COMPOSITION BOOK

The Anti-Playbook for Servicing Oversight

What to do when you want to get it wrong

This Book Is Property of:

MQMR MORTGAGE QUALITY Management & Research

Periodic Table of the Mortgage Elements

Cf PB																	E PD
G SE	A TR											Ap OR	Fn MA	M BA	P AL	H FA	Sf HA
Fh FA	Ud AAP											Gl BA	A VM	C DO	V OD	Li BOR	Fd IC
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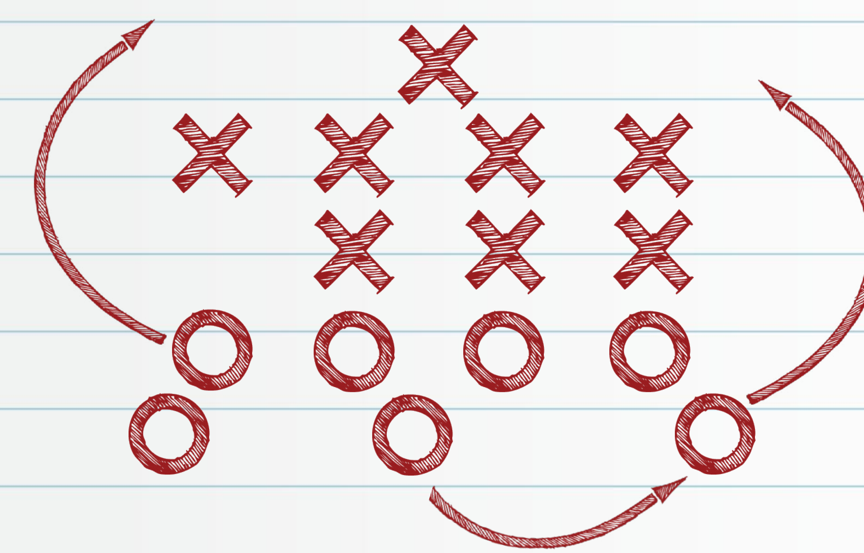
Class Schedule

	Monday	Tuesday	Wednesday	Thursday	Friday
1st Period					
2nd Period					
3rd Period					
4th Period					
5th Period					
6th Period					

Introduction

The mortgage process is a game of two halves. In the beginning, the focus is on origination, and like any highly competitive sport, it is easy to get wrapped up in the outcome of the first half and lose sight of what is still to come after halftime. Loan servicing plays a critical role in the second half of the mortgage process by preserving the longevity of what is potentially a 30-year asset. If lenders fail to adhere to the rules of the game (i.e. regulatory requirements) or exhibit good sportsmanship in the form of best practices, any points scored in the first half will be all for naught.

To help lenders avoid the fouls, penalties, errors and missed opportunities that could cost them the game, MQMR has developed the following “anti-playbook” for servicing oversight that outlines the myriad ways lenders often get this critical function wrong.



#1: Forego QC on your servicing portfolio.

Only billion-dollar lenders with gigantic portfolios need to worry about quality control reviews. I have less than 5,000 loans in my portfolio so it is beneath a regulator's notice and does not need to have its quality assessed on a regular basis.

WRONG!

The "small servicer" designation established by the 2013 Mortgage Servicing Final Rules from the CFPB has erroneously given lenders with servicing portfolios of less than 5,000 loans the impression that they are exempt from conducting QC reviews. While the rules do offer certain exemptions for small servicers, the rule does not explicitly address QC reviews. Thus, the small servicer designation has no bearing on a lender or servicer's QC responsibilities.

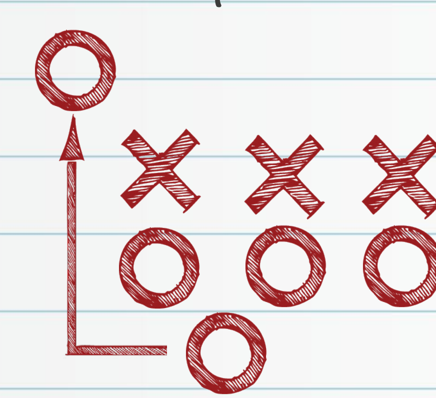
However, all of the major government investors and insurers (i.e. Fannie Mae, Freddie Mac, Ginnie Mae and HUD) all require servicing QC reviews. Therefore, no matter the size of the servicing portfolio, lenders need to establish a servicing QC process commensurate with the size of their portfolio that adequately addresses their unique level of risk and meets their respective investor/insurer's requirements.

#2: Skip annual subservicer on-site reviews.

I have an air-tight contract in place that includes specific service-level agreements so there is no need to spend the time and money required to physically inspect my subservicer's operations. No one will know if I don't go, and after all, no harm = no foul.

WRONG!

On-site subservicer reviews are an iron-clad compliance requirement for many of the government investors and insurers. If this activity goes uncompleted, it will come to their attention, and there may be significant consequences for non-compliance. Furthermore, on-site subservicer reviews provide a significant opportunity for lenders to ensure their trusted third party is adhering to both regulatory requirements and the service-level agreements as stipulated in the contract. For those entities that cannot afford or simply do not want to incur the expense of conducting these reviews themselves, regulators do allow lenders to outsource these reviews to an independent third party.



#3: Neglect customer service training.

Borrowers send their payments. I collect and track the payments. What is so hard about that? All I need to do is get new employees up-to-speed on the servicing platform, and I'm are good to go.

WRONG!

The CFPB's 2013 Mortgage Servicing Rules transformed mortgage servicing from a clerical function to one oriented around customer service. Many of the imposed changes center around timeliness regarding information requests from and communications to borrowers, particularly regarding delinquencies and foreclosures. As the primary point of contact for borrowers regarding their mortgage, a servicer's front-line staff play a critical role in ensuring compliance with these changes, thus underscoring the need for on-going training in this area.

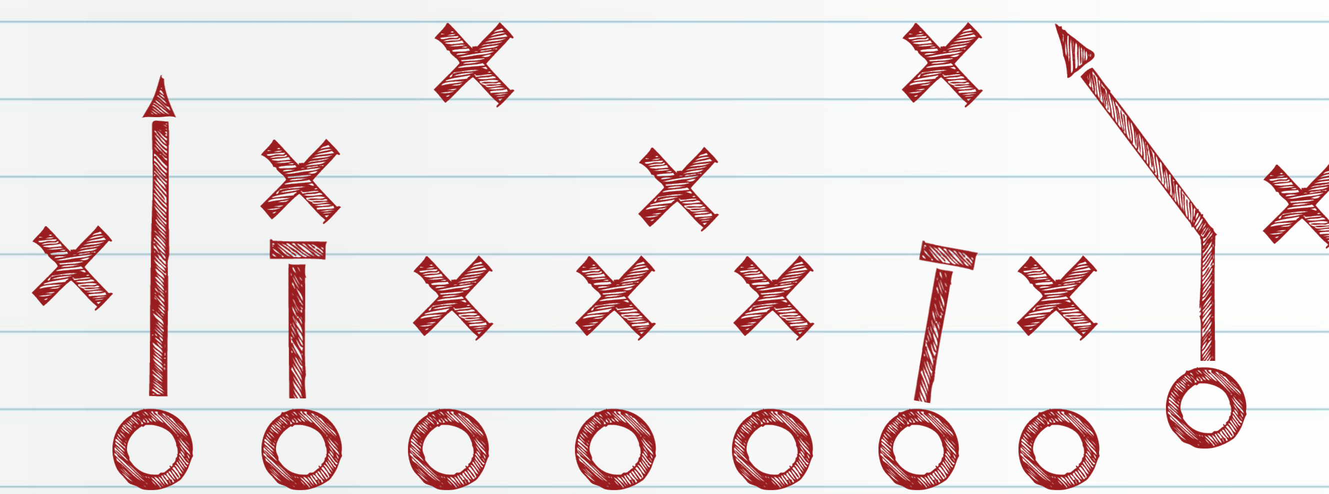
Additionally, the actions of front-end staff have a direct impact on borrower satisfaction and the potential for referral/repeat business, giving lenders a financial as well as a regulatory reason for providing on-going training in handling customer service requests.

#4: Exclude executives from training.

What does my executive team need to know beyond the basics? Their focus is on running a profitable business, not on conducting day-to-day servicing activities. I should save my training resources for front-line staff only.

WRONG!

While regulators are not necessarily checking for the presence of an on-going training curriculum for executive-level staff, it is a best practice that lenders and their subservicers should incorporate to ensure company decision-makers have a full grasp of the impact of operational changes could have on compliance. Ideally, an on-going training curriculum would not only present new information but also test for comprehension amongst all staff, including executives and board members and require similar pass/fail standards for everyone being tested.

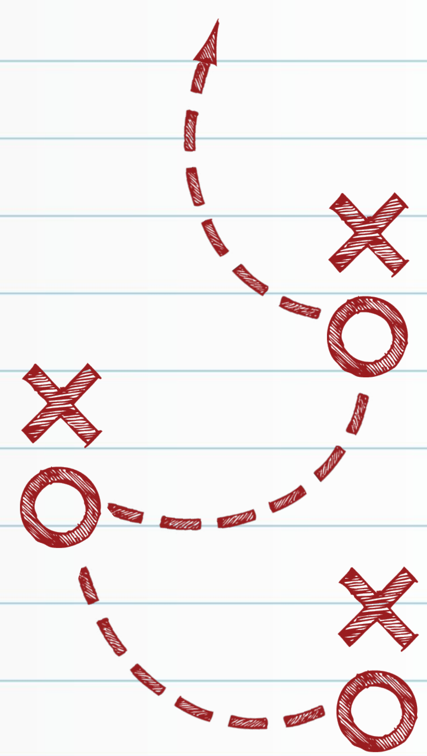


#5: Ignore customer complaints.

No one likes paying their mortgage each month. The borrower is just venting, and if I ignore them, they will eventually get it out of their system. Besides, who else is the consumer going to complain to other than their loan servicer?

WRONG!

Servicers are obligated to research and provide timely resolution of all customer complaints, per the CFPB's 2013 Mortgage Servicing Rules. This process should include a root cause analysis and change implementation process for complaints that have merit. Plus, it may point to operational enhancements that could be beneficial to the organization.



#6: Bypass Fair Servicing data analyses.

Fair lending is only something I need to worry about on the origination side of the house. The loan has already closed so how could a borrower or regulator claim that I am discriminating?

WRONG!

Much of the intent of the 2013 Mortgage Servicing Rules rests on ensuring that borrowers continue to receive fair and equitable treatment during the servicing of their loans. Thus, even servicers need to be mindful of Fair Lending laws and routinely analyze their internal data regarding actions taken on borrowers' accounts to ensure they are not inadvertently (or openly) engaging in any Unfair, Deceptive or Abusive Acts or Practices (UDAAPs). Two areas in which servicers should pay special attention are loss mitigation applications and loss mitigation outcomes.

#7: Fail to communicate with distressed borrowers per GSE guidelines.

Guidelines are meant to be flexible, am I right? What does it matter if I am a few days late in contacting my distressed borrower? They are not going to start the foreclosure process without me.

WRONG!

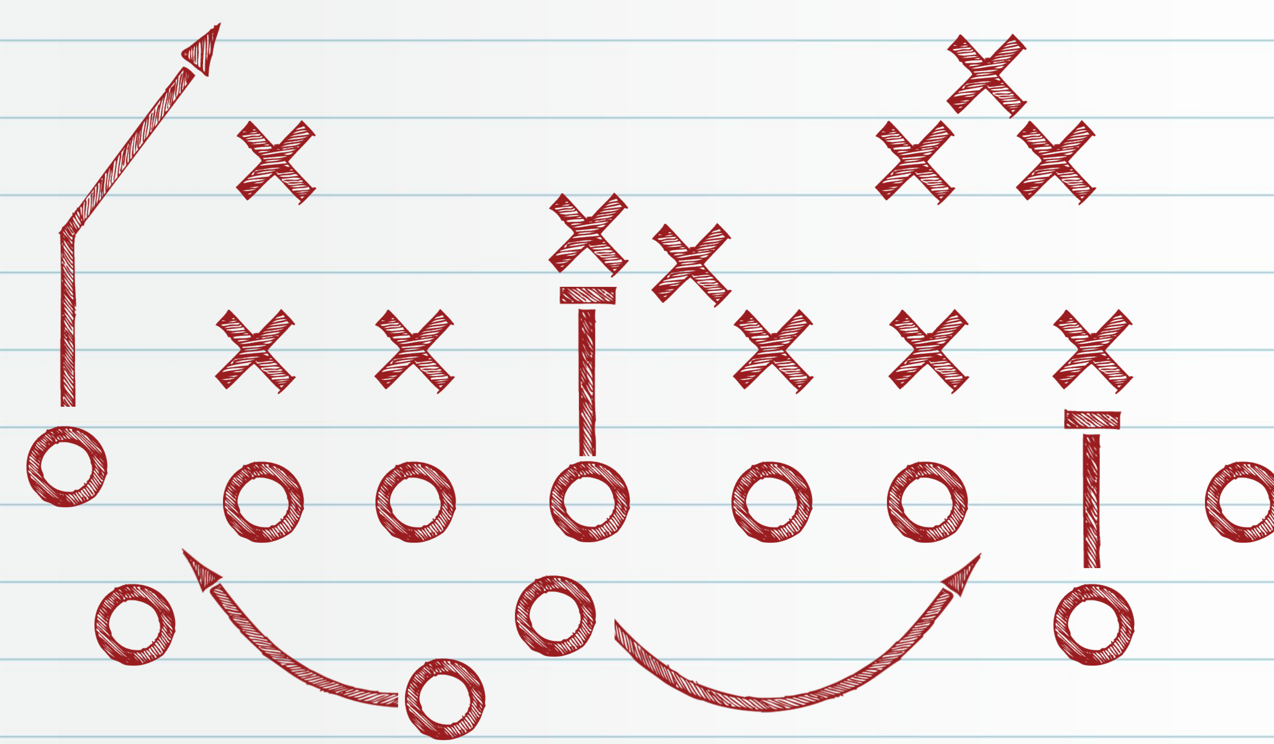
Under the 2013 CFPB Mortgage Servicing Rules, servicers must adhere to strict timelines regarding borrower communications for delinquencies and foreclosures. Specifically, servicers must begin making good-faith attempts to establish live contact (i.e. phone or in-person contact) with distressed borrowers beginning on the 36th day of delinquency and must provide written notice of available loss mitigation options, which can be included in the borrower's statement, after 45 days of delinquency. After 120 days with no attempts on the borrower's behalf to get current, servicers may then issue the first notice of intent to foreclose. If a borrower does submit a loss mitigation application, servicers are required to assess that application within 30 days.

#8: Allow your subservicer to keep up with regulatory changes.

If I am outsourcing all loan servicing activities to my subservicer, I should be able to trust them to keep up with all relevant regulatory requirements and changes. Why would I duplicate those efforts?

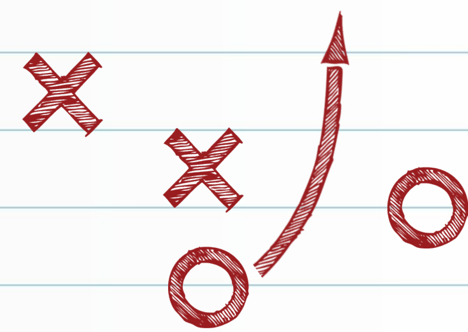
WRONG!

The master servicer (i.e. lender) holds the ultimate responsibility for compliance or non-compliance in regulators' eyes. Thus, while it would be nice to completely entrust this responsibility to the party being paid to act as the loan servicer, the stakes are simply too high for lenders to take their eyes off the changing regulatory landscape.



#9: Neglect your policies and procedures.

If I am not changing my process, then why would I waste my time regularly updating my P&Ps? After all, the date on the document does not matter as long as I am mostly following what is outlined in the rest of the document.



WRONG!

While Section 1024.38 of Reg X (a.k.a. RESPA) simply states that servicers need to have specific policies and procedures in place to achieve the objectives outlined in the remainder of this section, there is no specific mention of regularly updating those policies and procedures. However, just because this expectation is not expressly stated in the regulation does not mean that examiners will not hold servicers accountable for doing so. In fact, a key component of servicing exams is assessing whether the servicer is following their policies and procedures as written. Thus, as regulatory requirements change and operations follow suit, servicers must update their policies and procedures to reflect those changes.

#10: Omit disaster prep from your P&Ps.

It is so hard to predict when an event may affect my servicing portfolio, and every disaster presents new challenges. It is better to keep this loose and not establish firm protocols. That way, I can be more flexible in my response and save myself some effort.

WRONG!

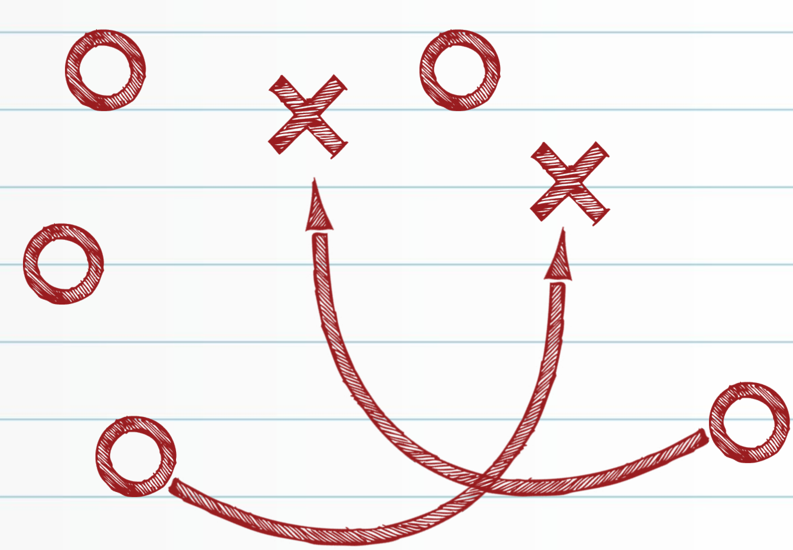
Although servicers cannot predict the exact timing or nature of a disaster, they can be certain that, at some point, an event will occur that may impact their borrowers' ability to make their payments or cause damage to the underlying collateral of the loan. Furthermore, as far as regulators and investors are concerned, servicers have a duty of care in regards to borrower communication, regardless of outside factors or circumstances. As such, servicers need to have a documented plan in place not only to govern communication with borrowers experiencing a natural disaster or other disruptive event, but also to outline the servicer's back-up plan in the event its normal operations are impacted by similar circumstances.

#11: Trust – but do not verify – your subservicer's P&Ps.

I have enough to keep up with regarding my own P&Ps. As long as my portfolio is performing and a regulator is not hassling me about something my subservicer is or is not doing, what do I care how they choose to conduct their internal operations?

WRONG!

It bears repeating that the master servicer is held responsible for the actions or inactions of its subservicer. If the subservicer's policies and procedures do not adequately ensure that the subservicer is complying with regulatory requirements, the consequences will fall on the master servicer. Therefore, it is the master servicer's responsibility to verify its subservicers policies and procedures to ensure compliance.



#12: Overlook information & data security, particularly with remote employees.

These loans have already closed. What would a fraudster want with this information? Plus, I trust my employees to not be careless with sensitive borrower information.

WRONG!

Fraudsters are always clamoring to get their hands on consumers' non-public personal information (NPPI), and the servicing file is chock full of exactly that so information and data security should be of paramount importance to servicers. With phishing attempts on the rise, this is an area in which servicers need to establish airtight protocols for verifying the authenticity of inbound communications and reiterate those protocols through rigorous, frequent training. With remote work becoming more of the norm, servicers also need to ensure that in-office data security procedures and habits follow employees to their home offices as well. This includes locking devices before stepping away, securing or eliminating paper that contains sensitive information and regularly updating malware/anti-virus software to protect against outside threats, among other activities.

#13: Avoid investing in technology.

How much "innovation" could there possibly be in regards to loan servicing technology? My existing process works just fine, and if it isn't broke, I see no reason to fix it.

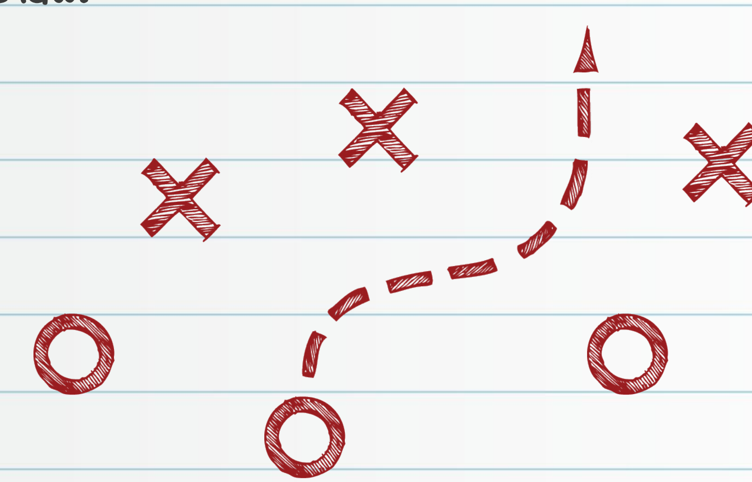
WRONG!

Today's servicing technology bears little resemblance to the archaic, payment-processing-only systems of the past, and servicers with a mind towards automating manual tasks, thereby freeing up front-line staff to focus on customer service, would be well advised to investigate current options. Furthermore, many of the systems available to servicers today are built on a foundation of ensuring compliance with the more time-sensitive aspects of mortgage servicing and can not only vastly improve both data security and borrower outreach, but also establish an audit trail to make regulatory exams a breeze.

Conclusion

As College Football Hall of Fame coach and analyst Lou Holtz once said, "How you respond to the challenge in the second half will determine what you become after the game, whether you are a winner or a loser." Games typically are not won in the first half, but they can certainly be lost in the second half if players lose sight of the fundamentals. While no team (or lender, for that matter) is immune to making honest mistakes, unforced errors are simply inexcusable and can make the difference between victory and defeat.

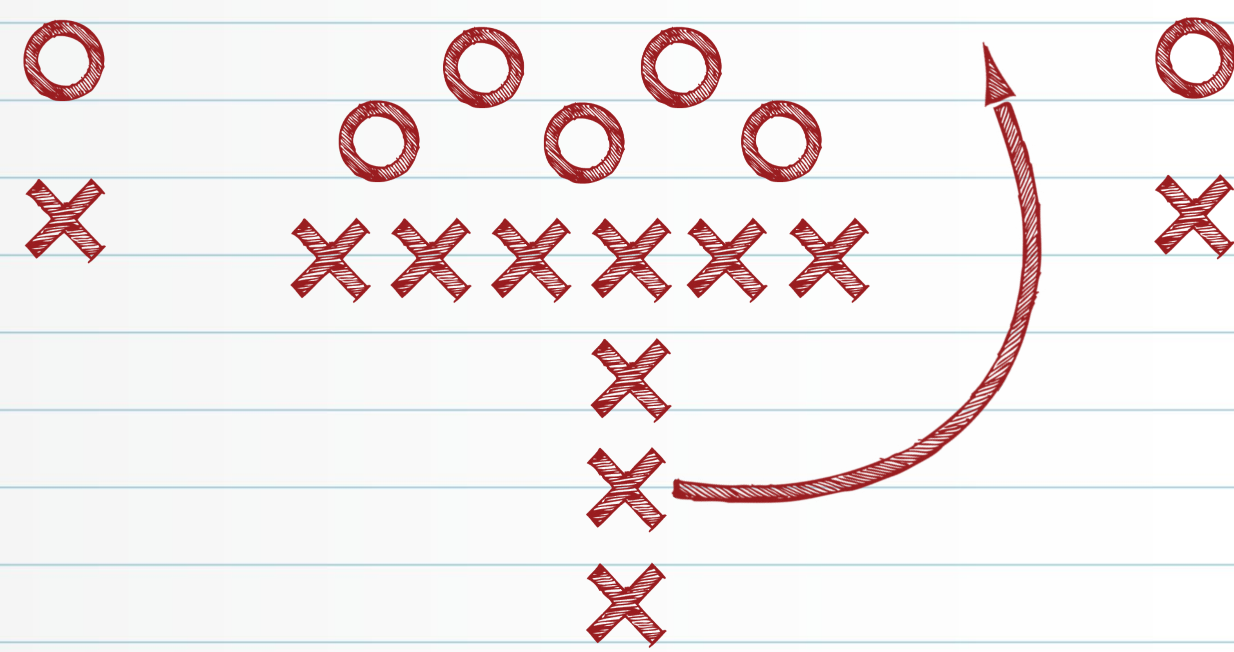
To avoid making an appearance on a regulator's blooper reel, lenders must commit themselves to following the basic precepts of a winning mortgage servicing strategy – strict adherence to regulatory requirements, stringent oversight of servicing operations (including those conducted by a subservicer) and enthusiastic implementation of best practices to ensure compliance with the spirit as well as the letter of the law.

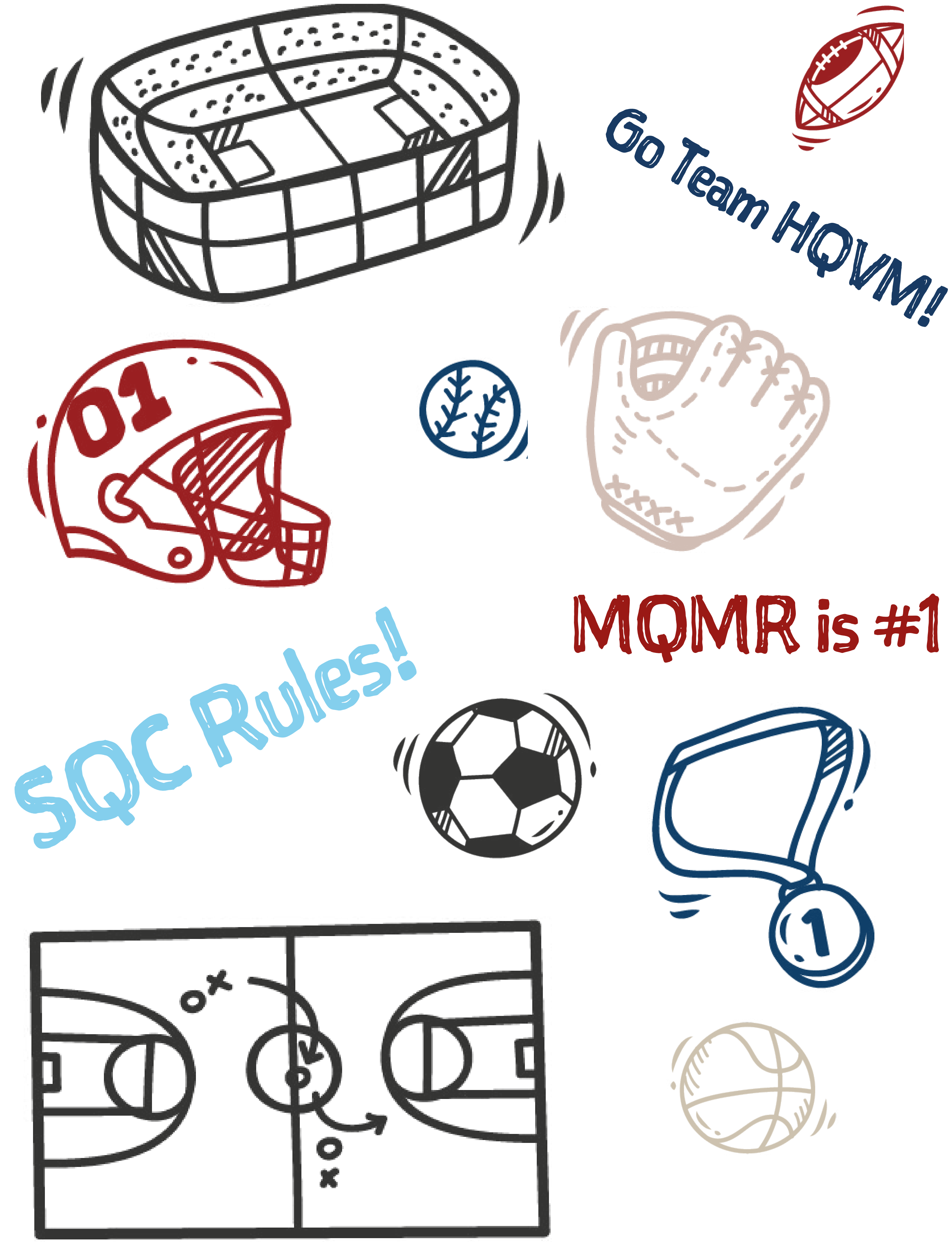


About MQMR

MQMR helps its clients climb higher by bridging the gap between risk and compliance through its suite of risk-related services. MQMR provides mortgage compliance consulting throughout the origination process, conducting internal audit risk assessments and ongoing internal audit support, servicing QC and subservicing oversight to master servicers, and filling the void of meeting vendor management oversight requirements.

With 2,000+ operational reviews of mortgage companies, subservicers, document custodians, and vendors annually, MQMR prides itself on being the mortgage industry partner of choice for audit, risk and compliance. To learn more, visit mqmresearch.com, subsequentqc.com, and hqvendormanagement.com.





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