The Compliance Challenge for Default Servicers

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In 2013, the Consumer Financial Protection Bureau (CFPB) issued final rules for implementation of Title XIV consumer protection laws for residential mortgage loans. As predicted, these rules, plus a veritable flood of municipal and state level compliance regulations, are testing default servicers as never before. There can be little doubt that default servicing will soon be as highly regulated and monitored as origination. Servicers are scrambling to analyze compliance announcements, integrate required changes, and beef up systems to keep pace with a fast-evolving, multi-layered regulatory environment.

Time is the enemy: Servicers must act with speed and efficiency to deploy solutions that can quickly scale up or down with respect to variations in user demand, database capacity, performance metrics, business goals and the like. Solutions must be strategically focused-- task-specific point solutions that address specific new or emerging compliance requirements. Finally, New technology tools must integrate smoothly with legacy platforms and existing technology ecosystems and be operationally integrated to provide seamless support for existing processes and functional responsibilities shared across internal and external user groups.

By Joseph Badalamenti

SHARING THE LOAD

Servicers must look beyond their internal processes and systems: the field service provider is now a pivotal and legally-bound link in the compliance chain. This is why, in the new regulatory era, working with the right partner has become critically important.

The all-important first step is to critically assess your provider's own compliance readiness. Does your field services provider have the specialized knowledge, competencies and resources needed to help you effectively mitigate compliance risk? Specifically, does your provider command the appropriate technology to effectively address emerging default servicing compliance requirements?

Servicers need to ensure that actions undertaken by their service providers do not violate compliance rules. Necessary initial steps include formal verification that the service provider understands and is capable of complying with applicable laws; review of the provider's policies, procedures, controls and training programs for representatives in mortgagee contact roles; and establishment of standards, controls and monitoring for compliance-related provider activities.

CONSIDER THE SOURCE

Many users find it difficult or impossible to upgrade their software fast enough to keep pace with changing risk environments and regulatory requirements. Applications from third party service providers—whether utilizing cloud–based or traditional delivery models--can help fill the gap. This is especially true where the application is one aspect of a wider service offering, such as those of field service companies and other providers of outsourced business functions. Because these providers depend on ongoing business relationships rather than one-time pur-

chase or license fees, they have greater opportunity and incentive to maintain value and provide frequent upgrades to their applications.

Of course, many third-party service providers are neither interested in, nor capable of, developing the highly specialized software solutions needed to meet the test of accelerated change. They simply do not have the requisite resources or internal technical expertise. However, those who do have these capabilities present servicers with a powerful resource and potentially valuable technology partner.

Third-party business partners enjoy another advantage: they are on the front lines of industry change. They gain understanding of new business realities, not just through organized and insightful intelligence gathering, but by experiencing them in the course of daily interactions with change agents. They are first-responders, if you will, providing the raw input needed to create and maintain responsive technology solutions for their clients.

READY OR NOT...

The qualified field service provider must be able to demonstrate compliance preparedness on several fronts, especially technology, which plays the key role in navigating the increasingly complex web of federal, state and local default property regulations.

In a time of rapid-fire regulatory change, successful adaptation involves a range of complementary technology solutions, each compliance-optimized for a specific default servicing requirement or task. One example—property conveyance software that helps servicers eliminate potentially costly compliance problems while preventing process bottlenecks and increasing the value of their FHA/HUD mortgage assets.

Another targeted solution-- special loss mitigation software that enables

mortgage servicers to quickly and accurately modify loans in full compliance with HAMP and FDIC guidelines. This time-saving technology can help reduce foreclosure losses by rapidly scanning databases to identify curable and non-curable loans, while automatically meeting strict compliance standards.

Without doubt, the property conveyance process presents some of the industry's thorniest compliance issues. Bid procedures, covered work, dollar thresholds, submittal protocols… any and all of these can threaten the servicer's ability to satisfy strict conveyance rules. Interest penalties and denied claims stemming from unresolved compliance failures can quickly go from minor irritant to major financial pain.

One answer: Compliance-optimized bid validation software that automatically resolves non-conforming repair/maintenance bids to meet investor/insurer specifications. The result is a fully compliant bid process delivering faster work completion/reimbursement cycles, drastically reduce bid rejections, and reduced administrative costs.

Compliance automation is also the goal of recently developed software that provides efficient entry of data and images into the HUD P260 Portal, Fannie Mae HomeTracker, VA Loan Electronic Reporting Interface, and Freddie Mac reimbursement system. Mortgage servicers simply access the appropriate reimbursement portals and electronically accept and submit the pre-entered bid, saving time, preserving resources and eliminating workflow backups, all while ensuring investor/insurer compliance.

As important as technology is, three additional factors must be factored into the field service provider's compliance-readiness equation:

Knowledge: Today's compliance

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challenges are complex: To meet them, field service providers must be able to demonstrate complete understanding of compliance issues at every level.

Meeting the compliance challenge means **communicating** rule changes to the servicer and members of the field service team, **as they happen**.

Formal systems must support continuous monitoring of investor and insurer information sources, as well as those of state and municipal regulatory authorities. Smart intelligence gathering isn't enough-- rule changes must be integrated into the provider's operating system and communications network, with appropriate event tracking and reporting to provide an ongoing record of compliance.

Meeting the compliance challenge means communicating rule changes to the servicer and members of the field service team, as they happen, through online news updates, blanket emails, and postings to the workflow management system – all reinforced through a rigorous quality control process.

Locally-based compliance issues are an increasingly important. One example: Municipalities nationwide are enacting new vacant-property registration rules. A compliance-ready field services partner must be able to manage the registration process from start to finish, establishing rapport with municipal authorities, notifying mortgagees, filling out and submitting registration forms and coordinating actions needed to assure compliance.

Code compliance is also demanding increased attention. It's critical for the field services provider to maintain strong lines of communication with enforcement officials, continually updating field service personnel on current code compliance issues and potential violations so they can be addressed early in the default property disposition cycle.

Process: Compliance is an extension of the quality control process. As with all QC measures, assured compliance starts with clear, unequivocal standards directly linked to required actions and performance metrics. Your field services partner should be able to demonstrate formal compliance processes and procedures covering every service category as well as each service event.

To effectively support integrated compliance solutions, servicers should expect their field services partners to deliver 24/7, single-screen access to all functionality and reporting. Systems should typically support a full menu of workflow management activities, as well as processes such as vacant property registration, HUD claims processing, investor/insurer data entry and submittal, updated compliance notifications and more.

Expanded Field Services: As servicers move to protect the value of their mortgage portfolios, they are increasingly relying on their field services providers for a range of borrower contact activities, including door knocks, occupancy verification, document delivery and others. By using their service partner to better leverage face-to-face borrower contact, servicers can experience significant improvements in servicing outcomes.

At the same time, they're taking on new compliance risks. The reality is, members of your partner's field service team are becoming front-line warriors on the compliance battlefield. They can be a worry or a comfort; a strong asset or unwanted liability. Getting the right answers starts with asking the right questions: How are team members vetted? Trained? What tools are they provided? What standards are they required to meet? Do they provide the geographic coverage you need? Are they an ongoing part of the communities and neighborhoods where your properties are located?

CONCLUSION

Because default servicers of all stripes and sizes are on regulators' radar, compliance readiness is a must, not an option. It's an uphill battle: Servicers face the most complex regulatory environment in history, making compliance a multi-level risk whose implications are yet to be fully understood and measured.

In these conditions, technology strategy will play an especially important role. Capable, technology-driven third party service providers—who are stationed on front lines of industry change—are in an especially strong position to help servicers unlock the potential of quick-response technology solutions.

An essential first step is to critically assess your field service provider's own compliance readiness. Does this key third-party provider have the commitment, specialized insight, robust systems and advanced capabilities needed to effectively mitigate your compliance risk? The answers will help determine if you'll be ready when the regulators knock. ❖

ABOUT THE AUTHOR

Joseph Badalamenti (Joe Bada) got his start in the default management industry in 1967 as a HUD contractor. Now, 43 years and over 5 million inspections later, Joe has built Five Brothers into a highly successful and respected industry leader offering a full range of default management services and technology solutions. Advanced technology solutions created under his leadership the industry's first web-based workflow management system.