Introduction

Short sales have long been viewed as an elegant solution to the nation’s foreclosure problem—at least in theory. These types of pre-foreclosure sales are when a distressed property (often in foreclosure) is sold for less than what is owed on the mortgage. Therefore, a short sale, in theory, provides a “win-win-win” for the buyer, investor/bank and even the seller. The buyer purchases a house they want at a price they can afford, the investor or bank gets the best price for its distressed asset, and the seller can exit the property with peace of mind while extinguishing the associated debt.

But short sales have never quite lived up to the hype, probably because what works well in theory does not always work well in practice. Short sale processing timelines are too long. Transactions don’t seem to ever close. Frustrated buyers and sellers walk away from the process, letting the foreclosure action take over. Many brokers even choose to not handle short sale listings or show buyers short sale properties simply due to the associated timelines for a decision to be rendered or due to lack of knowledge surrounding the process.

The short sale program offered by institutional investors Fannie Mae and Freddie Mac such as the Home Affordability Foreclosure Alternative (HAFA) had varying degrees of success. While this program attempts to standardize the methodology and approach for many servicers handling these types of transactions, many servicers have opted to implement the program with limited capacity, and line level expertise required ensure success. This article will review the emerging trends and discuss what is working and what is not…and how a few of the nation’s high-performing servicers are transforming short sale processing to improve decision cycle timelines and closing pull-through percentages.
State of the industry today

Despite the lingering after-effects of the housing bubble burst, the industry is seeing strong increases in pre-foreclosure sales in many states. The shift toward short sales becomes apparent when comparing pre-foreclosure sales numbers to bank-owned (REO) sales numbers. In the past, REO sales consistently outnumbered pre-foreclosure sales. According to RealtyTrac, foreclosure-related sales accounted for 19 percent of all U.S. residential sales during the third quarter of 2012—down from 20 percent in the previous quarter but the same level as in the third quarter of 2011. Counter to the trend in recent years, sales of properties in some stage of foreclosure (pre-foreclosure sales) outnumbered sales of foreclosed, bank-owned properties in the third quarter. A total of 98,125 pre-foreclosure sales occurred during the quarter compared to a total of 94,934 REO sales (see Figure 1).

Additionally, short sales of properties not in the foreclosure process increased 15 percent from the previous quarter and were up 17 percent from the third quarter of 2011. These non-foreclosure short sales accounted for an estimated 22 percent of all residential sales, bringing the total distressed sale share to an estimated 43 percent or the quarter (see Figure 2 on next page).

**FIGURE 1. Pre-foreclosure sales outnumbering REO sales**

Source: RealtyTrac, 2013
Fitch Ratings predicts in a new report that short sales will be instrumental in housing market recovery. Industry and government are more aggressively promoting short sales, and Fitch believes that the Federal Housing Finance Agency's proposal to accelerate the process will result in even more of these transactions. “Shorter timelines reduce lenders’ carrying costs and eliminate most of the legal expenses associated with foreclosure and liquidation,” the report explains. “As a result, loss severities tend to be considerably lower.”

FIGURE 2. Non-foreclosure short sales: the largest segment of the distressed sales market

Non-Distressed Sales 57%
Non-Distressed Sales 22%
Pre-Foreclosure Sales 11%
REO Sales 11%
Total Distressed Sales 43%

Source: RealtyTrac, 2013

FIGURE 3. Pre-foreclosure (short) sales: below its peak, but on the rise

Source: RealtyTrac, 2013
Large pools of potential short sales

Behind the new wave of foreclosure starts—many of which will become short sales as lenders are more reluctant to proceed with an increasingly complex and costly foreclosure process—are two much larger pools of potential short sales. The first is delinquent loans that have not yet started the foreclosure process. According to the Mortgage Bankers Association, there are nearly 3.5 million delinquent mortgages nationwide in this category. The second, even larger pool of potential short sales volume are borrowers whose equity position is now upside down due to sharp declines in property values.

Trends create concern

However, despite the growth of short sale volume, and the benefits to everyone involved, the average time to sell a pre-foreclosure property has increased nearly threefold since the first quarter of 2007, when it took an average of 113 days to sell a pre-foreclosure property. Today, many of the top ranked servicers are taking an average of 400 days or more to process and close a short sale. Far more transactions are falling out than are closing, ultimately increasing the volume of Real Estate Owned inventory which can further impact home prices and the way our communities function.

Meanwhile, the average time to sell a bank-owned property has remained relatively consistent during that same time period, even trending down slightly from 186 days in Q1 2007 to 178 days in Q1 2012.

This pre-foreclosure experience is frustrating for the buyers and sellers and presents even more obstacles for servicers to overcome.

When you layer this on top of the current average of 411 days to foreclose, it is clear that the servicer and investor have a serious desire to consider anything that will shorten any part of these timeframes. Foreclosure timeframes are even longer in key states such as California at 1099, and Florida at 853.

FIGURE 4. U.S. underwater mortgages

FIGURE 5. Days to sale

Source: RealtyTrac, 2013
What is causing this?

At one time, the delays were attributed to many different scenarios.

- There were not any established guidelines for a servicer to administer when processing a short sale
- The investor would rather reserve for the non-performing loan than accept the sale and take the loss

However, investor and government supported programs (e.g. HAMP, HAFA, etc.) have eliminated most of the issues yet top servicers still take 45 to 90 days to acknowledge receipt of a reasonable offer and 6-12 months to process an acceptance. It is not the transaction but the process which the servicer utilizes that is the culprit.

How short sales are processed today

HAFA, and traditional servicing processes, presume that the failed modification customer would naturally transition into the next stage of loss mitigation and pursue a short sale listing and sale. As such, the short sale processes are normally administered in the following order, by separate departments which hand off the work to the next area, with no person or system maintaining a view of the entire process (see Figure 6):

Most servicers today interpret HAFA such that even when a short sale offer comes in on a loan where they are not currently working with the customer, they initiate the process at the beginning. By the time the Negotiator receives the offer, 6 months have passed and the buyer is long gone. The marketing of the property begins again while the listing agent searches for another buyer willing to endure the process and delay. The bottom line is that submissions take 9-12 months to conclude and less than 10 percent of file submissions ever reach closing.

Now let’s look at the impact of erratic and piecemeal outsourcing. When the servicer determines that the above experience is unacceptable, they take 1, 2, or 3 of the steps above, or sub-components thereof, and outsource them to a third party. The result? Timelines get longer and even fewer transactions close.

Although this process makes sense to the industry veteran, each customer must come to the conclusion that selling their home, or their investment property where applicable, is their best course of action. This happens at different times for different people causing properties to get listed and offers to be submitted without the documentation process ever having been initiated by the borrower. When this does occur, the customer should be applauded, not punished, as it occurs in the process today.

FIGURE 6. Common servicer process today

- Solicits customer
- Delivers package
- Collects HACA required customer documents
- Works with listing agent
- Collects offers and clears conditions
- Reviews and negotiates offers
- Issues payoff letter
- Closes transaction

300–435 Days

45–90 days 90 days 90–120 days 30–90 days 45 days

Call Center Processor Asset Manager Negotiator Closer
There is a better solution

The process should embrace the homeowner, their situation, and their agent. The homeowner typically has little motivation to gather the required documentation necessary to allow you to evaluate whether or not you will consider a HAMP/HAFA short sale. This is true especially if they have already been turned down for a modification. The focus of the initial call should address the following questions: 1) is the homeowner delinquent, 2) is the property upside down and 3) is the homeowner willing to sell their property? If the answer is positive to the above questions the focus should be determining if they have a viable buyer willing to purchase the property or letting them know what they should do to find one.

Borrowers should be able to list their property as soon as they have made the decision to pursue a short sale and be able to present offers to a decision maker as soon as they come in. The Asset Manager and Negotiator should immediately evaluate these offers for acceptance. Once accepted, then and only then, does everyone collect the required documents to satisfy HAFA requirements where applicable or the bank/investors’ proprietary short sale customer documentation guidelines. A key benefit is that the servicer is now working in alignment with the commissioned local real estate agent to collect the required documents.

This approach will close with more velocity because everyone involved knows upfront they have a deal, and timelines get cut in half or more. This creates a process that resembles the following:

With the process approach below, Negotiators and Asset Managers work together and there are fewer assets per manager. However, more transactions close, in shorter timelines, allowing the same amount of staff to close 3 times the number of files. Servicers following the above process have been known to average submission-to-closing timelines of 60 days or less and funding percentages of 75 percent or more, with smaller production teams.

**FIGURE 7. High performance recommended process**

<table>
<thead>
<tr>
<th>Asset Manager</th>
<th>Negotiator</th>
<th>Processors</th>
<th>Closer</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Works with listing agent</td>
<td>• Reviews and negotiates offers</td>
<td>• Collects HAFA required customer documents</td>
<td>• Issues payoff letter</td>
</tr>
<tr>
<td>• Collects offers and clears conditions</td>
<td></td>
<td></td>
<td>• Closes transaction</td>
</tr>
</tbody>
</table>

120–230 Days

15–30 days 30–90 days 30–45 days 45 days
8 | Zero to Closed, Accenture’s High Performance approach to managing Short Sales
A smarter approach to outsourcing

The key to success with the revised process is that the Asset Manager/Negotiator partnership are working the entire transaction up front to structure a workable solution. If you want to outsource, pick a segment of the portfolio (specific investors, individual states or geographic areas, etc.) and give the entire book of business in that segment to one outsourcer. Hold them accountable for the process from customer contact to scheduled closing with the servicer only participating at the closing.

Things commonly considered when evaluating a short sale outsourcer:

**Is there any reputational risk in outsourcing this work?**

The nature of a short sale generates a bit more anxiety from the homeowners’ perspective given their inability to maintain homeownership. Servicers should consider only outsourcing to firms with exceptional track records for handling complex customer-facing service delivery. The ideal outsourcing firms suited for this type of service will be more than willing to supply customer testimonies, and statistics to support their performance.

**Where are the service delivery locations?**

Mortgage loan servicers who are evaluating outsourcing options should evaluate the firm’s geographic footprint and how it is set up to enable delivery. Firms with global delivery capabilities will be able to provide both enhanced process efficiencies, faster processing, better customer service, and lower cost delivery with a blended “right-shore” model—which commonly supports customer-facing services domestically and back-office activities internationally.

**FIGURE 8. High performance outsourcing characteristics**

<table>
<thead>
<tr>
<th>OUTSOURCE CAPABILITIES</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>Effective Solicitation</td>
<td>Ability to mass generate mailing campaigns, inbound and outbound call campaigns and Realtor direct short sale candidate identification and referrals</td>
</tr>
<tr>
<td>Listing Optimization</td>
<td>Interactive education training programs in concert with trained case management staff that increases Seller and Realtor awareness, understanding of the Short Sales process, responsibilities and mechanics; data driven approach to determining existing listings that qualify as Short Sales, data driven pricing models, incentive strategies to enhance borrower cooperation</td>
</tr>
<tr>
<td>Marketing Exposure</td>
<td>Extensive marketing exposure through a network of nearly 10,000+ short sale certified, real estate professionals nationwide and 20,000+ marketing web sites internationally</td>
</tr>
<tr>
<td>Competitive Pricing</td>
<td>On line bidding capability that attracts blind bids and drives enhanced pricing</td>
</tr>
<tr>
<td>Rapid Transition Methodology</td>
<td>Demonstrated ability to complete transition in less than 60 days leveraging a proven methodology for knowledge transfer and training to ensure seamless transition and execution</td>
</tr>
</tbody>
</table>
Customer service and guideline compliance

In many instances, interpretation of government programs must be exercised to determine the optimal approach which keeps customer experience and education at the core. In no explicit or direct manner does HAFA guidance state that customer documentation must be collected prior to evaluating a pending offer. Only that it must be collected prior to approving or denying a HAFA short sale transaction.

Choosing a strategic partner with a proven track record can be the difference between a successful implementation or a difficult and prolonged process, ultimately impacting all parties involved. With the revised approach, it creates a process that more easily allows the servicer to meet the following FHFA recently announced guidelines for pre-foreclosure sales:

- Must respond to short sales within 30 days of receipt of the short sale offer
- Must provide weekly updates to the borrower
- Must communicate a final decision to the borrower within 60 days of receipt of the offer
Conclusion

Short sales are a significant and growing area of loss mitigation. To stay compliant, meet the oncoming short sale demand within the required cycle times, and to turn a “win-win-win” theory into a reality, servicers must re-evaluate the way they process and outsource their pre-foreclosure transactions. The focus must be on rapid and accurate responses to offers received, reducing cycle times to achieve more closings, and maintaining customer experience throughout.
About Accenture

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