Point of View

Transparency in Default Servicing: Better Data, Better Decisions

How you manage your data and the transparency of your processes affects your risks and decision quality. Creating a transparent environment in the company allows the regulators, investors and borrowers to have a better understanding of the decisions being made.

Within the sphere of default servicing, the word transparency has taken on a whole new life. The application and practices of this new and improved transparency are heralded as the antidotes to behaviors of the strange but not so distant past. Enhanced transparency may very well help servicers of defaulted loans avoid doing things that they may be sorry for later.

Until recently, processes have been considered transparent if participants in the default servicing supply chain could access loan status and updates when needed.

That all changed in recent years. The Consumer Financial Protection Bureau (CFPB) has focused on proposed servicing rules that would increase transparency.

So now, to fit the needs and requirements of the current regulatory environment and how it applies to today's loan servicing industry, a better definition may mean providing and having clarity around data, decisions and process.

For Something to Be Clear, You Have to Understand It

Clarity is more than just being able to see the data and the documents; it also implies having an up-to-date institutional understanding of loan status and loan history. It means being aware and understanding how a previous decision was reached, inclusive of the loan information at particular points in time. In short, it is being able to "show your math" for all the factors involved in every decision and action for literally every touch point on every loan.

The servicing institution must then be able to not only provide this level of clarity within its servicing operations, but also extend the information and understanding out to borrowers, investors and regulators.

The inter-workings of loan servicing and compliance are complex, involving countless handoffs and touch points. When broken down into components, loan servicers can see that establishing and maintaining clarity around data, decisions and processes is achievable through vigilant data governance and analysis.

Data Changes and Challenges

Historic delinquency volumes, new loss mitigation programs and significantly increased foreclosure activity have all uncovered data quality issues and the need for better data governance. By now, most servicing operations have dog-eared copies of Sarbanes-Oxley, Basel II, Consent Orders and other recent mandates that speak to the need for data governance, both directly and indirectly. In the proposed rules for servicers, the CFPB also instructs servicers to "establish reasonable information management policies and procedures." Most servicers feel that the standards available for information management such as ISO/IEAC 27001 and COBIT provide reasonable policy frameworks. These popular models assist companies with best practices to ensure the integrity of data and software systems through sound data governance practices.

Correctly implemented, data governance can assist a company in managing the primary dimensions of risk: credit, liquidity, market, operational, compliance, legal and reputational.

There are many threats to data quality. Missing data, incorrect data and the lack of data synchronization within redundant repositories all contribute to a bad pool of information that is difficult to manage. By maintaining a program to ensure that data is clean coming into the various data repositories – such as servicing systems and data warehouses – and having the ability to verify the accuracy of that data, servicers can eliminate problems when it is time to use that data later on. This becomes even more important as data is shared between various systems used within the institution and by vendors in the default process.

Managing How Data Is Accessed

A good data governance program should audit data usage and input verification. Input verification should include double blind entry for critical data – such as interest rates and stages of audit – before executing documents for a borrower. A comprehensive program for managing access must address how data is viewed by, obtained from and exchanged with borrowers, vendors, other third parties and even investors. Often, servicers use applications and databases that cannot easily share information. This can lead to incomplete and inconsistent data from department to department and function to function.

To maintain integrity, there should be only one input action required for recording each piece of data, and all other processes involving that information should be required to reach in to retrieve it. For example, something as simple as outstanding principal balance should not have to be duplicated on the foreclosure system. The foreclosure system should house only data unique to its purpose and retrieve the outstanding principal balance when it needs that data for a processing goal (such as bid preparation). The foreclosure system should leave an audit trail of that action so that there is no confusion during a future step about what data was used and where it was found.

And in 2012 and beyond, there should be no technological impediment to real-time transmission of payment data, default and collections actions, and investor- and borrower-generated updates.

The data that is managed under a governance program should not be limited to electronic data residing in systems, but should also include data that is found in other electronic or print artifacts. This includes paper files, mail systems, fax systems, imaging systems, and voice response units and dialers. Since all of these channels contribute data to a servicing operation they must all be managed by the governance program.

Leveraging Effective Data Governance

Efforts to fix data only at the department level can lead to inconsistent controls. Often a large portfolio acquisition is the event that forces executive attention on data quality. But concrete objectives for an enterprise-wide data governance program should be in place before such a program is actually needed. Doing so ensures that:

- Single-point-of-contact customer service, loss mitigation and foreclosure staff have access to timely and relevant loan information
- Records for all serviced loans are accurate, especially records needed to establish ownership and the right to foreclose, outstanding balances and fees assessed to the borrower
- All inbound and outbound communication with borrowers is recorded and reviewed for various risk factors, such as miscommunicated workout timelines and inaccurate next steps
- All data and artifacts are archived for a sufficient period of time

Depending on the size of your servicing operation, you may want to consider an incremental data governance initiative that can be deployed on a smaller scope and then expanded to leverage the benefits more widely.

Recalling Key Loan Data

Many decisions in loan servicing are spelled out in the regulations and servicing agreements. However, ensuring that you can adhere to the requirements – and can prove your adherence – is a characteristic of today's transparency. This means that you can recall the data used at the time the decision was made. That amount of diligence requires more than a historical review of transactions on a system; it requires a snapshot of everything that took place on a loan.

It is important to remember key loan information, statuses and actions on an account. This should not only involve the data captured in your servicing and default systems, but should also catalog other information, including any recorded voice interactions, Web interactions, imaged documents and other artifacts that are used in a decision process. Automated workflow technology has made this process easy for even smaller servicers. Other technology – including rules engines and automation tools that provide a rich environment for decisioning and operational parameters – is found in most advanced servicing systems today and is within reach of most servicers. These tools can be leveraged to recall all the details when needed.

Determining Decisions and Risks

At a portfolio level, enterprise decisions are not dictated by regulation or servicing agreement but they rely on good data and understanding that data. Using analytics that involve myriad data points is critical to servicers managing credit risk, liquidity risk, compliance risk, legal risk, reputational risk, operational risk and market risk.

The use of third-party data often figures into this strategic analysis. An example is using the home price information from the Fiserv® Case-Shiller Indexes® to decide on an approach for your REO and pending REO portfolio. The Fiserv Case-Shiller Indexes measure changes in home prices in thousands of metropolitan areas, counties and ZIP codes. Having a clear understanding of home price trends can optimize decisions about REO or short sale offers, particular borrower workout campaigns, and forbearance opportunities, among other options.

When managing operational risk, analytics can show how well processes are being followed; how well a servicer is adhering to policy and procedures; and the effectiveness of staff and vendors. By assessing Key Performance Indicators (KPI) and Key Risk Indicators (KRI) on a regular basis, servicers can improve inventories, in-flows, out-flows, timelines, performance and exceptions. In addition, dashboard reports provide investors and regulators with a view of how well a servicer is performing. Managerial performance reports should also incorporate Fannie Mae's and Freddie Mac's reporting requirements – and be kept as part of the total data and document repository.

It is becoming more normal for servicers of all scales to use this analytical approach to operations and risk management. It can be daunting to begin a decision framework or expand the decision framework that may exist at department or functional levels, but the payoff is certainly worth the effort. Further, wider adoption is helping to drive down the cost of this type of technology.

Incorporating Transparency

Because regulators, investors and borrowers demand it, most loan servicers have written policies and procedures about loan decisions. Some, however, do not make those policies and procedures part of the everyday fabric of servicing loans.

Ensure your staff has access to and understands your policies and processes. With the volume of changes occurring in loan servicing, the transfer of knowledge from policy maker to policy executor has become more important. Regular communication about policies and procedures is a good step in making your processes more transparent. Staff responsible for customer contact should clearly understand the policy goals and receive coaching to maintain adherence. Even staff without customer contact should be made aware of policies and processes and provided with examples of policy goal adherence behavior. And, all staff should understand the potential consequences of not adhering to policy in terms of business failure, loss of loans, loss of reputation and impact on the workforce. Reporting performance against policy goals is another good way to motivate staff to adhere to policy. KPI reporting will assist servicers in meeting goals and provide early warning when adherence begins to falter.

Allowing for policy exceptions needs to be considered, too. A well-organized servicing operation will have an exception escalation process for circumstances that simply do not fit normal parameters. The exception should rise to the appropriate level of management, and the data and decisions around the exception should be part of the accessible loan record.

Expose Your Process to Borrowers

There are some good examples of companies that have clearly communicated their processes to borrowers. Most servicers have a website that outlines workout programs. Instead of just relying on written explanations, technology can help borrowers understand the real-world impact of workouts. Having interactive tools available on the servicer's customer-facing website can step the borrower through what-if scenarios and allow them to play out the impact of various workout choices. The use of interactive technology can include callback tools and online chat sessions, as well as avatars, for a more user-friendly experience for the borrower. In addition, this interactivity not only helps borrowers monitor exactly where they are in the default process, but it can facilitate data exchanges between the borrower and the servicer. For instance, the borrower can provide financial information and upload documents by scanning, emailing or taking a picture.

While some borrowers are comfortable with newer technology, there are still some who prefer a phone call. Do not ignore call routing systems and other phone technology as ways to improve transparency. Whether critical data is harvested from phone or by Web interactions, it must be archived and accessible for later use. Even the lowly fax machine should be programmed to communicate the anticipated next steps.

Better Data, Better Decisions

By implementing data governance policies and processes, servicers can and will enhance decision quality and facilitate transparency into decisions. With enhanced data quality and governance, servicers of loans in default will be positioned to provide insight into the how and why behind every servicing action and share that rich information internally and externally.

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