Enhancing Profitability Through Better Compliance Management

A major flaw in servicers' management of compliance is that there is an assumption that one, single universal national standard exists.

BY DENIS BROSNAN

Compliance has always imposed serious financial and human resource costs to servicers. Recent years have brought added pressure on the mortgage industry to better manage compliance and consider its significance. The industry responded by implementing new processes and technology to tighten up the manner in which lenders deal with regulations. Compliance is now considered a top priority by servicers, despite the CFPB's recent moves to rethink regulation enforcement. It may come as a surprise that the vast majority of servicers are overspending on compliance, yet are still not in full compliance with the latest regulations. This makes them vulnerable during an audit, as well as less profitable.

A major flaw in servicers' management of compliance is that there is an assumption that one, single universal national standard exists among their staff members, even if it is not official policy. This is misleading as each state has its own requirements that differ greatly from each other.

Many servicers are actually non-compliant in stricter states, while spending too much on compliance in those that are less strict One example of this is in the collection of reinstatement fees. Some states forbid servicers from collecting them from consumers, yet many servicers do so, despite local regulations. At the same time these same servicers may be declining to collect them in states that permit it.

But how does a servicer, who may feel confident about compliance having already implemented extensive changes to the organization's compliance efforts, determine whether or not they are falling victim to this trend?

Internal Audit to Access Risk

There are steps servicers can take to assess required changes to compliance and profitability. First, an internal audit should be conducted, with full support of C-level leadership. Audits help identify the level of risk and loss of profitability. Compliance, accounting staffs and the CFO should be involved in this step.

A typical "red flag" that the internal auditing teams will look for may include the average write-off cost per loan in each state. The strictness of regulatory compliance and cost of doing business within each individual state varies considerably. However, as a general rule, a servicer can expect writing off $750 or more per loan. Anything less is an indicator the servicer may be collecting more than they are allowed. Conversely, if a servicer is writing off more than $1,750, this is a warning that not enough money is being collected. It is very common for servicers to find they are actually missing out on some payments while simultaneously collecting too much for other payments.

Outside Consultant to Seek Areas of Improvement

If the internal audit team finds issues, the next step is to hire an outside consultant to conduct an independent review and make recommendations. Outside consultants bring added objectivity to the project and can dig much deeper by spending more time on the issue than internal auditors. Outsiders can devote themselves full time to solving any problems without disrupting the flow of business. It is critical to include the internal auditing team in the process when changes are being implemented since they will have a much greater knowledge of the company's culture and people than an outside consultant.

Replace Manual Processes With Automation

One of the most common recommended changes is to replace manual processes with automation. Automated processes enable reduction of errors and increased productivity. Many servicers may not consider technology upgrades until after fines have been levied by auditors. Passing audits without issue is more likely when automated processes are implemented and utilized properly.

Transform Hiring and Training Processes

Another popular recommendation is to examine and alter recruiting and staffing processes where necessary. Many servicers try to cut costs by hiring people who have limited knowledge of complex compliance issues. Additionally, many of these servicers do not adequately train new staff about compliance once they've been hired. When inadequate training is combined with using outdated manual processes, the results can be even more disastrous.

Servicers should focus more on hiring staff with more compliance experience. Hiring staff with less experience because they are cheaper can often be more expensive to a servicer in the long run. Training should also not be viewed as a one-time effort. It should be ongoing throughout the year. Depending on the complexity of the regulations involved, retraining could occur as often as once a quarter each year.

Improve Quality Control Finally, servicers need to redefine their quality control procedures. Servicers that have completed their own internal compliance audits will undoubtedly find errors or other violations that need to be corrected. Consultants can offer advice on modifications and revisions to existing quality control efforts.

Compliance checks should occur at every stage of the quality control workflow. Many lenders delay compliance checks until the end of the process. This can cause missteps and require rework. Modern quality control processes provide compliance training to most staff, who are enabled to validate their work before moving forward. All staff plays a vital role in the success of the quality control effort. It is a costly mistake to assume compliance is entirely the responsibility of compliance officers.

Too many servicers have become overconfident in their ability to meet regulatory standards because they have spent years building up their company's compliance machine and devoting very significant resources to do so. Yet the vast majority are not as compliant as they may assume nor as profitable as they could be, and this puts them at significant financial risk while eating away at their bottom lines. Proactively assessing the level of compliance and risk within the business is the most practical manner in which to reduce risk and boost profitability. ❖

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