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GETTING ON BOARD WITH GOOD DATA

— by VINCENT SPOTO —

Servicers need to devote maximum attention to the careful boarding of new loans onto their servicing platforms. The compliance costs of not doing so are huge.

Loan boarding is a critical first step in the mortgage servicing process. Most regulatory compliance and asset performance problems begin right upfront with incorrect or incomplete data entered into the servicer's underlying system at the time when loans are boarded. ¶ Today servicers are slowly beginning to realize this, and have begun hiring additional resources to focus more exclusively on the boarding process. ¶ This, combined with increased costs associated with the hiring of additional staff on the loss-mitigation and default-administration front, has placed considerable strain on the servicer's bottom line. ¶ As a result, servicers are now being torn between two competing options: 1) adding costs associated with increasing staff to focus on limiting compliance problems and providing high-quality service to homeowners; and

Compliance issues have gotten some non-bank servicers into trouble with regulators, leading in some cases to a freeze on the purchase of servicing rights.

2) containing costs resulting in increased margins in order to maximize profits.

So what's actually been happening?

Most servicers are well aware of the need to stay out of the regulatory spotlight, and have been hiring staff and allocating resources as appropriate. But some servicers are also looking to offset and reduce costs by cutting back on what some consider valuable—albeit less visible—services being provided to borrowers. Others are charging high and unauthorized fees.

Said one former employee of a large servicer who requested anonymity, "We have to make it up somewhere."

Ocwen Financial Corporation, West Palm Beach, Florida, was accused recently by the Consumer Financial Protection Bureau (CFPB) of charging unauthorized fees to borrowers and making improper foreclosures. This servicer settled claims with the CFPB a few months ago, agreeing to forgive approximately $2 billion of mortgage principal balances.

At an increasing rate, regulators are expressing concerns that some loan servicers are cutting corners and looking for ways to increase revenues by charging borrowers unauthorized fees.

But servicers are unlikely to skimp on the things that are likely to cause visible compliance violations. So they see inherent value in initially allocating additional resources for critical functions such as loan boarding. In seeking ways to preserve margins, however, servicers are not averse to offsetting some of those added costs by increasing fee income. This is why servicers in today's high-cost servicing environment may be more inclined to pass costs on to homeowners by billing for routine fees.

According to a senior executive responsible for default administration at a major loan servicer of agency paper located in the southwestern United States, "Loan boarding is the single most crucial processes to get right in order to avoid servicing pitfalls down the road. By not paying attention to details and getting it right upfront, servicers run the risk of having incorrect or incomplete data become the cornerstone for future servicing actions that can adversely impact potential loss-mitigation activities, create countless inefficiencies leading to process redundancies and fuel internal control mishaps. This leads to an increase in errors, which yields higher regulatory scrutiny and generates an increase in costs associated with hiring more people to clean up the mess."

So what are servicers beginning to hone in on when it comes to loan boarding?

The nitty-gritty of loan boarding

Some of the more critical areas of focus relating to the boarding of newly originated or transferred loans include:

- the timing and completeness of information received for critical data fields, such as borrower right-party contact information (i.e., mailing addresses, phone numbers and the like);
- the inclusion of critical underlying loan information (i.e., loan amount, maturity date, interest rate, loan term, loan type, adjustable-rate mortgage (ARM) reset parameters, hazard and primary mortgage insurance requirements, taxes and related escrow matters, and so forth); and
- related lien position, product type and borrower credit information (i.e., first/second lien, subprime, FICO® score and so on).

Servicers are now refocusing efforts to address loan boarding in order to prevent problems that may eventually occur, cause compliance issues and impact the borrower.

It is well understood that untimely loan boarding, data incompleteness and data-integrity issues may not have an immediate or direct impact on a servicer's compliance processes or on the actual homeowner. However, servicers are beginning to realize that loan-boarding issues may ultimately hinder future key servicing processes, may adversely impact organizational compliance and may negatively impact the homeowner down the road.

And that's not all. Servicers are seeing that follow-on processes relating to debt collection and default management also can be adversely impacted.

For example, issues arising from improper loan boarding could play a critical role in determining the timing and frequency of collection and loss-mitigation efforts—such as assignment of collection-calling frequencies based on product type and credit rating, recommendations made to homeowners for appropriate loss-mitigation options and so on.

Ultimately, this will impact success rates relating to maximizing cash flows and minimizing delinquencies.

To further drive the point home, compliance issues have gotten some non-bank servicers into trouble with regulators, leading in some cases to a freeze on the purchase of servicing rights.

Obviously, such a halt in new business activities and the adverse impact that has on the bottom line will raise eyebrows and is bound to grab the attention of servicers.

For these reasons and others, many servicers are placing renewed focus on some of the more visible aspects of the loan-boarding process. Based on my conversations with industry players, additions to staff are now happening and resultant costs are rising.

Two of the more visible and immediate facets of the loan-boarding process garnering increased servicer focus are 1) new loan setups/loan transfers and 2) goodbye and welcome letters/calls. Let's dive a little deeper into the nuts and bolts of those two key areas.

New loan setup/loan transfers

Servicers understand that their ability to board loans in a complete and timely fashion is contingent upon the quality and timeliness of data received from originators or from prior seller/servicers.

Knowing this, servicers realize that it is incumbent upon them to work closely with the prior entity and take necessary

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steps to produce an efficient, quality-controlled and orderly boarding process. But what specifically should servicers be focused on when it comes to new loan setups and loan transfers?

Originators or prior seller/servicers should provide critical records, files and information required to ensure loans are boarded as seamlessly as possible in order to minimize or eliminate future disruptions and inconveniences to the borrower.

Vital records, files and information that should be provided to the servicer, to name only a few, include things such as: the assigned loan number; the origination loan amount; a copy of the mortgage and mortgage note; the current unpaid principal balance (UPB) at time of boarding; the borrower's name, Social Security number and confirmation of existence; the borrower's contact information (including mailing address if different from property address), home and mobile phone number(s), employer's phone number(s) and employer's mailing address; loan origination date; property address (including state and ZIP code); loan-to-value (LTV) ratio; adjustable-rate mortgage loan specifics (i.e., margin, interest rate, reset dates, etc.); appraised value at origination and the like.

For loans that have been purchased and/or transferred (in addition to the aforementioned information), certain critical records, files and information also should be provided to the new servicer at the time of boarding.

"I see it all the time," says the chief operating officer (COO) of a top residential mortgage loan servicer based in Texas. "We purchase a fair amount of MSRs [mortgage servicing rights] and constantly engage in the servicing-transfer process. We do have a very robust QC process, so most of the time loans transfer with no issue. I can tell you, though, that from prior experience, missing or illogical data stemming from the boarding process causes quite a scurry—especially when the loan goes into default and there is a need for increased interaction with the borrower.

"At my prior servicer, all hell would break loose and the information scurry would begin. I remember it being a lot more difficult, and costly, to go back and reinvent the wheel to obtain missing information and correct bad data after the fact. That's why when I came [here], I made it a point to ensure there was a robust QC process in place to ensure loans were boarded with the most complete and correct data possible.

"Trust me, the added investment in resources upfront is well worth it, as it helps reduce or eliminate future problems, reduce rework, keep down costs and avoid compliance issues," the servicing executive says.

Essential data to review

Essential data that must be collected and reviewed for reasonableness at the time of loan boarding includes, but is not limited to, things such as: payment histories and collection notes, loss-mitigation notes (if applicable), other borrower correspondence and communications, paid-through date and next payment due date, payment status (i.e., current or delinquent), status of current loss-mitigation efforts (i.e., forbearance plans, short sales, modifications, etc.), status and history of skip trace work performed (if applicable), and status and history of door knocks performed (if applicable).

For loans that have been modified, this includes obtaining pre- and post-modification loan terms (i.e., interest rate, loan term, loan type, amount of debt forgiveness and so on), foreclosure/bankruptcy/real estate–owned (REO) status (if applicable), negative escrow/escrow shortages (if applicable), outside attorney contact information, and copies of prior attorney records and correspondence.

One senior servicing executive interviewed for this article went so far as to say he will turn away loans and stop doing business with sellers or originators who "just can't get it right."

To that end, it is in each servicer's best interests to work closely with the prior entity to ensure file transmissions are made electronically and that data files received are complete.

Follow-up processes should be in place at each servicer to ensure all data-mapping issues involving missing and/or incomplete documentation are identified, tracked and obtained to facilitate timely, complete and accurate loan boarding.

In addition, servicers should perform, at a minimum, random quality-control reviews to ensure system information matches underlying file documentation. Prudent steps must be taken by each servicer to ensure the boarding process is as seamless and non-intrusive to the homeowner as possible, and that newly boarded loans contain all information necessary to ensure servicing can be performed in a compliant manner.

The rules about goodbye letters and welcome calls/letters

A second, more visible, component of the loan-boarding process that's getting increased attention relates to "goodbye" and "welcome" actions taken by prior and current servicing entities, respectively.

In accordance with regulatory guidelines and standards outlined in the Real Estate Settlement Procedures Act (RESPA), goodbye letters must be sent to borrowers by the retiring servicer within 15 days prior to the first payment due date ("effective date"—the date by which the payment is first due to the new servicer).

Hello letters must be sent to borrowers by the new servicer not more than 15 days after the effective date.

The timing requirement for both hello and goodbye letters is extended to 30 days when loan transfers are proceeded by:

- termination of the servicing contract for cause;
- commencement of proceedings for bankruptcy of the servicer; or
- commencement of a proceeding by the Federal Deposit Insurance Corporation (FDIC) or Resolution Trust Corporation (RTC) for receivership of the servicer.

As failures associated with making initial borrower contact may be indicative of fraudulent origination activities, the servicer's complete awareness and involvement in this process is critical.

In addition to welcome (or hello) letters, welcome calls are often made by the new servicer to confirm loan terms and contact information, and set payment expectations to ensure complete borrower awareness regarding the mortgage loan debt.

The practice of performing welcome calls is consistent with best practices adhered to by servicers across the industry.

While there is no specific regulatory or GSE requirement stating that welcome calls should in fact be placed to borrowers (let alone adherence to specified time frames), the use of welcome calls or other programs to establish contact with all new borrowers and develop a robust database of borrower contact information is prudent.

Where welcome calls are being made by servicers to borrowers, they are generally made within five calendar days of loan boarding or within five calendar days from the time welcome letters are sent.

In instances where telephone numbers are invalid or RESPA notifications (welcome letters) are returned, some servicers have now begun to perform immediate skip trace or door knock activities, as necessary, to establish and define right-party contact right upfront.

As failures associated with making initial borrower contact may be indicative of fraudulent origination activities, the servicer's complete awareness and involvement in this process is critical.

Servicers should also work closely with the prior servicer to ensure events occurring in the near term of the loan-boarding process (i.e., processes around taxes, insurance, other escrow and the like) are appropriately flagged for proper and timely payment process handling.

Doing so at the initial boarding stage of each loan provides assurance that the underlying collateral is shielded from repercussions relating to non-payment by the servicer of required insurance premiums and real estate taxes. This may also protect homeowners from unnecessary calls and correspondence from taxing jurisdictions and other third parties, thereby averting unwelcome surprises.

While these events may be "one-off" or transactional in nature, servicers are encouraged to track and monitor such information on a consistent basis, maintain complete audit trails and retain supporting documentation, as necessary.

Other functional areas requiring careful oversight

In addition to the more visible and immediate facets of the loan-boarding process relating to new loan setups/loan transfers and goodbye and welcome letters/calls, there are other, and perhaps less immediately visible, impacts caused by improper loan boarding that servicers should look out for. They relate to the following functions: billing, payment applications, borrower disputes/qualified written requests (QWRs), social media, collections, loss mitigation, foreclosure and adjustable-rate mortgages.

Billing

Federal guidelines require periodic billing statements and/or coupon books be delivered or mailed to borrowers within a reasonably prompt time prior to the payment due date or at the end of any courtesy period provided to the borrower in accordance with the previous billing cycle. There is currently no definitive timing requirement relating to statement rendering; however, the term "reasonably prompt" generally means delivering, emailing or placing the periodic statement in the mail within four days of the close of the courtesy period of the previous billing cycle.

Initial billing statements should be sent to the borrower within a reasonable period of time after closing. This is consistent with best practices adhered to by other servicers.

Inaccurate, incomplete or missing borrower contact data resulting from the loan-boarding process can impair the servicer's ability to provide homeowners with billing statements and/or coupon books in a reasonably prompt time frame, in accordance with specific regulations. As such, delayed or lost payments may occur, thereby resulting in delinquency and reductions in cash flow.

Payment applications

Federal regulations require servicers to promptly credit payments received from borrowers as of the day of receipt, in accordance with an established payment application hierarchy. In cases where servicers capture and record incorrect borrower information when the loan is boarded, untimely payment applications may occur, causing compliance violations.

Borrower disputes/qualified written requests

Incorrect or incomplete borrower contact information captured at the time of loan boarding hinders the servicer's ability to provide borrowers with timely and proper correspondence. Borrowers may not have been provided complete or correct servicer contact information, thereby hindering their ability to properly voice and direct complaints or errors made and file qualified written requests accordingly.

This further impacts the servicer's compliance obligations in terms of timely receipt and acknowledgement—thereby subjecting servicers to regulatory fines and penalties. Further, as QWR requirements vary in accordance with lien position, servicers must ensure that proper loan classification is captured at the time of loan boarding.

Social media

Borrowers may use various social media outlets to voice concerns and complaints associated with the servicer's inability to gather correct data and begin servicing the loan promptly. In addition to the bad press associated with this, social media postings may alert regulators to issues warranting closer scrutiny of a servicer's processes and practices. This can result

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in the discovery of other compliance violations and thus subject servicers to regulatory fines and penalties.

Collections

It is critical for servicers to accurately capture borrower information in order to pursue debt-collection campaigns that are fully in line with Fair Debt Collection Practices Act (FDCPA) guidelines. In addition, early borrower intervention, demonstration of good faith contact/collection efforts and compliance with existing privacy laws are critical areas for servicers to comply with. This further reinforces the need for servicers to obtain accurate and complete borrower contact information upfront.

Loss mitigation

In accordance with CFPB guidelines and standards, servicers must provide borrowers with written notice of loss-mitigation options by the 45th day of delinquency. Furthermore, servicers are required to apprise borrowers of a decision within 30 days of receipt of a completed loss-mitigation application package. It is essential that servicers gather and capture accurate borrower contact information at the time the loan is boarded in order to ensure compliance.

Foreclosure

There are a variety of very specific requirements servicers must abide by relating to the foreclosure process (i.e., timely commencement of the foreclosure process, prohibitions on foreclosure sales, dual tracking, borrower appeals, etc.). Thus it is critical for servicers to capture correct borrower contact and asset information at the time when loans are boarded in order to maintain and ensure compliance. This is critical to avoid dual tracking, which will quickly draw attention from regulators.

Adjustable-rate mortgages

Servicers are required by federal law to provide borrowers with ARM loans timely notice of upcoming changes to interest rates, payment terms, payment amounts and the like. Servicers must ensure that proper and accurate loan-level (asset) information (including reset frequencies, margin requirements, etc.) is captured so that borrowers are provided with accurate information. Failure to do so may lead to compliance violations and sanctions, including fines, penalties and suspension or loss of licenses.

What servicers think

In discussions with several servicers, a common theme emerged: The servicers said a large majority of all regulatory compliance issues were caused by incomplete or incorrect data being loaded at the time of boarding.

They indicated that by getting bad or incomplete borrower or loan-level data upfront, it causes a variety of problems including the creation of redundant processes, the inability to provide borrowers with timely and accurate information, and diminished capabilities to properly explore various loss-mitigation options.

As a result, the ability to service loans in the most effective, cost-efficient and compliant fashion is compromised.

Investment in the loan-boarding process is critical; the function must be appropriately staffed and given adequate focus. The loan-boarding process must also be subject to rigorous ongoing QC reviews. Increasingly, servicers are getting this.

So, where's the rub? Getting it right upfront means servicers must hire more resources, thereby increasing their costs. The temptation here is to make up for these added costs in other areas, for example, by cutting back on less visible services and charging borrowers for routine things such as photocopying, faxing, pay-by-phone and automated clearinghouse (ACH) payments.

But servicers beware: This is a shortsighted strategy. It will divert attention away from optimizing servicing practices, providing and maintaining the highest level of service to borrowers, eliminating process redundancies, containing costs and maintaining a sound regulatory environment.

As one senior director of default administration for a servicer based in Dallas put it: "Scrimping on common-sense things is a trap that some servicers fall into. It's only a matter of time [before] such actions catch up to you and things begin to unravel. When servicers do realize the need to hire more bodies and improve servicing focus, they are often tempted to recover costs by cutting back on good customer service and charging borrowers for stupid things.

"Getting it right the first time eliminates a lot of pain down the road with regulators and allows servicers to properly deal with homeowners. The upfront investment in resources is well worth the added cost and margin pressures [that] are likely to come about in the long term."

This servicing executive adds, "Servicers should not put short-term profits ahead of doing the right thing, and should look at the big picture at all times. Bad loan-boarding processes yield bad compliance practices, and penny-pinching associated with foregoing costs by not hiring the right people for the right functions inevitably results in bad behavior." **MB**

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