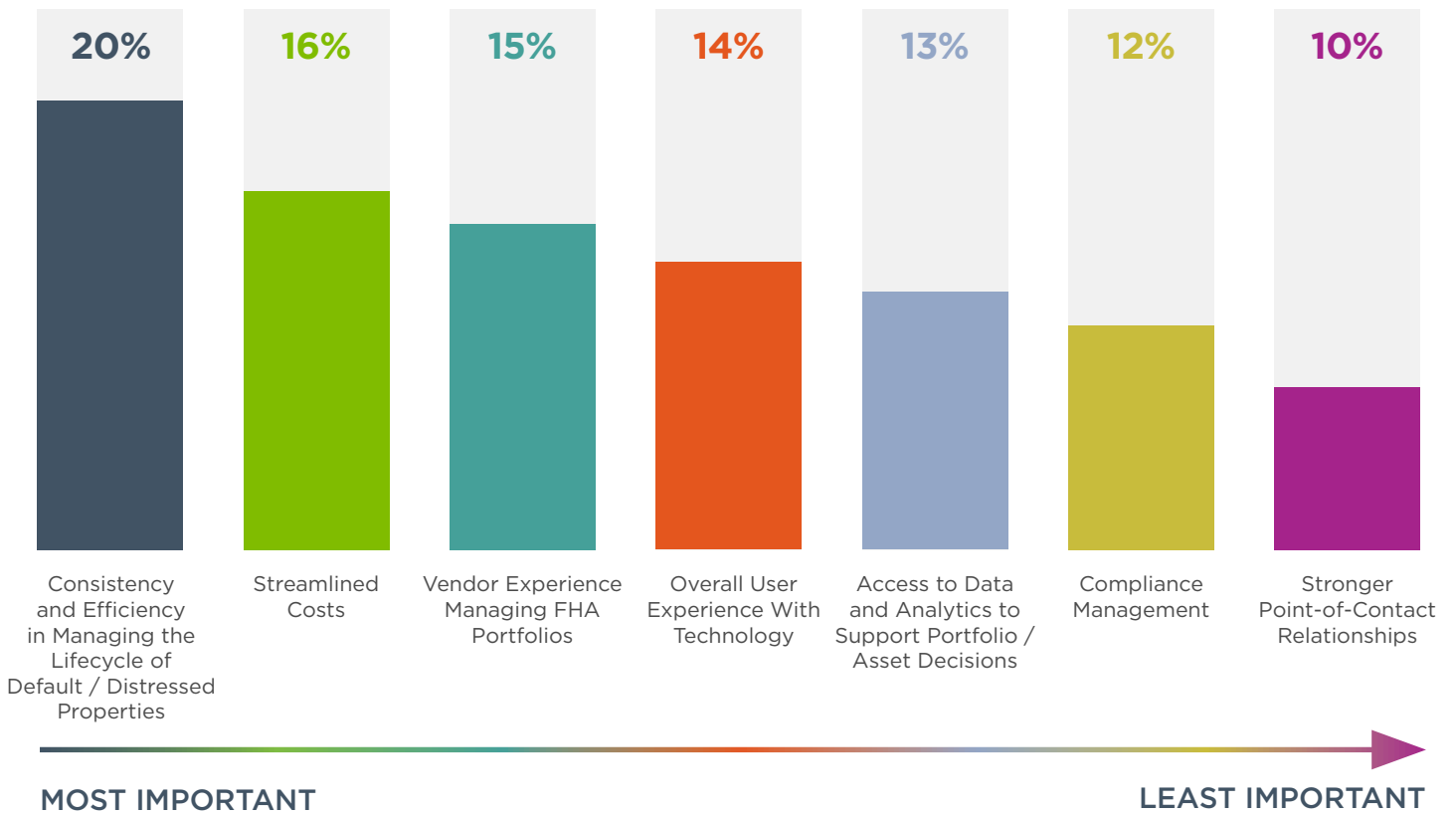
- Monthly*
- Quarterly
- Annually
- Biannually
- Biennially

* Monthly replaces biennial in 2020. Does not total 100% due to rounding.

One in five (20%) professionals stated the most important consideration in 2020 when using a single-vendor approach is “consistency and efficiency in managing the lifecycle of distressed / default properties.” The other responses ranked very close together with “streamlined costs” at 16% and “vendor experience managing FHA portfolios” at 15%, followed by “overall user experience with technology” (14%), “access to data and analytics to support portfolio / asset decisions” (13%), “compliance management” (12%) and “stronger point-of-contact relationships” (10%).

Working with a single-source vendor who can provide end-to-end capabilities and experienced personnel, knows the complexities of managing default properties and has fully built technology and operational solutions to stay on track is crucial for optimized loss mitigation and conveyance and HUD reimbursement. Working with one company also streamlines the overall workflow and improves communication.

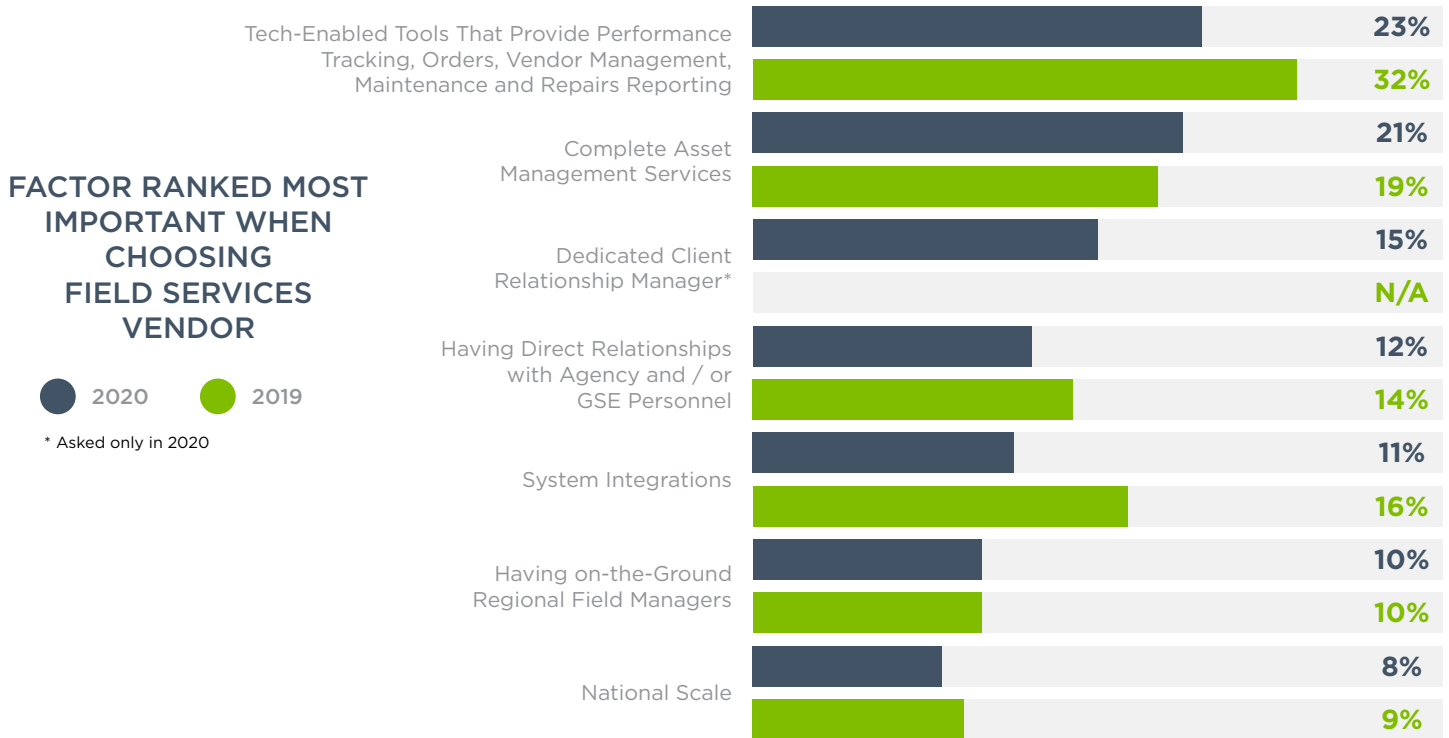
CONSIDERATIONS IN 2020 WHEN USING A SINGLE-VENDOR APPROACH



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STATED THE MOST IMPORTANT CONSIDERATION IN 2020 WHEN USING A SINGLE-VENDOR APPROACH IS CONSISTENCY AND EFFICIENCY IN MANAGING THE LIFECYCLE OF DISTRESSED / DEFAULT PROPERTIES

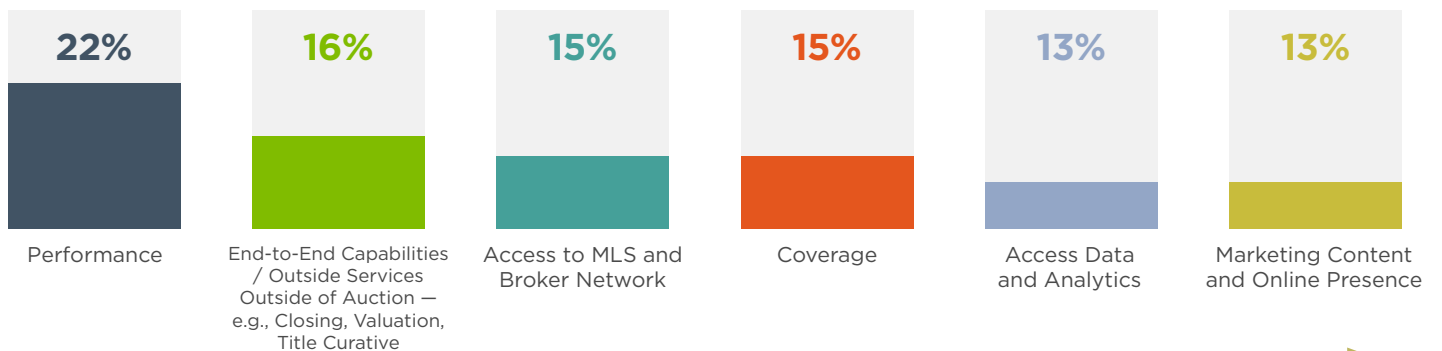
“Tech-enabled tools” (23%) and “complete asset management services” (21%) were again the top considerations this year when default services professionals choose a field services vendor. Tech-enabled tools dropped 9%, but complete asset management services increased 2%. “Dedicated client relationship manager” is third at 15%, followed by “having a direct relationship with an agency and / or GSE personnel” (12%) and “system integration” (11%).



When respondents ranked considerations for choosing a CWCOT auction vendor, “performance” (22%) topped the list with “end-to-end capabilities” (16%) a distant second. “Access to MLS and broker network” tied with “coverage” at 15% while “access to data and analytics” and “marketing content and online presence” tied at 13%.

A nationwide CWCOT auction provider that can help servicers boost bidder engagement by providing scalable, multichannel marketing strategies is crucial to ensuring maximum third-party sale conversions and the overall success of servicers’ CWCOT programs.

MOST IMPORTANT CONSIDERATION WHEN CHOOSING CWCOT AUCTION VENDOR



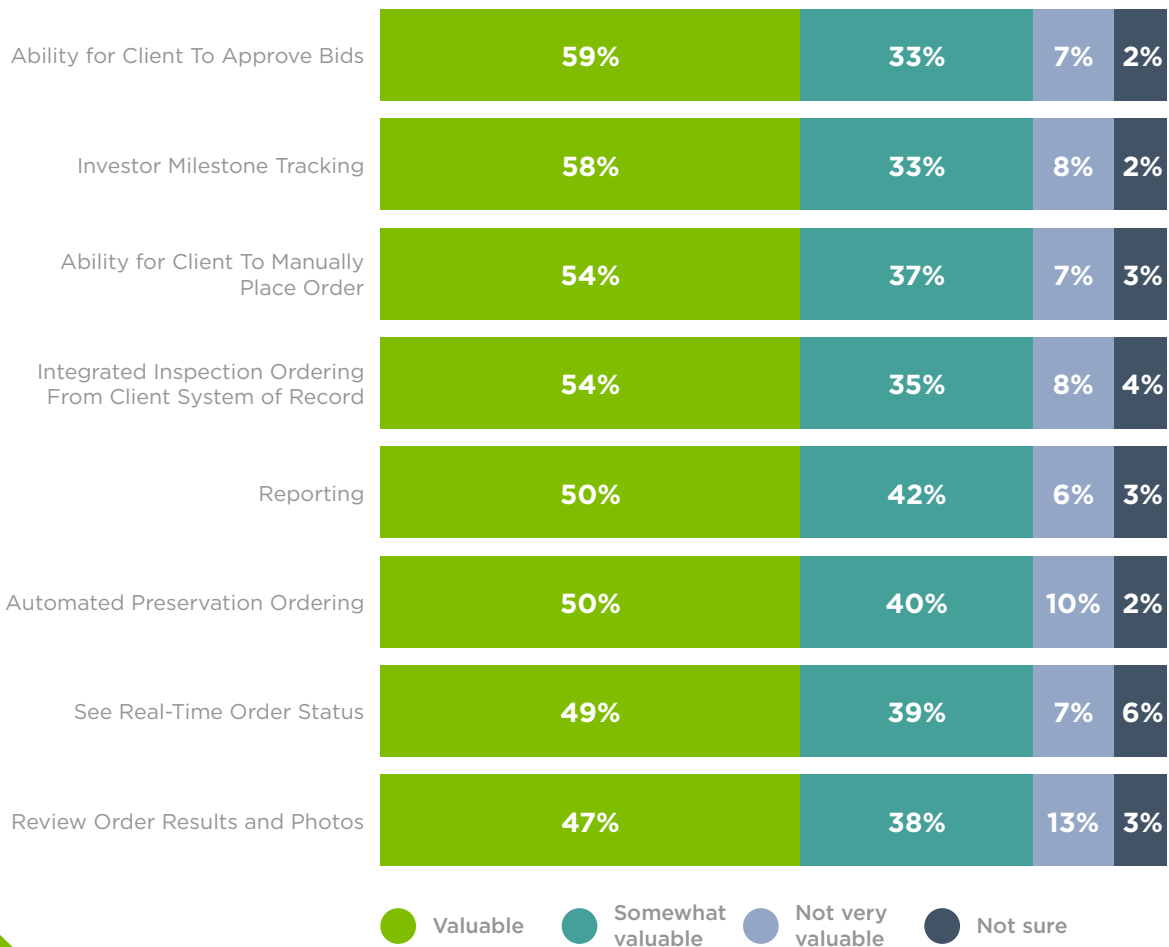
MOST IMPORTANT
Does not total 100% due to rounding.

LEAST IMPORTANT

TECHNOLOGY PREFERENCES

When asked to evaluate the attributes of technology platforms offered by service vendors, respondents found little difference, indicating they are all important and technology plays a necessary role in field services activities. Over half (59%) ranked “ability for a client to approve bids” the top choice with “investor milestone tracking” almost even at 58%. “Ability for a client to manually place an order” tied with “integrated inspection ordering from client system of record” at 54%. “Reporting” and “automated preservation ordering” also tied at 50%, followed by “see real-time order status” (49%) and “review order results and photos” (47%).

ATTRIBUTES FOUND VERY VALUABLE IN A FIELD SERVICE VENDOR'S TECHNOLOGY PLATFORM



59%

PREFERRED THE ABILITY FOR A CLIENT TO APPROVE BIDS AS THE MOST IMPORTANT TECHNOLOGY ATTRIBUTE



18%

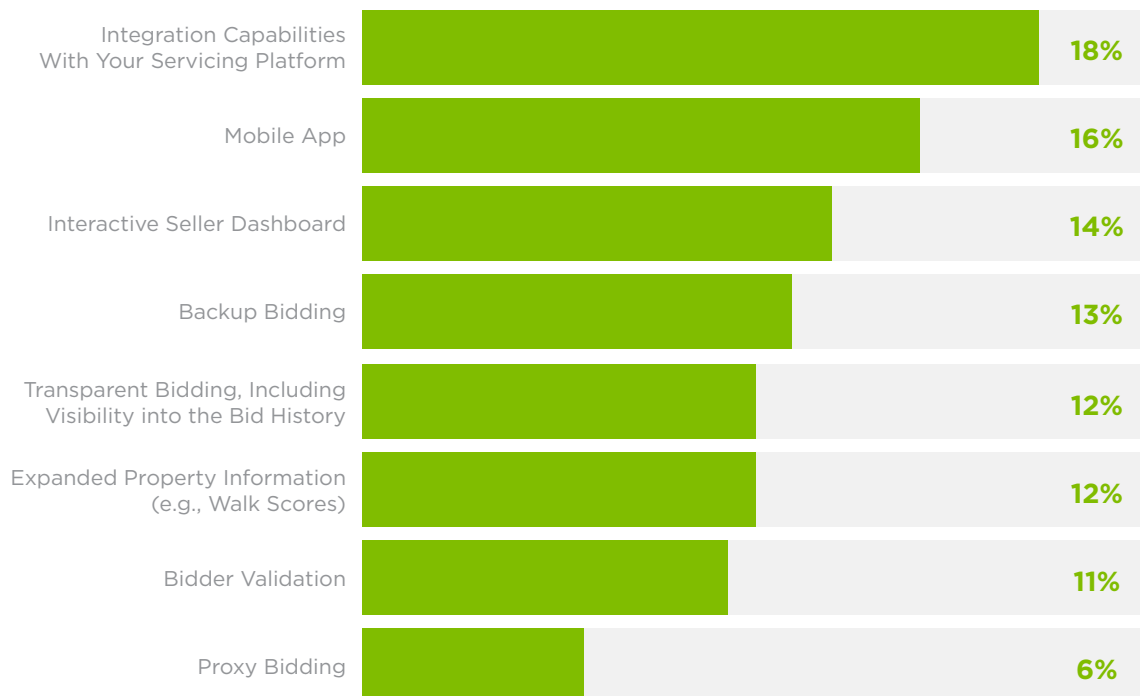
CONSIDER INTEGRATION CAPABILITIES WITH YOUR SERVICING PLATFORM AS THE MOST IMPORTANT FEATURES FOR ONLINE AUCTIONS

Online auctions have proven to be a very successful method for mitigating losses by marketing and selling default assets. They enable bidders across the country, both investors and owner occupants competing against each other on a level playing field, to easily locate and purchase a wide range of properties. That’s why default servicing professionals currently include them in their disposition strategies. With the large number of properties expected to go into foreclosure in 2021, those not benefiting from auctions should now look at doing the same.

When respondents were asked what they consider the most important features for online auctions, they chose “integration capabilities with your servicing platform” (18%) as their top answer. That was followed closely by the need for “mobile apps” at 16%. Giving buyers and investors the ability to track and bid on properties from anywhere at any time from a mobile device makes apps a must-have part for any successful auction program. “Interactive seller dashboard” (14%) and “backup bidding” (13%) followed mobile apps with “transparent bidding” and “expanded property information” tying at 12%.

It’s crucial for default servicing professionals to also choose an auction platform that utilizes a “dual-path” strategy of marketing the property with a broker in the multiple-listing service. At the same time, they should deploy robust local, regional and nationwide marketing strategies to reach the largest pool of potential buyers in the market and have them compete in the auction.

MOST IMPORTANT AUCTION FEATURE



Does not total 100% due to rounding.

CONTRIBUTOR



As **Vice President of Auctions at Hubzu**, **Travis Britsch** is responsible for the strategic direction and leadership for Hubzu, which includes overseeing the development of new product offerings, driving real estate auction licensing compliance nationwide and leading operations related to each property sale nationwide. Travis is also responsible for training, managing and directly hiring proven and successful Hubzu technology, product and operations employees whose accomplishments have contributed to the business' growth each year. Travis has over 14 years of experience in the real estate auction industry, is a licensed real estate broker in four states and a member of the National Auctioneers Association.

ABOUT ALTISOURCE

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