

Servicing Quality Control

A Risk Management Tool



Servicing Today

- The Impact of Borrower and Product Trends on Mortgage Servicing is apparent as the mix of borrowers and products become more diverse
- Today's portfolios have a higher portion of service-intensive loans. Servicers must address a much broader portfolio of mortgage product types
- Sub-prime borrowers are more likely to go into default especially if housing prices continue to decline and interest rates rise

Effective Servicing Quality Control

- Monitor the quality of Servicing with a focus on minimizing risk and advise management what processes have to be improved to ensure compliance
- Mitigate credit risk with Operational functions-If there is a production error will it impact future servicing functions?
- Ensure your QC reviews identify all aspects of operational risk so that each can be classified and addressed

Areas of Focus That Pose Higher Risk

- Collections, Loss Mitigation, Foreclosure, Claims, REO, Default Reporting, ARMS, Property Preservation and Non Performing Assets High Balance Loans
- High risk loans-not limited to balances over \$500,000, First Payment Defaults, Alt A, Easy Option, TLTV's over 89%, Acquisitions, Merger loans, FHLMC High Risk, FNMA High Risk, Investment property and HUD Neighborhood Watch loans.

Servicing Quality Control Reviews

- Reviews should be designed to discover process failures, identify risk, recognize intentional violations of policies and procedures and minimize losses
- Targeted audits should be conducted based on risks identified and expanse of sampling based on audit findings
- If process failures are identified, determine whether it was the process or the product or a mix
- Monitor remedial actions that Servicing puts in place as a result of QC reviews and weaknesses determined

Ways to Identify and Mitigate Risk

- Monitoring and Reporting are essential and should include monthly and quarterly risk assessment
- Trend Analysis should be reported to business channel managers and Senior Management
- Track and report monetary losses to management monthly-provide a yearly Interest Curtailment or Loss Report

Other Areas of Focus

- Loan Administration reviews are also required to include MIP, PMI, Escrow Analysis, Tax, Insurance... although technology has a direct impact on the execution of these processes
- Test your technology and validate it against requirements to ensure effectiveness, i.e. dialer systems, stop codes, workstation templates and skip trace systems
- Target Outsource Vendors to ensure compliance i.e. claim filing vendors, Tax and Insurance Vendors, 3rd party inspection and maintenance companies etc....

Collection Reviews

- Collection reviews impact financial, regulatory and reputation risk.
- The purpose of Collection efforts is to cure a delinquent mortgage in the shortest time possible to avoid foreclosure and to minimize losses
- A successful servicing strategy treats each delinquent borrower individually

Collections- Improved Processes to Mitigate Risk

- Ensure there are live collector attempts and not sole reliance on Dialer systems
- Set up collection teams based on the stage of delinquency
- Establish reason for default early in the process-its normally key to curing the delinquency
- High risk loans should be called more frequently

Loss Mitigation Reviews

- Loss Mitigation reviews impact financial and regulatory risk. Failure to engage in Loss mitigation can result in treble damages, civil money penalties and curtailment of a claim if applicable
- Finding viable Loss Mitigation Workout strategies benefits both the lenders and the borrowers as much more cost effective than foreclosure
- Today, Loss Mitigation is the new timeline management –keep as many borrowers in their homes as possible

Loss Mitigation-Improved Processes to Mitigate Risk

- Ensure opportunity to remedy a default considered prior to pursuing foreclosure
- Develop a Loss Mit Solicitation team focused primarily on contacting borrower in the early stages of delinquency
- Determine root cause analysis for the delinquency to develop the best work out option available
- Loss Mitigation referral opportunities if loan is already in foreclosure

Non-Performing Assets-Recommendations for Improved Processes



- Early stage collections segmented by risk to contact delinquent accounts sooner
- Partner with vendors on skip trace effort
- Track and report progress on reducing delinquencies and non performing assets

Foreclosure Reviews

- Foreclosures impact financial, regulatory and reputation risk . Increasing foreclosures affect losses and scrutiny from the media, regulators and politicians
- Servicers must ensure servicing has been prudent and adequate before starting foreclosure and that every effort has been expended to avoid foreclosure
- Foreclosure process is driven by specific timeframes that must be adhered to in order to minimize losses and avoid interest curtailments
- Timely eviction process to avoid interest curtailments if applicable Investor guidelines dictate

Foreclosure-Recommendations for Improved Processes

- Charge back accountable third party vendors to mitigate losses
- Use of Electronic Referral systems and workstation templates to ensure key dates are tracked and met
- Report Interest Curtailments and Monetary Losses to Senior Management
- Monitor Foreclosure Attorney performance and take necessary action for failure to comply

Claim Reviews

- Accurate claim filings impact regulatory and financial risk
- Investor guidelines must be followed with respect to timely initial and supplemental claim filings
- Ensure all proper amounts are claimed and calculated to ensure maximum reimbursement and to minimize losses
- Proper Default reporting to avoid Interest Curtailments

Claims-Recommendation for Improved Processes

- Final QC of all files before closed out of the workstation and final reconciliation of all amounts/disbursements
- Higher process efficiency through outsourcing and third party site management and early monitoring of these vendors to ensure accuracy and compliance in the claims process
- Use of Electronic Billing and Claim filing systems

Real Estate Owned (REO)

- REO's impact financial risk. The rapid increase in REO's face Servicers with many different operational issues that impact final losses.
- REO Volume will have a high financial impact on personal costs
- Measure Vendor performance
- Compare incremental costs of more focused Collection efforts to minimize a net loss
- Implement a more aggressive Foreclosure bidding policy on your Portfolios to encourage 3rd party sales

Adjustable Rate Mortgages Reviews

- ARMS present a financial, regulatory, reputation and operational risk. With the onslaught of so many recent ARMS products, Servicers face the risk of borrowers going into default when their resets occur as the borrowers will no longer be able to afford the payments.
- Failure to properly adjust and calculate an ARM can result in the possibility of civil suits
- ARMS and Interest Only ARMS are service-intensive. Servicing Quality Control should monitor ARM loans closely and conduct targeted reviews to ensure the terms of the Note are accurate and match the Servicing system of record.


ARMs-Recommendations for Improved Processes

- Include a “verification” process in your New Loans or Custodial group to perform review of ARM plan and proper system set up
- Audit ARMS currently on system to ensure correct index rates, correct reset dates and correct terms used
- Target the ARMS that will reset for borrower’s who may not be able to handle significant payment increases and provide “ARM Counseling” for borrowers at risk six months before their scheduled payment change

Property Preservation

- Property Preservation impacts financial and regulatory risk. Failure to protect your security results in damaged properties, allegations of mortgagee neglect, and un-reimbursable fees.
- All Servicers must take reasonable actions to protect the value of their security. This includes occupancy, initial vacancy, ongoing vacant, pre-conveyance and eviction inspections.
- Ensure Property Preservation during all stages of the delinquency

What Servicing Shops can do to Mitigate Risk

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- Upgrade technology investing in workflow, imaging, and automated decision-making tools in Collections and Loss Mitigation to expedite processes
 - Utilize Web Based applications that streamline problem loan management
 - Staff according to Delinquency projections for Portfolio and make accommodations for increased call volume and workout requests
 - Create reports that identify the profile of failed workouts and denials to ascertain what needs to be re-examined to help customers retain home
 - Promote a “work out” culture that identifies opportunities at every juncture
 - Arrange with foreclosure and bankruptcy counsel to solicit and offer loss mitigation to clients already at legal action stage