

The Safeguard Properties 6th Annual Vendor Conference Summary

Day 1: REO

Keynote Address

This year's conference opened with keynote speaker Rob Caire, VP of Credit Loss Management for Fannie Mae, touching on crucial factors affecting our industry today. In his address, Caire noted that the economy is bottoming for the foreseeable future, and that in turn, the housing market is suffering. Foreclosure moratoria remain an issue today, and estimates project that within the next 2 years, nearly 50% of U.S. homeowners will be underwater in their mortgages. Unemployment rates may start to improve, but it will be awhile before we have really recovered. Caire provided a graphic that illustrated the severity to which the market is oversaturated with houses listed for sale; foreclosures, new construction, existing homes and condo conversions all feed into what has become a surplus of houses on the market nationwide. Much of the Great Lakes region (Ohio, Indiana, Michigan, and Illinois), several Western states (California, Nevada, and Arizona), and Florida continue to dominate foreclosures.

Ultimately, said Caire, Fannie Mae's goal is to be instrumental in the housing recovery process. He outlined five key challenges in marketing foreclosed homes:

- Condition
- Inadequate Marketing
- Access
- Perceived Process
- Price

With regard to the condition piece, Safeguard's contractors are in a position to make a positive impact. Attention to detail on requirements like lawn care, shrub trimming, interior trashouts and maid services, and even recommendations on needed repairs all factor in to the overall presentation, which is critical in attracting buyers.

Caire then showed a video clip from a news story on one of Fannie Mae's vacant properties. Unfortunately the spotlight was shown on a case where a neighbor was upset that the property was not being properly maintained. While the property in question, it turns out, was tied up in eviction proceedings, thus preventing preservation work from being completed, the case illustrates that despite all of the times that we as an industry properly maintain properties, it only takes one case of neglect (or apparent neglect) to make waves with the public. It is essential that each part of the industry do its part to ensure the highest levels of quality, every step of the way.

Session 1: Importance of REO Initial Services

The keynote address was a great lead-in to the first main topic of the day, REO initial services. As Caire had pointed out, it is imperative that REO properties have a clean, well-kept appearance, inside and out. Throughout Session 1, the panelists and audience members exchanged ideas and insights into commonly-faced problem areas. Specifically, a great deal of time was spent reviewing the basics, from determining occupancy and changing the locks to properly winterizing properties. One contractor made a suggestion of having Safeguard establish a winterization hotline, so that contractors could call a separate number when dealing with winterization-related issues in the field. Safeguard personnel are taking this under advisement for future implementation. Other contractors expressed concern that the required toilet wraps do not stay in place, and that they are therefore difficult to work with. However, clients on the panel noted that they appreciated seeing these in properties that they have inspected. Another suggestion from the audience was that Safeguard should create a zip tie for the water meters that is specific to each property, like a coding system, so that it would be even easier to identify whether a tie was removed and replaced. The zip ties act as an insurance policy to prevent others from tampering with the water lines, and required photo documentation means that Safeguard has a record of when the tie was installed. Having a more complex method of identifying the ties with a coding system would go further to help ensure that Safeguard's contractors are protected in cases where meters are tampered with and where damages result.

Safeguard's CEO Robert Klein also took the time to point out that tenant-occupied properties are going to be a growing point of concern for our industry, as investors like Fannie Mae make concerted efforts to keep legitimately-paying tenants in properties that have defaulted.

Session 2: Communication

Communication was another important topic of the day. As in previous conferences, the panelists reiterated that it is critical that the contractors in the field and the listing agents marketing the properties work together. Safeguard has seen improvement in the percentages of agents reporting back that they received calls and/or e-mails from the contractors on the initial services orders, but there is still room for improvement. One contractor asked if the listing agent's contact information could be listed on every order, instead of just on the initial services orders. This is a programming request that we are currently working on internally, and we will release a contractor memo once it is operational.

Vendor Manager Nancy Runyon also touched on Safeguard's initiatives to boost communication with the listing agents, which include automating e-mails to the agents with the contractor's contact information, the broker sign-off sheets and internal review process of the results, and a programming piece that now allows the contractor's status updates to be automatically e-mailed to the listing agent. These are in addition to our already-established Broker Direct team, which is an offshoot of our customer service unit and which focuses on broker questions and concerns via a dedicated phone line and e-mail account.

Session 3: Changes in the Industry, High Risk and Safety and Hazard Issues

Session 3 began by examining several recent and upcoming changes in the industry. Klein noted that there are a number of new issues coming to the forefront of our industry. In addition to the previously-mentioned topics of tenant-occupied properties and the need for enhanced curb appeal, Klein said that media coverage of the foreclosure crisis is at an all-time high. Public Relations Director Diane Fusco shared some tips for the contractors to remember when being questioned by any member of the media. She expressed the need for all vendors to remain professional and polite, and to not divulge sensitive information about the properties in question.

In addition, Klein stressed the vacant property registration issue, which has been growing in strength throughout the country. Many contractors were not aware that a number of municipalities have been enacting various statutes and establishing a structure by which all servicers are expected to not only register their properties, but also pay a registration fee. He mentioned the MERS Initiative, which is a program to streamline the registration process, thereby centralizing in one database all of the vacant properties as well as contact information for the servicer and for the field services provider (like Safeguard). Another area of growing concern recently is that of Chinese drywall. Again, few contractors in the room were aware of this issue, which seems to be concentrated in the Southern states. Chinese drywall was brought into the country post-Hurricanes Katrina and Rita, when U.S. supplies were running low. However, it is coming to light that the Chinese drywall is comprised of chemicals that cause damage to plumbing and electrical wiring, and emit a strong odor that makes properties uninhabitable. This is likely to be an issue that will continue to develop.

Klein also touched on the Good Neighbor program, which was an internal initiative designed to promote better community relations, particularly with neighbors of bank-owned properties. Through the program, contractors leave door hangers at the neighbors' houses, so that the neighbors have Safeguard's contact information in the event of an emergency.

High Risk and Hazard Claims Director Steve Meyer led the discussion regarding high risk issues and the importance of properly reporting such conditions. He reiterated discussions from past conferences on the importance of reporting to Safeguard any posted violations, citations, or other notices that the city or county may have posted. Often, our reports of these issues are the first notices that our clients have, and we must address the postings immediately. Likewise, contractors need to report any situations at the properties that might result in a future violation if not addressed. Examples include—but are not limited to—unsecured pools, pools with stagnant water, graffiti, exterior debris, and yard maintenance issues (overgrown grass, shrubs).

Session 4: Quality Control and Vendor Web

Rounding out Day 1 of the conference were the topics of quality control and Safeguard's Vendor Web. Vendor Manager Nancy Runyon led the conversations on both of these topics, beginning with an overview of Safeguard's quality control processes. Safeguard has been quickly expanding its network of field quality control representatives, and virtually all of the contractors at the conference raised their hands in response to the question of who has been

visited by a member of this team. Created to enhance the consistency and quality of our vendors in the field, this team travels throughout their respective regions inspecting properties, meeting with contractors to review guidelines and provide any needed training assistance in an effort to continually provide the highest possible levels of quality to our clients.

Safeguard's goals in this endeavor include improving efficiency, training new vendors, identifying areas of opportunity and combating complacency. In turn, Safeguard asked that the contractors also take proactive steps to train and re-train their own teams, and to implement the recommendations from the field quality control representatives. Such steps will ensure fewer trips back to the properties to obtain missing information or to correct oversights, which in turn leads to higher efficiency rates, lower error rates, and greater client satisfaction.

Day 2: Property Preservation

Keynote Address

Raymond Pianka, Cuyahoga County Housing Court Judge, opened the second day of the conference. Judge Pianka gave a brief history of the housing court, which was founded in 1980 with broad jurisdiction over housing issues. Annually, Judge Pianka hears approximately 11,000 civil and 3,000 criminal cases. He highlighted the diversity found within greater Cleveland housing, from well-maintained, fully-restored Victorian homes, to run-down houses in very poor condition, and everything in between. There are an estimated 10,000 abandoned homes in Cleveland today, an issue that has captured media attention all over the world. Pianka spoke to the immediacy with which lenders and servicers must act, in efforts to preserve and protect vacant properties. Failure to do so will likely result in a "hostile and costly confrontation with local government officials." He noted that the current real estate crisis is a major challenge to homeowners, lenders, and servicers, as well as to the courts.

Session 1: Lifecycle of a Loan, Initial Secures

Day two of this year's conference opened with an overview of the lifecycle of a loan, which begins at default, continues through foreclosure, and on to conveyance and—in the case of FHA loans—M&M review, possible re-conveyance, and re-marketing. CEO Robert Klein and several members of the Safeguard team, including P&P Operations Manager Kellie Chambers, High Risk and Hazard Claims Director Steve Meyer, and Vendor Manager Nancy Runyon, discussed a wide range of topics, beginning with verifying occupancy. Klein mentioned that the issue of reporting not only that the property is occupied, but by whom, is going to become increasingly important in the near future. Servicers are going to need to know whether the property is being occupied by a tenant or the mortgagor, particularly in light of expanding efforts to keep paying tenants occupying properties that were defaulted on by the mortgagors. As discussed in Day 1, the tenant protection act is now requiring that lenders and servicers take certain actions and make efforts to work with those who are paying rent to live in properties that are now in default.

Once properties are reported to be vacant, monthly interior inspections become a critical piece of the puzzle, and it is therefore imperative that the lock boxes the contractors install on the initial secure orders are in working order, so that the inspectors can access the properties each month. Likewise, the contractors should be going inside the properties on each grass cut order.

Chambers and Klein also touched on the differences between pre- and post-sale properties; the biggest factor being that in pre-sale, the goal is to do the bare minimum to protect the properties, as we cannot interfere with the mortgagor's rights. Therefore, we require contractors to enter properties through a secondary door when possible on the initial secure order, so as not to deny the mortgagor access. Only in cases where there is only one door into the property are we permitted to deny access, as we (on behalf of the servicer) have the right to ensure that the property is protected from damages. The panelists also briefly touched on the issue of personal property, which is not to be removed from a pre-sale property. Only infestation hazards can be removed, as they will worsen over time if not addressed.

Session 2: Winterizations, Yard Maintenance, Property Condition Reports and Bids

Session 2 continued the conversation regarding pre-sale preservation, picking up at winterizations. As the winter months quickly approach, it will be increasingly important for all vendors to stay vigilant and bring to Safeguard's attention any issues with regard to the plumbing systems. The process is the same as for REO properties—all water must be removed from the system, the lines blown clear with an air compressor, and antifreeze added to all traps. Stickers must be filled out and posted, and toilet wraps must be utilized. Water meters must be zip tied. Contractors are urged to communicate with condominium associations and ensure that the heat is being maintained.

Lawn maintenance is another important component of preservation services. Safeguard implemented some programming changes this year, which meant a shorter script for the contractors on Vendor Web, and automatic re-cut orders that are not dependent on the updating of the current order to generate in the system. All contractors are still expected to maintain the front and back yards, remove clippings, trim shrubs based on the investor guidelines, and provide adequate photo documentation of all work completed. Exterior debris that is preventing the grass cut should be moved to the garage or to the side of the house, so that the grass can be cut. The contractors were asked to avoid unnecessary comments on these updates, so that the automated system can process these updates more quickly.

Property condition reports, which must be completed on each first-time vacancy order, are a critical piece in the overall process, as it is imperative that conditions found at the property be properly documented on our first visit. Likewise, future conditions must also be noted and reported as soon as they occur. A great deal of discussion took place regarding common oversights, investors' and servicers' primary concerns, and the importance of proper photo documentation. Mortgagor neglect, which includes wear and tear, holes in walls, and other conditions found upon first interior access to the property, can be construed as mortgagee neglect if not properly reported. Contractors are required to provide eyeball estimates of

damages, bids to mitigate emergency conditions (those that will worsen over time if not immediately addressed), and bids for other safety and health hazard issues.

Additionally, Steve Meyer touched on the importance of reporting the presence of a sump pump, as well as whether it is operable, as sump pumps are a “high risk” flag. The electricity must be kept on, so that the pump will continue to run. Several contractors mentioned that they sometimes see cases where a sump pump crock was dug, but the pump was not installed. Full bids to install discharge lines, as well as to install the pump itself, must be provided in these cases. All contractors are required to carry a portable generator as well, so that they can test pumps to verify whether they are operable. All bids, including those for sump pumps, must include a full description of the item/situation in question, an explanation of what course of action is needed to address the issue, and detailed photo documentation to support the bids.

Session 3: Conveyance Issues

Session 3 focused on conveyance issues, and also briefly touched on the definition of “convey condition,” which is that all properties conveyed to HUD should be undamaged by fire, flood, earthquake, tornado, hurricane, or boiler explosion (for condominiums) or damage resulting from mortgagee neglect. Properties with mold may convey as long as the mold was not caused by one of the above-mentioned events, and as long as it is not deemed to be mortgagee neglect. Servicers only have a 30-calendar-day window in which to convey the properties to HUD, starting from the foreclosure sale date. This is a very tight timeframe, particularly when factoring in time for bid submissions from contractors, obtaining approvals, having the work completed, and submitting all proper documentation showing that the property is now in convey condition. Safeguard therefore relies on the contractors to report property conditions and bids fully and accurately, as quickly as possible, so that the properties are ready to convey on time. Failure to make these deadlines results in costly fines to our clients, which may be passed down to the contractors if there is evidence that proper procedures were not followed. Safeguard also absorbs these fines in cases where we do not believe our contractors were at fault, but where the properties still did not convey on time.

Kellie Chambers noted that the biggest factors in HUD demand letters include water being left in the lines, debris left on-site, failure to secure outbuildings, and failure to properly clean toilets. Improper pool securing, failure to complete work within stated timeframes, incomplete yard maintenance, cracked or broken windows, roof leaks and water damages also made the list.

Unreported damages and unfinished renovations are also big causes for re-conveyance. It is not uncommon for contractors to forget to check places like attics and crawl spaces for hidden damages, or to fail to report why certain types of renovations were taking place at the properties.

Session 4: Repairs, Mitigating Damages, High Risk, Changes in the Industry, Quality Control and Vendor Web

The final session for Day 2 was packed with a wide array of topics. Beginning with repairs and mitigating damages, High Risk and Hazard Claims Director Steve Meyer spoke of the need for immediate mitigation of damages, so that the conditions do not worsen, which would result in further damages. Monthly follow-up is needed to ensure that the conditions have not worsened. As always, contractors are required to submit the necessary photo documentation to support that all work was done correctly, and that the situation has been stabilized.

From a high risk standpoint, Meyer noted that the key factors to keep in mind are the need to report potential violations, reporting to Safeguard any City or County postings, and being familiar with local contractor licensing requirements. Code compliance issues as previously discussed come into effect, as Safeguard needs all of the contractors in the field to be aware of code issues, new statutes that impact their respective coverage areas, and so on. Constant communication with Safeguard helps keep all apprised of changes that affect our industry.

There are a multitude of recent and expected future changes that are impacting this industry as a whole. Tenant-occupied properties were mentioned in the REO sessions—as more investors enact policies of working with tenants, and as additional laws are passed to guarantee the tenants' rights to remain in the properties if they are legitimately paying rent, our involvement with tenant-occupied properties will grow. Safeguard is already starting to complete inspections to verify whether the occupant is a tenant or the mortgagor.

The Good Neighbor program is a recent implementation, which was also mentioned in the REO sessions. Again, this program was started internally as a way to reach out to the neighbors of vacant properties. By leaving our contact information, the neighbors have someone they can call if the property is broken into, or suffers damages, or needs to have additional work done. Improved communication benefits everyone.

The topics of vacant property registration and Chinese drywall were also discussed on the previous day. Both of these issues impact the industry noticeably. Vacant property registration, while not new, has been gaining considerable ground in the last year especially, as more and more cities enact their own statutes requiring lenders and servicers to register their vacant properties and pay a registration fee. Though there is little impact to the contractors, this topic has generated much discussion throughout the industry and even in mainstream media. Chinese drywall is of greater impact to the contractors, though the incidents of finding this drywall in vacant properties seem to be specific to the Southern states, with few exceptions. As mentioned in the REO sessions, this drywall contains chemicals that damage the plumbing and emit an odor that makes it nearly impossible to remain in the house.

The panel also discussed the upcoming HUD M&M III contracts, which will mark the end of the M&M system as it stands today. Instead, HUD has been soliciting outside bidders from preservation companies to take over the preservation functions on HUD properties (FHA loans that have conveyed back to HUD). In conjunction with this project, it is expected that HUD may change the policy on “convey condition” to include that the properties must be in “broom-swept” condition, meaning that all debris (inside and out) must be removed, and the property

must be clean on the inside. This will greatly change how properties are handled in the post-sale stage, and it opens up additional opportunities for contractors to complete more work on these properties.

Quality control and Vendor Web were again the final topics of the day. Members from Safeguard's Vendor Management team provided a recap from the REO sessions, briefly touching on the department's goals and objectives, as well as their expectations for the contractors in the field. Several of the contractors in the audience had great suggestions for improvements to Vendor Web, which were recorded for follow-up after the conference. Some of these suggestions included:

- Improving the system's speed between 10:00 AM and 2:00 PM EDT
- Preventing boarding/reglazing information from erasing when the user moves away from the page and then comes back
- Give the vendors the ability to assign the orders to specific crews
- Requiring a rear photo on grass cut orders

All of these items are currently under review internally, and as changes are implemented, Safeguard will send out notifications to the vendor network.

Day 3: Inspections

Session 1: Importance of Inspections

This year's conference was the first time that Inspections was given a day of sessions to review critical issues and key topics. This year's opening session focused on the importance of inspections, and the panelists began by discussing the reasons why we complete inspections. Within the full lifecycle of a loan, the process begins by inspecting the property to determine whether it is vacant or occupied. Therefore, all inspectors are asked to be as accurate as possible in reporting occupancy status. Of course there are always times when the actual status was not evident, even despite an inspector's diligence, but every effort must be made to correctly report to Safeguard the occupancy status of each property inspected. Delays and errors cause problems further down the line, which cause other delays for our clients and for Safeguard's contractors. Robert Klein also touched on the impact that the new tenant-occupancy issues (as covered in the first two days) has on the inspectors, who will be the ones sent out to determine whether the property is inhabited by a tenant or by the mortgagor.

The panel also discussed the importance of interior inspections, which generated much dialogue—particularly regarding the need for a full interior property condition report. An inspector also asked if the work orders could list the specific lock box combination for that property, instead of listing out multiple possibilities. This is something that Safeguard is looking into; however it requires some programming changes.

Session 2: Conducting Inspections

This session focused on the actual processes by which inspections are completed. Occupancy verification concerns were reviewed, and audience members gave insightful feedback regarding common issues they see in the field and how they overcome them. As mentioned in the first session, accuracy is vital, though results can be deceiving. Safeguard also discussed some “do’s and don’ts” when talking to occupants and neighbors, as we need to be careful not to mention certain facts about the property’s status.

Gated communities are a common hurdle faced by inspectors, and though Safeguard makes efforts to provide access letters from our individual clients, many of the attendees noted that these do not always get them through the gate. This is something that Safeguard is always looking to improve upon, and we are open to any suggestions on how to more consistently get access from the guards at the gates.

Several questions came up with regard to contact inspections. One inspector noted that Vendor Web still asks for a second attempt at contact even if contact was made on the first try. This is something that Safeguard will take back as an action item. Robert Klein and one of the inspectors did a bit of role-playing, to demonstrate effective ways to seek information about an occupant without revealing too much about why the inspector is looking for this person, while at the same time not being deceptive about the inspector’s purpose. It is also important for inspectors to avoid confrontation with anyone—if an occupant or a neighbor does not want to talk, inspectors must respect that and walk away. Door hangers should be left when contact cannot be made.

With regard to interior inspections, key discussion points included verifying whether the electricity is on if there is a sump pump present, making full property condition reports, identifying damages, and supplying proper photo documentation. Particularly in the case of FEMA inspections, efforts must be made to look in windows for signs of damage. As always, photo documentation is crucial.

The group also discussed reporting bad addresses, and possible sources to help locate the correct address. Tax assessors’ offices and post offices are great resources. Inspectors should stay away from Mapquest.com and similar sites, as they may not be accurate. Memo 5005, which was released in 2002, also covers this topic, and inspectors are encouraged to re-read it.

Session 3: Documenting Inspections

The third session focused on properly documenting inspections, and the panel began by posing the question, “How do you control for quality when using subcontractors?” Several inspectors explained their internal processes for quality control, which ranged from periodically double-checking their subcontractors’ results, to creating their own dummy addresses to ensure that the subs did not try to report actual results. This is a practice that Safeguard utilizes as well—fictitious addresses are periodically created, and the results coming in are monitored to look for inspectors who report “occupied” or “vacant” on an address that does not exist.

Another topic in this session was that of reporting the property's condition, based on a "good, fair, poor" ratings system. Photos must always support the rating, which means that severely dilapidated houses should not be given a "fair" rating. Throughout the session—as well as throughout the conference as a whole—the importance of photo documentation was discussed. Property condition, damages, and any other situations requiring attention need to be proven through photos, as this is our clients' only way to see what is happening at the properties. First time vacancy inspections require at least five photos, including one photo of the posted FTV sticker.

Response to follow-up requests was another key topic in session 3. Safeguard staff rely on accurate information the first time to be able to quickly communicate key information to our clients. In cases where additional information is needed, or when we require a clarification, it is very important that we receive responses as quickly as possible, to avoid further delays. Inspectors are asked to be sure that all questions are being answered at once, to save additional e-mails and phone calls seeking information.

INSPI2, Safeguard's inspections updating system, was also discussed, particularly with regard to documenting work completed. The INSPI2 system is set up to be able to auto-approve a number of types of inspections, in cases where the responses match with expected results in our internal system, and in cases where there are no additional comments or other issues being reported. However, there are several recurring issues that prevent otherwise "normal" orders from auto-approving, including reports of information that conflicts with previous months' results, a large discrepancy in the estimated property value from the previous report, a discrepancy in the number of dwellings on site, reporting "occupied" and "utilities off," and reporting additional comments on properties in gated communities. The panel reviewed a list of "unnecessary" comments that prevent auto-approval, including "needs trashout," "air conditioner running," and "construction also frame." Comments like these kick out the order from the auto-approval process, thus causing it to be manually reviewed, which slows down the process. Safeguard asked the inspectors to keep this in mind before adding comments.

The panel also quickly touched on severe weather alerts, and asked the inspectors to be sure to report such events to their regional coordinators, so that we can be sure to track and report these areas to our clients. This helps everyone be better prepared, particularly in cases where hurricanes may be approaching, or where heavy snow and ice are expected to hit.

Session 4: INSPI2

The final session of the conference was focused on the new releases expected for INSPI2, and their impact on the inspectors. Representatives from Safeguard's IT department have the presentation on the new wireless devices, which are expected to greatly enhance the inspectors' ability to update from the field. After a demonstration of the new device, an inspector who has been a beta tester in recent months came onstage and gave a demonstration as well. She offered insights into how these new devices are more efficient and how they streamline the overall process. The new devices allow the users to attach photos immediately

from the field, as well as to receive and send rush orders. These devices should eliminate the need to complete additional data entry at the end of the work day.

Inspectors had the opportunity to ask additional questions about the new devices, as well as to suggest possible future enhancements. One suggestion was to add photo tag options for “gated community” and “door hanger.” Another was to give ranges for home values (such as \$0 - \$50,000, \$51,000 – \$75,000, and so on), so that the range could be selected from the menu, rather than the inspector typing out an estimate. Another inspector recommended adding the option of “vacant land, never constructed” to the list of property types, to separate these from vacant lots that used to have structures present. Someone else mentioned that it is frustrating to receive messages on INSPI2 that new orders have been sent, but no details are given as to what or where the new orders are. Several audience members wanted to see an improvement to the photo loading speed, so that less time was spent waiting for the photos to upload. All of these suggestions are being taken under consideration internally.

This session concluded the conference, which seems to have been another success. This was by far our largest turnout to date, and a lot of great information was exchanged over the course of three days. Everyone at Safeguard would like to thank all of those who are working in the field each day, as we all know that we cannot run a successful company without you. We look forward to seeing everyone again next year.