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Servicing technology should enhance borrower and investor relationships.

By Susan Graham

Recently, servicers have been experiencing a level of focused attention from the government, consumers and the industry at large not seen since the Savings & Loan Crisis decades ago.

Beginning in 2007, defaults and plummeting home values created the perfect storm to burst the decade-long growth the mortgage industry enjoyed and profited from. Unfortunately, what servicers are learning now is that many servicing technology platforms were built to cater to the assumptions of the time preceding the market's collapse—that most borrowers would continue to make consistent payments, home appreciation would cover up initial loan-to-value (LTV) issues and defaults would maintain their historic rate of around one percent of the loans on the books.

The requirements of servicing software have always tended to differ from those of loan origination systems due to the long-term nature of the servicing relationship with the borrowers and investors. While origination software is specifically designed to move a loan file from the application to the closing table as quickly as possible, today's servicing software focuses instead on providing the servicer with required tools to analyze data, process a variety of payment methods, handle modification and default situations and properly report to investors and regulatory agencies.

The evolution of servicing technology into the platforms that we see today is worthy of closer consideration. When servicing platforms were first introduced to the industry, they were built to handle the demands of the time. With loan performance very stable, servicing platforms were essentially systems designed to automate the processing of regularly made, on-time payments.

New developments in servicing technology in the 1990s and early 2000s focused primarily on speed and efficiency. Servicers were looking for ways to manage the most loans with as few resources as possible.

Another key development in the history of loan servicing software came when lenders began moving away from purchasing a single software platform to perform all of its loan servicing. Integrations between servicing and loan origination platforms also became critical, since lenders needed software that would eliminate the data entry errors that can come when manually transferring loan files from one system to another. Strong integrations also help ensure that compliance checks and secondary market data are contained in the servicing records.

Looking ahead, it is difficult to say with certainty what requirements may be necessary for the coming year, but servicers will definitely benefit from having technology platforms in place that embrace enhanced customer communication, help ensure compliance and support the different levels of investor reporting. Lenders and vendors should also be considering the role of loan data, determining where that data should be stored and how much access the servicer needs to have to the database.

Today's consumers expect and demand constant access to information via the Internet. The rise of online application adoption mirrors consumers' use of the Web for many financial-related purposes: tracking spending, balancing checkbooks, researching stocks and managing various accounts.

The same expectation applies to a borrower's existing mortgage loan. As the economy remains stressed, consumers are closely monitoring their personal finances and many are choosing to do so online. Having easy, online access to account data—including payment details, escrow accounts, loan balances and payment histories—is critical in today's marketplace.

Servicers can also use online communications as a means to improve accountability. For those customers who desire to receive information by e-mail, online communications provides a traceable method of sending loan statements, adjustable rate mortgage change notices, year-end statements and other communications.

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Additionally, the cost savings of electronic communication can be significant, as servicers can realize significant savings on printing and postage by shifting more communications online. However, there will always be a portion of the customer base that still desires traditional paper-based statements. Be sure to consider how well your servicing software will export statement data to the printing and statement systems.

Servicers should also look for specialized accounting reports for Fannie Mae, Freddie Mac and Ginnie Mae. These agencies currently purchase or guaranty mortgage backed securities for the vast majority of mortgages on the market, and servicing systems must be able to communicate with each agency's proprietary system. Besides Ginnie Mae's substantial 42% of the residential purchase market, Ginnie Mae's steady flow of capital to the multifamily market reflects the need for servicers to be able to have a solution to service multifamily loans and provide the necessary multifamily reporting.

The coming year promises to hold as many regulatory and compliance challenges as the previous one. While servicers have always had to work within a regulatory framework, the challenge in 2011 is keeping up with new regulations and guidelines that often seem to change daily such as the Dodd-Frank Financial Reform Law, as well as the government's efforts to reduce foreclosures and keep borrowers in their homes.

One of the keys to compliance and avoiding issues in regulatory and investor reviews is to have a servicing system in place that supports accurate reporting. Servicing software should provide an automated means to aid in compliance and have reporting capabilities to easily provide the required paper trail that examiners and auditors need to verify compliance.

In addition to regulatory agencies,

software with strong compliance functionality is an asset when investors conduct compliance checks to insure servicers are fulfilling their servicing requirements, and to confirm that the loan data transmitted to them at the time of the sale, and monthly thereafter, conforms to the established guidelines.

When evaluating technology solutions, servicers will inevitably be faced with the choice between traditional, in-house software vs. vendor-hosted services, or Software as a Service (SaaS).

Ultimately, the most important thing for servicers to consider is the integrity of the borrower data. With the wide-range of parties that servicers must now communicate with, complex regulations and varying loss mitigation programs in place, servicers need access to, and control of, all of the loan file data in a database.

Servicers should also be able to readily access and customize reporting on the data, when needed. In doing so, servicers can flag loans at risk for default, scan for compliance issues or provide reports designed to meet individual investors' demands.

The security of the data must also be heavily considered, and servicers who host their own databases know exactly how that database is being managed. For financial institutions with multiple borrower relationships, an internal database enables them to store deposit and credit account information onsite as well, and the servicing platform can integrate into that information to provide staff with a better view of a borrower's financial situation, not to mention a higher level of customer service.

If a hosted model is adopted, a clear understanding of how the data will be stored, what data access is available and what level of customization servicers can expect for reporting is critical.

Servicing software should support the current landscape of government programs, investor demands, high default rates and demand for online access. To that end, servicing software that can handle irregular payments, prepayment penalties, charge-offs, deferred principal transactions, incentive payments, etc. plays an essential role in the accurate posting and reporting by the servicer.

For servicers participating in programs such as HAMP, servicing software with loss mitigation functionality, trial period processing and the reporting of HAMP activity to the appropriate agencies are important attributes.

Beyond these functionalities, though, lenders should also keep the following in mind when selecting servicing software:

Does it play well with others? Will the servicing platforms work with the existing technology base, especially the loan origination software (LOS)? The best integrations eliminate redundant data entry by importing data directly from the LOS. Servicers will also benefit by having a servicing platform that can work smoothly with systems used in reporting and compliance. Servicers are required to report on a regular basis to many external sources - investors, credit bureaus, the IRS and tax service companies, among others. Automated reporting is essential to insure efficient and accurate reporting. An integrated web application providing borrowers with their mortgage information and a convenient method to make payments can reduce the call volume and provide extended customer support.

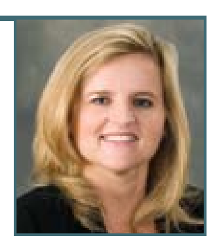
How is training handled? Most vendors provide training up front when a new system is first implemented, but the best companies back the initial implementation up with ongoing communication, training and service. Find out from vendors how service is handled. Can you call anytime and speak directly with a support agent or do you have to open a ticket to speak to someone? How long does it usually take to resolve issues? What are the options—and costs—of training new staff? The answers to these questions can dramatically impact the long-term cost of a new system.

How is the software updated? With the industry changing as quickly as it has over the past couple of years, systems need to be flexible enough to keep up with current program, regulations and customer demands. Servicers should find out how much input they will be given towards future functionality, and what forums are in place for product suggestions. How often is the software updated?

What other costs will there be? Consider more than just the initial price tag for the software. While this is the most significant portion of the cost, there are ongoing considerations. Sometimes additional hardware is required to implement the platform. For SaaS-style systems, there may be less upfront costs, but the ongoing licenses and monthly obligation fees can add up quickly. If you plan on expanding your portfolio, consider the pricing model since many may be volume or transaction based,

Once servicers determine the answers to these questions, the final step is to balance the costs with the benefits provided. While we can't know exactly what 2011 holds in store for the mortgage industry, servicers should ensure that the software platforms they rely on are flexible enough to adapt to whatever changes come, while improving the ability of the lender to communicate clearly and easily with both the borrower and the investor. ❖

About The Author



Susan Graham is president of Financial Industry Computer Systems, Inc. (FICS), a mortgage technology specialist that provides cost-effective, in-house mortgage loan origination, residential mortgage servicing and commercial mortgage servicing technology to mortgage lenders, mid-sized banks and credit unions. As president, she is responsible for the overall management of the company's day-to-day operations, strategic planning, customer relations and product development.