Phil Treadwell:

All right, Mike, very excited to have you here at the Freddie Mac podcast here. So you have an extensive background in credit risk transfer, capital markets. What are the key priorities have you been focusing on as you've stepped into this new role? What kind of synergies have you had? What kind of goals and things have really kind of got you started since being with Freddie Mac?

Mike Reynolds:

Yeah, so Phil, thanks for having me. A great conference and I love the podcast. Ravi Shankar created this new head of servicing role about a year ago, and I ended up coming into it, I'm closing in on a year, and it's really the first time that all the different components of servicing have been rolling up to a single executive. And so clearly default management's been a focus, but the technology and the integration, internal, external, so there's a lot of pieces coming together and I think that's a very exciting opportunity for us as a company to just be very focused on servicing. And one of the things, I've been in the GSE business for a while. I've been here at Freddie for about 12 years. I joined in 2012, joined a team that helped start this credit risk transfer program. Very exciting. And then prior to that, I had worked at Fannie. So big difference there, but I was part of a few fun initiatives. When I started my career back, Mike Williams was leading an effort to roll out desktop underwriter, desktop originator. Worked with a ton of great people.

So I've always been around servicing, but never have I been so focused on studying servicing. And it's a great business. It's a fantastic business. You're collecting 25 basis points, that's 250 bucks a year on a hundred thousand dollars average. Multiply that by two or three times, right? You're counting 500 bucks, 750 bucks. Average cost of service, let's say is $10 a loan, that's $120. So for the servicer as a business, it can be a pretty good business. And even 10 bucks a loan per month, that's kind of like a high number. If you're at a real big scale, you can come inside of that. And certainly some folks come outside of that. So I think my efforts have been, let me try to really understand and integrate all the different components that we have going on. Let me really try to understand what's driving the business from a servicer's perspective. Most importantly, what about the homeowner?

Phil Treadwell:

Yes.

Mike Reynolds:

What about the homeowner? We've done, in the vicinity of 80,000, either payment deferrals or modifications, year to date so far this year.

Phil Treadwell:

Wow.

Mike Reynolds:

So that's 80,000 distressed homeowners who we've been able to give them an opportunity to stay in their home. And that's mission number one, right?

Phil Treadwell:

Yes. Sustainability.

Mike Reynolds:

Sustainability. In our business at Freddie Mac, we moved from potential borrowers to borrowers, to homeowners, and that's where the servicing side kicks in. And I've been really trying to be focused on how do we balance all of those priorities and at the same time, how do we better enable Freddie Mac employees team servicing? What are we doing for team servicing? How are we putting the tools, getting the organization, getting clarity and accountability and all those types of things. Haven't quite got a year, but it's been a very challenging year for me. Fortunately, I'm surrounded as is often the case throughout Freddie, with some great talent and folks that are just focused, laser focused on outcomes. And so it's been quite a bit, to be honest with you.

Phil Treadwell:

I bet it's been a journey for sure.

Mike Reynolds:

Yes.

Phil Treadwell:

You talked about in there that they kind of consolidated a few things into this one role. I'd love if you speak to that, some of the different aspects of what kind of funnels up to you as head of servicing and how that kind of bifurcates into the different parts of your position?

Mike Reynolds:

So first and foremost, we want to be the premier asset manager. So that is performance management. We have over 3 trillion in assets. We have over 13 million loans. We're in a very fortunate space that the economy's robust. So our seriously delinquent rate or STQ rate, which is an indicator of stress in the book, is at 50, 55 basis points, that area. That's a great number. That's a really great number. So overall things are good, but that's where we want to stay. And to really have that performance management, you need a team that's dedicated in that space. Okay, we got one of those. You have to understand it's performance and relationship management. Because you have to understand what their business is. A lot of our servicers originate their sellers too. So we have seller servicers and we want to work with our acquisitions partners. It's one Freddie Mac, it's one Freddie Mac. So we're all working together. Now we have a specialty servicing operation. It's pretty unique. Other GSE doesn't have what we have and in the way we offer it, which is for some servicers, they don't really want to be heavy into the STQ business. They don't want to be dealing with these loans that are 90, 120 days and more. And you can't get away from it completely.

But we do have a program where we give them the option. They say, okay, we'll take you out of that loan and we're going to place them with a specialty servicer. And so we have another dedicated group on that. All has to be supported by analytics. So we have a really strong analytics. All has to be supported by systems. We have made tremendous progress in our platform, our reimagined servicing platform. It's about a five-year journey. I really applaud the management team back in 2018, 2019, for being willing to invest the kind of dollars that we've invested, and the strategy and the vision to kind of lay out what that means. And that technology has been a massive effort and investment on our behalf, but it's also a massive effort and investment on the servicers behalf, and our other servicing partners. It's not only just servicers. And so we have teams that does both of that.

We have teams that focus on external integration and trying to make it easier. And we have a team that really works with our IT partners to make sure that we are, we're developing the technology that actually fits where we want it to go. Which, believe it or not, it's a hard job. It's a hard job. You think requirements and building things are easy, but there's a lot of work that it takes to doing that translation. We've also had to stand up a climate risk group. Climate risk is an emerging risk. I think folks can... you get focused on big name storms. You know, we've had Helene and Milton recently. Which were very significant. Over 1.2 million homeowners have been potentially affected by them. And so we're trying to get a better understanding of what exactly, for the Freddie Mac credit book, how should we be assessing climate risk? How should we be informing our models? How should we be informing our policies? And so that's another area that we've had set up.

Phil Treadwell:

No, I love it because talking about sustainability on a lot of different fronts, not just some of the severely delinquent ones, but also how do we work with our other servicers and implement not only technology but different partnerships and programs to make that thing happen. So you've got a full, almost a full year under your belt with this position. As you look to 2025 and even beyond, what are some plans and initiatives that you're really wanting to implement and execute so that you're able to continue move things forward in the direction that's within the vision of Freddie Mac?

Mike Reynolds:

I think we have to sunset this reimagined servicing concept. I think it's been a beautiful concept. It's had a five-year run, and we have achieved what we set out to achieve, which has really to integrate our technology and to streamline our technology, both for Freddie Mac from an operations perspective, from a servicers perspective. I'll give you a quick example. We're about to roll out an update to our FlexMod program. It's going to be effective in November. This addresses some of the concerns that we and others in the industry had with how are we going to help distressed homeowners if the interest rate that they have is actually lower than the current interest rate? Because the way our Mods programs, we reset them to the current market rate. And so we might have somebody with a 3% rate, and current market, 6.5%, 7%. So we've revamped our loss mit waterfall, we have a few other levers and that we can adjust. And we've rolled this out very seamlessly this year, very short timeframes. And we've done most of the heavy lifting and we've gotten a lot of positive feedback from services that, wow, Freddie, you guys did the heavy lifting. You made it easy for us to implement this. So it's a great testament. That's only just one example, there's many others, that the reimagined servicing, the integrations, the APIs, getting our desired outcomes into the default management process, it's well established.

That said, okay, now let's look at the next thing. Let's look at the next thing. And I can't quite roll that out yet. We're trying to put the finishing touches on it, but I think the important thing is we still have to keep on investing in servicing.

Phil Treadwell:

Absolutely.

Mike Reynolds:

There's still a lot of dollars and time and effort that we have to put into that space. So there's more to come, but I can, the preview that I'll give you, there'll be a few pillars and the very first pillar, absolutely will be homeowner. We have to have the lens of how is whatever we're doing, whatever the investment is, whatever the goal may be, what does that do for the homeowner and help them accumulating wealth through their home ownership experience. That's the first pillar.

Phil Treadwell:

Right. Absolutely.

Mike Reynolds:

And we're already doing it to a large degree. And my vision is I want folks to always think that first and foremost.

Phil Treadwell:

Yes. Well, I think that's so important because I think a lot of times within the overall mortgage industry, so much emphasis is placed on people becoming homeowners, which is very important, right? Access to credit, affordability, availability of properties to purchase. At the same time, servicing is a much larger part of that life cycle, as a homeowner, once they've actually become a homeowner. And so I think that that's, I love the emphasis that you place on that because that sustainability and not just getting a home, but keeping that home and being able to use that and roll that equity into another home, and things of that nature, is supremely important and really what this is all about. But I don't think it gets as much conversation as maybe some of those other pieces do.

Mike Reynolds:

Yeah. Phil, I think from a servicing perspective, it's our responsibility to bring that up. We have different parts of the company. We have different parts of the organization that has to focus on originations, acquisitions. We're all in sync on sustainability. There's no doubt about that. And you know what else is in sync? Is the servicers. I've spent a lot of time. I've done a fair amount of traveling this year just trying to go on site to meet different servicers. Obviously we have 1200, so I can't meet all of them, but I have certainly met a handful of the largest ones, and they're on board with this. They're thinking the same way. Sure, they're want to look at originations and recapture rates and things of that nature, but I think the homeowner-centric view is something that absolutely is in sync with our services.

Phil Treadwell:

No, I agree. And along those lines, because there's such a long lifecycle from a servicing perspective in the terms of homeownership, where do you see some of the biggest innovation happening within servicing and what areas are kind of posed for the biggest advancements?

Mike Reynolds:

So multiple fronts, multiple fronts on that, but homeowner, self-care, if you will. What services have their front end, they have their web applications. It could be their phone systems. And getting that to be more and more powerful so that the homeowner, whatever their situation may be, a larger and larger percentage of that can be addressed, let's just call it online. And part of that's making sure that the tools that we have are available and they meet the needs of whatever that may be. And then it's work on the servicers part, and so they got to put the investment in. But that's a larger and larger share of where things are going, and that's an effective way to address, there's different situations where somebody would really like to take care of a thing on a weekend

And maybe avoid a phone call, or maybe they're having a harder time dedicating the time during the week. So the self-care aspect is absolutely growing. Artificial intelligence, AI, it's a great buzzword. You mirror AI up with quantum computing and clearly the future is going to be pretty different. And I think we have to be prepared to move with that and to kind of keep our eyes open to say, okay, processes or structures, process flows and the way we have to do things before, maybe we don't want to always have to do them the same way or the same manual way. How can we integrate that? But it's not here yet. It's not here yet. So it's this kind of in-between space where we're continuing to steadily advance our technology. We have to be in a good position to take that next step, but let's also keep ground in the reality of where we are today.

Phil Treadwell:

Absolutely. Do you think some of those, again, I love that you say AI is a buzzword. We kind of throw that out there. It can mean a lot of different things to a lot of different industries. In the context of servicing, do you feel like that mixed with some of the quantum computing, do you see that there's a possibility of potential early indicators of different types of homeowner behavior where you can almost provide some resources and some support prior to some of those lengthy defaults or the lights that they may have? Is that the kind of thing that you're thinking maybe on the way?

Mike Reynolds:

I think there could be so many things, and I would only know the teeniest, tiniest amount. And I'm highly dependent upon the team to be, and not only just my management team, but the whole servicing team. The business side, but the operations side, the technology side, and we really do need people to be speaking up and coming forward and saying, Hey, I can make this part a little bit better. And I would like to create that environment where we're empowering Freddie Mac employees, team servicing, to be like, let's just make your job better. Maybe if we make your job a little bit better and the next person's, all of a sudden our throughput and our capacity could be that much bigger. Now take that, bring that out externally. Are we going to be able to predict better? I don't know. I would say in theory, you should. In theory, we should be able to consume more data and probably differentiate a little bit better. It increases the emphasis that we have to do on clean data.

With a 13 million plus book and the amount of data we collect, sometimes it's hard to differentiate. Well, when is it valuable? Okay, I got five loans that are on hold for three months. Is that important? Maybe, it might be. And then what the next thing, what about the next thing? I don't know. I sat down at lunch, a beautiful thing about doing something like the MBA is you have scheduled meetings and then you just have random meetings. And so I just sat down with somebody at lunch and they were talking about in their part of the business. When they're doing home inspections, they're not always sending a home inspector to do an interior review. They're getting in contact with that homeowner and they're saying, Hey, look, we got to do an interior inspection, but we can do this remotely over your phone. And that homeowner, completely on their own, well, it has to be scheduled, but in a much more convenient way. They're walking around the house and they're doing that inspection. As far as I know, we're not taking advantage of that.

Phil Treadwell:

Sure.

Mike Reynolds:

As far as I know, we're not taking advantage. I'd love to find out that I'm wrong. I think we're still kind of paying for a physical person to show up and [inaudible 00:16:48]. I'm like, so I think there's probably a lot of things that are there, and we just got to, I think my job as a leader of the servicing businesses, is to try to just open that up and free people to come forward and say, all right, let's do this a little bit better.

Phil Treadwell:

No, I think that's, having an open mind to those types of things, is I think what's most important. Because none of us know where AI is going to go, where technology is going to go, what's going to happen. So it's about not only how do we embrace those things as they come, but execute them in a very practical manner. Something that is good for homeowners, something that's good for sellers and servicers and everybody all the way around. Mike, this has been an incredible conversation. It's been a lot of fun to kind of hear about servicing because again, it is such a big part of the life cycle. We don't talk about it enough. What is one thing that you're most excited about? This is kind of the last question. I want to be a good steward of your time. What's kind of you most excited about, either that you've experienced so far in this first year or just what's to come? What's kind of got you a lot of enthusiasm with servicing?

Mike Reynolds:

Again, I think it's great business. I think it's a great business for Freddie Mac. I think it's a great business for our servicing partners. The team that we have here at Freddie, they know what they're doing and we're doing a lot. And I'm hoping that we can kind of free them up a little bit more. And I get really excited about that. And I think the more that we can kind of free people up and then empower them with the right tech or whatever it is, I think that we're going to be prepared for when things get a little worse. Again, like I said at the top of the podcast, we're in a great economic environment right now. The outlook is a little uncertain. The Fed did one rate cut, are they going to do another? It's already kind of backing up. But sooner or later things will get tougher. And to be a premier asset manager, we need to be prepared. We can't wait until then to start to really, to have all of our tools in place. And so I find that really exciting to not necessarily respond to a crisis, but to try to get ahead of it as much as possible.

Phil Treadwell:

Be proactive versus reactive.

Mike Reynolds:

To be proactive. Exactly right, Phil.

Phil Treadwell:

Love that. Mike, again, you've been an incredible guest. Appreciate you taking the time, and I look forward to catching up again very soon.

Mike Reynolds:

Thank you. That was kind-