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Tips For Adapting To A Changing Regulatory Environment

Servicers can - and should - rely on their field services partners to stay on top of regulatory changes that affect vacant properties.

by Kellie Chambers

Comedian George Carlin once joked: I put a dollar in one of those change machines. Nothing changed.

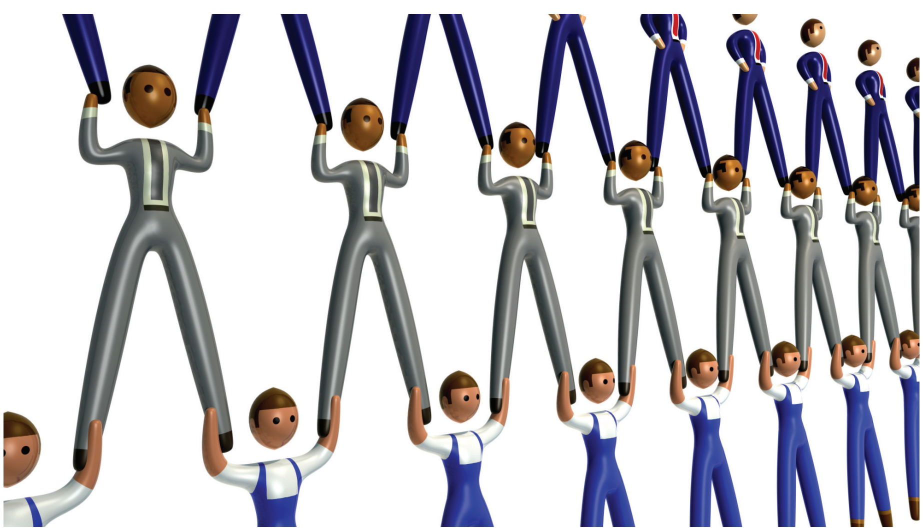
Without change, businesses, industries and government agencies quickly become irrelevant to those they were created to serve - just as a dollar bill becomes irrelevant to someone who needs quarters for a parking meter.

But adapting to change can be a challenging and stressful process. This is certainly true for the mortgage servicing industry as it responds to ever-changing investor guidelines and government regulations designed to strengthen and protect the nation's housing market.

When guideline and regulatory changes affect policies and procedures related to property preservation for vacant defaulted and foreclosed properties, the mortgage servicing industry should view their partners in the field as resources and allies to respond effectively.

Step One: What does it mean?

Whether they are guidelines to help reduce bid volumes, new property condition and timeline requirements for conveying properties post-foreclosure or changes to improve transparency around loan status, when guidelines and regulations are introduced, it is important to start by understanding what they mean and how they will affect existing processes and systems. The deeper the subject knowledge and the more diverse the perspectives to interpret the rules, the more comprehensive the evaluation will be.



Representatives from the mortgage servicing and field service sectors - from multiple organizations and various levels within those organizations - should come together to discuss the details of the new regulations, share their interpretations, reach consensus where they can and identify points that require clarification. This kind of connection can be achieved through conference calls or other forums.

One designated representative can then work on behalf of the industry to review the group's interpretations and make inquiries to the government-sponsored enterprise or agency issuing the new requirements. This collective approach is more efficient for servicers, investors and government agencies alike in helping to ensure consistency and accuracy in implementing new guidelines and regulations across the industry.

Step Two: Roll it out

Once the industry understands the new requirements, the best course is to implement them - even if there are initial concerns.

In the roll-out phase, mortgage servicers should rely on their field service companies to track and monitor results to provide objective data to determine whether guideline and regulatory changes are working or where modifications may be needed.

Mortgage servicers also should look to their field service partners to make recommendations for and assist with updating systems and procedures to accommodate changes related to property preservation services.

Invoicing systems may need to change to reflect new pricing thresholds for bids. Manual processes may need to be automated to comply with new reporting requirements. System changes will need to be tested and verified.

Everyone involved in the new processes will need to be trained - from the mortgage servicer's side to the field service provider's billing staff - on all aspects of the new guidelines and regulations. Field servicers can and should take the lead to develop this training for servicers.

Also, field servicers must ensure that the vendors that perform services at properties are properly trained on the new guidelines and regulations related to repairing damages, bidding for repairs, assessing property condition and other requirements.

Step Three: Analyze and modify

After 30 or 60 days, evidence will begin to emerge to show whether new guidelines and recommendations are meeting their goals.

For example, when the U.S. Department of Housing and Urban Development issued its Mortgagee Letter 2010-18 guidelines in May 2010, the changes were designed to reduce the time frames to convey properties, reduce bid volumes for repair approvals and improve the condition of properties at conveyance.

The data demonstrated that the goals were achieved to reduce bid volumes and improve the condition of properties at conveyance. With regard to reducing the time frame for conveyance, the industry saw a trade-off. Requirements for higher levels of repairs extended the time to convey, but the result was a higher-quality product. This trade-off was viewed as worthwhile.

In another example, Fannie Mae's new property preservation guidelines, Property Maintenance and Management: Property Preservation Matrix and Reference Guide, issued in early 2013 were designed to reduce bid volumes and provide greater transparency with regard to loan status.

An example of a previously requested practice that is now mandatory is Fannie Mae's HomeTracker system. HomeTracker is an online tool that manages requests and bids to provide services that exceed certain allowables. It permits servicers to search property information, submit bids, receive responses and track the history of over-allowable bids.

This new technology requires that the servicer provide more information - such as loan and inspection history and date of default - to allow Fannie Mae to make more informed decisions. This resulted in a more efficient bid process and better communication between Fannie Mae and servicers.

The new guidelines also required servicers to secure properties within seven days. However, this change was inconsistent with the requirements of those servicers whose policy is to provide more notice to borrowers, resulting in higher numbers of denials and a need to respond manually to each notice. As a result, servicers are re-evaluating their rules and business practices to accommodate the new Fannie Mae guidelines.

Because mortgage servicing is a constantly changing industry, servicers should rely on their field service partners to guide them through changes in guidelines and regulations. This partnership helps servicers understand how changes will affect their business practices and respond accordingly. By working together, we can respond effectively to ensure that the services we all deliver remain relevant to protecting and sustaining a strong housing market. SM

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