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# Parts of a Whole in Default Servicing

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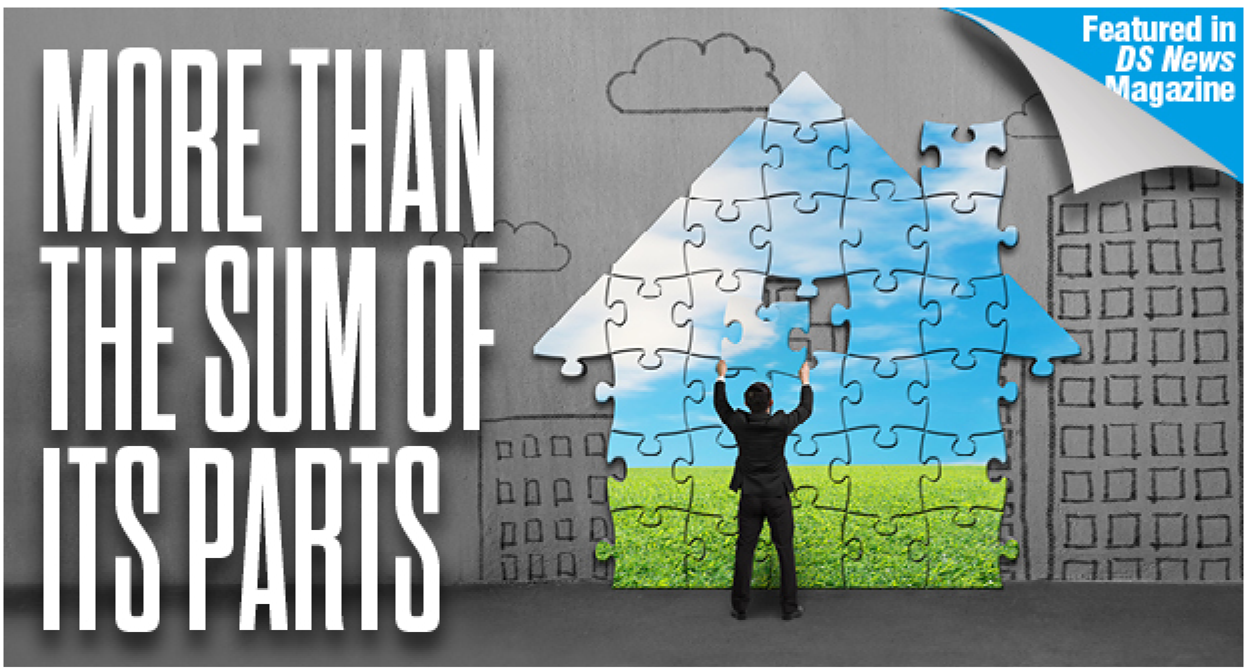


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With foreclosure volumes remaining historically low and the cost of servicing a real issue for many companies working within the mortgage sector, it's more important than ever for servicers to maintain a focus on efficiency, innovation, and streamlining best practices. Perhaps most important of all, however, is one core pillar: communication. Without effective communication between all stakeholders within the mortgage servicing spectrum, none of those other target areas can hope to reach their full potential.

However, that communication can be challenging when trying to navigate terrain that includes technological hurdles, the ever-shifting sands of compliance, and the tangled network of banks, nonbanks, law firms, government agencies, and service providers who make up the landscape of modern mortgage servicing.

With so much to consider—and so much at stake—how are today's servicing professionals managing their commitment to excellence, both for their own shops and for all their partners? This month, *DS News* spoke to an array of industry experts to find out.

**THE LAY OF THE LAND**

The low-volume environment that has defined recent years has impacted every step of the servicing process. Within this more stable status quo, what areas of focus have taken on a higher priority, and what has shifted to the back burner?

According to **Eric Patrick**, CEO of Quandis, there's been no shortage of retooling. "One recurring comment I hear is, 'We're not going to stay this low on foreclosure volumes forever,'" Patrick said. "There was an attempt to integrate the various players during the last downturn, but much of that integration was haphazard. At this point, the large players are taking time to figure out how that interconnectivity can be more efficient."

**Neil Sherman**, Managing Partner of Schneiderman & Sherman, P.C., told *DS News* that "Two areas where we may have fallen off as an industry are continuing education and face-to-face communication." Sherman noted that, as foreclosure volumes have continued to dwindle, so too has the amount of interaction between servicers and law firms.

"For a while, there were a number of servicer-based summits, and there was a lot more peer-to-peer interaction between the law firm community and the servicers." Sherman said he worries that the industry has moved away from that in recent years, and suggests that "it's important for us to get back to that as we start to see volumes increase again."

Another concern cited by several experts *DS News* spoke to involved REO asset management and liquidation.

"There's so much capacity in the marketplace for that," said **Dave Worrall**, President of LoanCare. He added that the models and systems being developed within the auction space have the potential to have a strong impact on the next default cycle.

"Certainly some of the programs related to the Claims Without Conveyance of Title (CWCOT) program have proven how efficient that process can be for liquidating hard-to liquidate properties," Worrall said. "In many cases, you're getting execution that's on par with what you would get if you just went the old-fashioned way and marketed the property."

**Michael Harris**, President and CEO of Exceleras, also pointed to the changing landscape of property inspections as another developing aspect that servicers need to be aware of and communicating about with their vendor partners. Harris told DS News that, a decade ago, inspectors "weren't doing inspections to make sure that the real properties still attached and the value is validated. They were potentially taking possession of the property based on the trustee rights, under a notice of abandonment."

Harris notes that the nature of handling properties post-foreclosure has changed as well.

"The same applies to post-foreclosure REO or even working with investors for buying or selling notes and managing real property," Harris said. "Back in the day, almost all the interaction went through the real estate agent who was assigned to the subject property." Today, Harris explained that is mostly not the case. "All the interaction, all the communication, all the workload is going directly to the service provider, as opposed to funneling through the agent."

**Jeff Smith**, Head of Servicing at Wells Fargo, emphasized that customer service must remain a high priority in any environment.

"Regardless of low delinquency rates or foreclosure volume, the fundamentals of helping customers sustain homeownership remains the highest priority," Smith said. "Providing exceptional service to a customer is key, whether it is a simple question from a customer who is current or assisting a customer who has a hardship explore options."

## INNOVATION VS. LEGACY

With many industries working to leverage emergent technology to help improve efficiencies and return on investment, the default servicing industry is no different. As that technology advances, however, it inevitably brings with it new challenges on the compliance front, in implementation, and in old-fashioned trial and error.

According to **Gagan Sharma**, President and CEO of BSI Financial Services, the industry continues to see an increased focus on automation and management of internal data.

"How do we use technology to be cheaper, to be faster, to be more compliant?" Sharma asked. All of those questions can be further complicated by the nature of many legacy systems still in place within the servicing industry, many of which present challenges when it comes to integrating with other—or newer—systems. When you consider the inherent need for servicers to interact with their partner firms and vendors, things can get complicated quickly.

**Cole Patton**, Managing Partner at McCarthy & Holthus Law Firm, told us that last year, 70% of his firm's client updates were manual, with the other 30% being automated.

"That's the kind of the infrastructure and one of the hurdles we're dealing with on some of those legacy systems," Patton said.

DIMONT President and CEO **Denis Brosnan** told *DS News* that legacy systems, despite their faults, have remained in place for a reason.

"The reason legacy systems exist or continue to exist, though, is because they work," Brosnan said. "The fundamental focus of a servicer is to collect payments from the borrower and to remit to investors and then to produce the interest statement at the end of the year, and those core systems are very good at that. They're producing tremendous amounts of transactions with a high degree of reliability."

Brosnan added that, despite the continued viability of many legacy systems, "what they're not good at is all of the intricacies of workflow in all the different activities that happen."

Moving forward, many industry experts agree that a continued shift to digitalization of mortgage and servicing processes is the wave of the future. While upgrading technology can be extremely expensive, **Stephen Hladik**, Partner at Hladik, Onorato & Federman, LLP, suggests that the investment is worth it for many reasons, including a commitment to increased data security.

"It's a time-consuming, costly process," Hladik said. "However, it is an absolute, vital necessity for law firms and servicers these days to deal with the most cutting edge of data security."

Despite the high costs involved, there are still often inexpensive ways to help ensure data security. Patrick highlighted the step of ensuring that data flowing between different organizations is encrypted.

**CONSIDERING COMPLIANCE**

For Sharma, ensuring proper technology updates from vendors is key to streamlining compliance processes and reducing friction between servicers and vendors.

"There are certain industrywide compliance regulations, and all those industry vendors have got to provide advisory solutions," Sharma said. "If a particular regulator comes out with a new guideline, every servicer has to deal with that guideline. So it would be best if our technology vendor would just develop that, launch that as an update, and all of us automatically get it as part of the core business. That is one challenge that we think that industry vendors could do a better job of: having a radar for compliance changes and baking those solutions into their system upgrade roadmaps."

**John Vella**, Chief Revenue Officer at Altisource, echoed Sharma's statement, suggesting that, as regulation changes, technology needs to keep up.

"When a new regulation comes in, you have to change the technology," Vella said. "You have to update the policies, you have to train your people, you have to make sure your vendors are complying. So, the whole process around changing rules and regulations and how well you manage that is probably the biggest issues within a servicer's operation."

Cole Patton told *DS News* one concern he sees is the need for more consistency.

"All of the servicing industry is subject to the same regulatory and compliance requirements, whether that be state or federally mandated," Patton said. "We see each of those servicers taking a slightly different nuanced spin on how they direct or employ methods to accomplish those compliance or regulatory objectives."

Dave Worrall also pointed to concerns involving the changing regulatory environment and how it relates to privacy and consumer information protection. Worrall cited the example of the California Consumer Privacy Act (CCPA).

"Any servicer who's not paying attention, or who didn't pay attention to the CCPA—and how that stands as an example for other states to follow—is almost negligent in meeting its responsibilities to its shareholders, investors, and consumers," Worrall said. "It's obvious at this point that, without some kind of federal standard, each of the states is going to pick its own regulation, and we're going to have to figure out a way to comply with it. That's really difficult for a company that does business in all 50 states."

## MAKING THE JOB EASIER

While challenges on the technological and compliance front present a myriad of hurdles for the industry, proper communication between partners is integral to evolving on any of those fronts, and countless others. "The more that we share and the more that we communicate and prepare each other, the better we'll be situated," Sherman said. This communication must be a two-way street, however.

"Law firms, by nature, are small businesses," Sherman said. "We don't have economists that are sitting there trying to determine where things are going. Any forecasting from our servicing partners that they can share with us can be incredibly beneficial. Vice versa, we are boots on the ground both as legal service providers and counselors to our clients, and we have our own indicators we watch in our regional spaces, such as increases in consumer bankruptcy that will eventually correlate to an increase in mortgage foreclosure default. We have our own indicators, and we need to make sure that we're conveying those back to our servicing partners."

Effective communication means everyone needs to be on the same page, said John Vella. This means that every party involved should have a voice.

"When you sit around the table, it's treated as a partnership, where you feel comfortable if something is not going right, where you can articulate that and feel like you're being heard," Vella said. "This also means having the type of relationship where, at any time, the servicer can provide the vendor with escalation, or problems, or issues, and feel comfortable that they're getting attention."

Cole Patton agrees, noting the importance of uniformity and inter-servicer communication. "If the servicers had a mechanism to standardize and uniformly employ and implement these regulatory compliance standards, it would definitely provide more consistent results," Patton said. "Such a standardized approach would create less uncertainty, promote greater efficiency, and ultimately provide better customer service to borrowers."

Eric Patrick highlighted the importance of open standards in areas including security, API documentation, data formats, and models. "These standards reduce friction, lowering costs of integration significantly," Patrick said.

Dave Worrall suggested that technologies designed to assist consumers can also assist the industry as a whole by helping to provide information quickly.

"Adopting technology that allows [servicers] to do business with consumers in a mobile and/or web environment helps everybody in the process," Worrall said. "If you can work with a customer or consumer to have them interact digitally and get them comfortable with that digital interaction, then you not only have a better record of the interaction, but you're able to make more opportunities available faster, you're able to gather better information, than if you were dependent on some of the old channels of communication, like phone and written correspondence."

## LOOKING FORWARD

Looking to the future requires looking to the past—specifically back to the 2007 downturn.

"All of us are preparing for something like that again," Worrall said. "That's why it's so important that there's continued investment. In good times, it's always appealing to take profit, but this is the time when companies need to be investing, especially in their default platforms, so that when the next downturn comes, we're all ready to handle it, and we can, as an industry, look a little better than we did last time."

"It's a challenging time for this segment of the industry," Denis Brosnan said. "I think it's a time when professionals can work together and find a way to not only survive but thrive."

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