

Allison Brown

From: Lucy Morris
Sent: Thursday, March 20, 2003 8:54 AM
To: Joel Winston; Peggy Twohig; Allison Brown; Spencer Jones
Subject: FW: Fairbanks, Tactics Under Fire, Calls Loan Problems Inherited

Fyi, please see the attached American Banker article about Fairbanks.

-----Original Message-----

From: James M. Lacko
Sent: Thursday, March 20, 2003 7:37 AM
To: Lucy Morris
Cc: David L. Newhouse
Subject: Fairbanks, Tactics Under Fire, Calls Loan Problems Inherited

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HEADLINE: Fairbanks, Tactics Under Fire, Calls Loan Problems Inherited

BYLINE: BY TOMMY FERNANDEZ

BODY:

Servicing subprime mortgages has never been an easy proposition, and lately Fairbanks Capital Corp., one of the leaders in this niche, has had even more headaches than usual.

Because the borrowers are riskier by definition, servicers have to be more aggressive with them than they are with those who have good credit. Subprime mortgages often lack features that make the servicing of prime loans more convenient, such as escrow or impound accounts for the purpose of paying taxes and other related expenses.

Also, these loans are more sensitive to economic downturns, and defaults and delinquencies have been on the rise. And the sector has had a flight of originators and servicers, leaving the few remaining players, like Fairbanks, to inherit their portfolios and problems.

But does this explain all the bad publicity the Salt Lake City company has gotten recently?

In the first week of March the Baltimore television station WBAL aired a series of stories that said more than 100 area borrowers had problems with Fairbanks' servicing of their loans -- from record-keeping errors to overcharges and unjustified declarations of default.

Soon after these reports, Sen. Barbara A. Mikulski, D-Md., met with some of the borrowers, and during budget hearings on March 6 she asked the Department of Housing and Urban Development to look into the complaints.

She followed up her request in writing on March 12, writing, "There are hundreds of complaints about this company from homebuyers all over the country, alleging that Fairbanks is scamming them out of thousands of dollars." HUD did not return American Banker's calls seeking comment.

In addition to asking HUD to conduct "a thorough criminal investigation into Fairbanks," Sen. Mikulski wants it to share information from the investigation with other federal agencies and to act as a clearing house for complainants' calls.

These developments prompted Standard & Poor's Wednesday to put on review for possible downgrade its ratings on Fairbanks' ability to service loans. It rates Fairbanks a "strong" servicer -- its highest grade -- both in the subprime and special servicing categories.

"Although these events are in the early stages of development, Standard & Poor's will continuously monitor the situation to ensure that these inquiries do not result in a deterioration in loan servicing at Fairbanks," S&P said in a press statement.

In its own press statement Wednesday, Fairbanks said that it was "confident of its ability to continue to provide high-quality nonprime mortgage servicing" and that it believes S&P's review will not affect the company's standing as a "leading servicer for nonprime and Alt-A mortgages."

In an interview Tuesday, Fairbanks president and chief executive officer Bill Garland said of the bad press that "these criticisms are not about Fairbanks really, but about the servicing business in general." His company's growth has led to "some visibility in the marketplace," he noted.

Fairbanks says it services \$46 billion of loans, making it the No. 3 subprime servicer and the largest special servicer, it says.

"We are a little bit more of a visible target" Mr. Garland said.

Mr. Garland defended Fairbanks' servicing policies -- which he described as "consultative" -- noting that they have proven successful in averting default on more than 75% of loans that have fallen behind on four or more payments.

"We are able to bring back from foreclosure -- either in the form of payment plans or stipulated settlements -- these many borrowers," he said. "These metrics indicate our success at being able to work with the borrower to reach an amicable solution."

He chalked up the Maryland grievances to a combination of problems inherited from servicers and originators that fled the sector in the past two years, and to borrowers' misunderstandings as a result of the handoffs.

Another possible reason for these complaints, Mr. Garland said, is that unlike conventional loans, many subprime mortgages lack escrow or impound accounts for handling property taxes and other costs. Often the borrowers do not understand that they are responsible for paying property taxes directly, and fall behind without realizing it until approached by Fairbanks.

"It is not common in subprime mortgages that you have escrow accounts," Mr. Garland said. "Unfortunately, the first time that this becomes apparent is when a servicer like Fairbanks alerts the borrower that there has been a lapse in tax payments."

He said his company is taking all the complaints seriously and that it will examine each on a case-by-case basis. But he said originators have to do more at the time of sale to familiarize borrowers with the nuances of subprime loans.

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