# THE SQC DIFFERENCE

## CASE STUDIES IN RISK MANAGEMENT, SERVICING EXPERTISE, AND EXECUTION

SubsequentQC

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# THE SQC DIFFERENCE

SQC offers unmatched expertise in servicing operational insight and loan-level servicing quality control. We are dedicated to delivering value to our clients through our holistic auditing approach rather than being just a check box. Our staff is trained to recognize other key flags that may be indicative of process failures, coaching opportunities, trending, and mitigating corporate expenditures.

SQC continues to identify case studies of servicing exceptions detected during the quality control audit process to demonstrate the value our audit results bring to our clients. The following case studies are issues identified during our reviews.

Case Study

# LENDER-PLACED INSURANCE

## ISSUE STATEMENT

Lender-Placed Insurance caused a borrower's PITI payment to double. To compound the problem, the borrower's primary language is Spanish; therefore, the Lender-Placed Insurance letters (which were in English) went unanswered. The increase in the borrower's PITI caused the borrower to default on the loan.

## APPROACH

SQC identified the loan through a Customer Service audit. A review of the customer service call prompted an expanded review of the circumstances, which lead to the Lender-Placed Insurance.

## RESULTS

The review of the Lender-Placed Insurance circumstances triggered SQC to create a "Red Flag" memo explaining the timeline of events and the circumstances that lead to the doubling of the borrower's PITI to the client. The client was able to intervene with their subservicer and obtain a less expensive hazard insurance policy for the borrower, which ultimately resulted in halting a foreclosure.

## SUMMARY & EPILOGUE

This loan highlights SQC's multi-disciplinary approach. The loan was originally reviewed under an unrelated Area of Interest (Customer Service) but still identified Lender Placed Insurance defects. The Customer Service call was related to why the borrower's payment increased. This prompted SQC auditors to review additional aspects of the loan, which revealed a large increase in the borrower's PITI. All SQC auditors are cross-trained on all AOIs. This additional experience allowed the SQC auditors to identify a problem in servicing that did not match any traditional servicing area, as no specific servicing guideline or compliance guideline was violated.

Case Study

# REFINANCE OPPORTUNITIES

## ISSUE STATEMENT

SQC audits subservicers on behalf of master servicers. On occasion, a borrower will contact the subservicer and ask for a refinance. SQC believes that the master servicer should derive benefit from owning their own servicing rights; therefore, when a borrower requests a refinance, the subservicer should make all reasonable efforts to refer the borrower to the master servicer for a refinance.

## APPROACH

Utilizing SQC's multi-disciplinary approach, comments are reviewed on all loans. If there is a note in servicing that the subservicer did not properly refer the borrower to the master servicer for a refinance, then the loan is noted in SQC's findings.

## RESULTS

On several occasions, SQC noted failures when the subservicer failed to refer the borrower to the master servicer for a refinance. The subservicer used the results of the audit to re-train CSRs on how to refer borrowers for a refinance. The additional training caused the number of refinances to increase for the master servicer; furthermore, it strengthened the relationship between the master servicer and the subservicer as more business is generated from the relationship.

## SUMMARY & EPILOGUE

SQC believes that servicing audits, besides satisfying regulatory requirements, can be utilized to strengthen business relationships. Part of the justification for utilizing a subservicer is that the subservicer will refer borrowers who are seeking a refinance back to the master servicer. SQC has created this audit point for all its AOIs. References to refinance will strengthen business relationships between companies. Accordingly, master servicers will be more willing to board loans with subservicers who can provide repeat business and portfolio retention opportunities.

Case Study

# HOMEOWNERS PROTECTION ACT NOTICES

## ISSUE STATEMENT

Homeowners Protection Act Notices (HPA) are required to be sent to borrowers annually and the client was out of compliance with this regulation.

## APPROACH

SQC identified the issue through a Default Management audit. During this audit process, it is standard operating procedure for SQC to validate the annual issuance of Homeowners Protection Act (HPA) Notices.

## RESULTS

The SQC auditor assigned to this audit was unable to validate the generation of these notices within the system, so SQC reached out to the client to confirm where the sending of these notices would be documented in their system. After an exchange of several email communications with the Compliance Manager, it was confirmed the client was not sending out these notices. The Compliance Manager asked SQC's opinion on the method and frequency of sending these notices and letters. SQC advised the Compliance Manager that many servicers send the HPA letters with the annual 1098 statements or include the appropriate verbiage in their monthly billing statements.

## SUMMARY & EPILOGUE

The Compliance Manager immediately instructed the Servicing Department to send the notices to the entire portfolio, prior to the end of the next month. Going forward, this is now set up as a standard inclusion with the annual mailing of the 1098 statements. The client is now in regulatory compliance, with an established process in place, and is assured that the Company will not be deficient on this issue on any forthcoming audits if these new protocols are followed. The benefit of SQC's knowledge of regulatory compliance has enabled this client to be proactive in remediating a potential issue and is an example of how SQC adds value to our clients on a continuous basis.

Case Study

# SHORT YEAR ESCROW STATEMENT

## ISSUE STATEMENT

RESPA 1024.17 requires that on escrowed loans, a Short Year Escrow Statement is provided to the borrower within 60 days of a loan payoff or a servicing transfer, and the client was out of compliance with this regulation.

## APPROACH

As part of the Paid-in-Full audit, SQC verifies mailing of a Short Year Escrow Statement within 60 days of payoff or servicing transfer.

## RESULTS

SQC's auditor was unable to validate the issuance of this Short Year Escrow Statement on the subject loan, so the client's Compliance Manager was contacted and a copy of this statement was requested. After subsequent discussions, it was determined that the statements were not being sent, so the statement could not be provided. The client's practice was to only send statements at year end on loans paid off or transferred during the year, regardless of the paid off/transfer date; therefore, the majority of borrowers were not receiving this statement within 60 days of payoff.

## SUMMARY & EPILOGUE

The Compliance Manager instructed the Servicing Department to immediately begin issuing Short Year Escrow Statements within 60 days of payoff or servicing transfer on escrowed loans. He was very grateful to SQC for this discovery and expressed his appreciation. RESPA compliance is a part of all related SQC audit scripts and is reviewed on every loan audited. The assurance that SQC reviews these regulatory requirements, as standard practice, makes SQC a valued partner in validating compliance for our clients.

Case Study

# MISAPPLIED FUNDS

## ISSUE STATEMENT

A sum of approximately $83,000 was identified as being received in the client's office and loan level documentation indicated there was confusion over the intended purpose of the funds and how they were to be distributed.

## APPROACH

As part of the SQC Default Management audit, the auditor will review the system notes to ascertain the various servicing activities performed within scope. However, in most instances, it is necessary to expand the review to include the time period, prior to the scope, to gain a full understanding of the servicing activity that has transpired.

## RESULTS

Through performing a QC review on a defaulted loan (in Foreclosure), servicing notes indicated $83,000 was received in the client's office. The funds were received from KYHC (Keep Your Home California) and deposited into a corporate account. As of the date of SQC's audit, it did not appear the funds were posted loan-level, as there were recent notes implying there was still confusion related to the disposition of the funds. SQC contacted the client's Compliance Quality Control/Compliance Manager to advise of the situation. The client later informed SQC the intent of the funds was to be used to reinstate and modify the loan. They were to have purchased the loan out of the investor pool, brought the loan current, modified the loan, and then re-securitize the loan. Unfortunately, purchasing the loan out of the pool did not occur. Additionally, since the time the funds were received, the loan became delinquent again, which now prevents them from re-securitizing the loan at this time.

## SUMMARY & EPILOGUE

The Compliance Quality Control/Compliance Manager conveyed his appreciation to SQC for identifying this issue, as it has allowed them to immediately dedicate the appropriate resources to assisting this customer in resolving the delinquency so the loan could be re-securitized. Additionally, it has also provided him with the opportunity to address training deficiencies.

Case Study

# MODIFIED LOAN

## ISSUE STATEMENT

A sum of $46,329.90 was identified as being received in the client's office in December 2015 and there was no documentation supporting the loan level posting of funds.

## APPROACH

As part of the SQC Default Management audit, the auditor will review the system notes to ascertain the various servicing activities performed within scope. However, in most instances, it is necessary to expand the review to include the time period prior to the scope, to gain a full understanding of the servicing activity that has transpired.

## RESULTS

Through performing a QC review on a defaulted loan (in Bankruptcy), the auditor identified notes, which indicated $46,329.90 was received in the client's office. The funds were received from FHA as a partial HUD claim for the modification of the loan. The funds were not deposited/tracked at loan level, but instead deposited into a corporate account. Efforts continued between the client and customer to resolve the delinquency without success and, subsequently, the customer ended up filing Bankruptcy Chapter 13 on April 1, 2016. SQC contacted the client's Compliance Quality Control/Compliance Manager to advise of the situation. After some research, SQC was informed the funds were intended to be used to modify the loan. They were supposed to have purchased the loan out of the GNMA pool, modify the loan, and then re-securitize the loan. The Bankruptcy filing has now complicated and delayed the process further.

## SUMMARY & EPILOGUE

The Compliance Quality Control/Compliance Manager conveyed appreciation to SQC for identifying this issue. He indicated he has been able to not only identify a process control failure, but also training issues within the operational team.

Case Study

# DELINQUENT BORROWER

## ISSUE STATEMENT

A delinquent customer communicated his intent to "burn the house down and he did not want to live."

## APPROACH

As part of the SQC Default Management audit, the auditor will review the system notes to ascertain the various servicing activities performed within scope. However, in most instances, it is necessary to expand the review to include the time period prior to the scope, to gain a full understanding of the servicing activity that has transpired.

## RESULTS

Through performing a QC review on a defaulted loan, the auditor identified documentation by a collector where a third party assisting the customer stated the customer communicated his intent to burn the house down and he did not want to live. SQC immediately contacted the client's Compliance Quality Control/Compliance Manager to advise of the situation. The Quality Control/Compliance Manager immediately reached out to the third party assisting the customer and the borrower and was able to confirm the borrower was unharmed and is currently receiving assistance in negotiating a loan modification. The borrower is going through a divorce and has custody of his child, as well as his hours at work were cut, and was overwhelmed at the time.

## SUMMARY & EPILOGUE

The Compliance Quality Control/Compliance Manager identified a deficiency in their policies and procedures relating to situations where the customer has communicated intent to self-harm or to vandalize the property securing the mortgage loan. The manager will be working with their Legal Department to define protocol for this scenario.