

A MEASURED APPROACH to REO SERVICE QUALITY

BY MICHAEL GREENBAUM

In its *U.S. Foreclosure Market Report* for May 2012, Irvine, California–based RealtyTrac Inc. reported that foreclosure filings increased 9 percent from the previous month. Overall foreclosure activity in May exceeded 200,000 mortgages per month for the first time since the previous three months. ● Even as the housing market shows signs that a modest recovery may be on the horizon, the fact remains that foreclosure activities are on the rise. ● For mortgage servicers and investors, the ongoing threats are longer sales cycles, higher maintenance costs and lower returns on their real estate–owned (REO) property portfolios. For field

One large field service company has got measuring and improving REO contractor service quality down to a science. Heat maps and white-glove inspections are all part of Safeguard's quality-assurance plan.

service companies, the opportunity lies in delivering service quality improvements that reduce maintenance costs, shorten the sales cycle and result in higher REO sale prices.

New approaches lead to better results

Field service companies need to re-evaluate every step in their REO processes to ensure that REO properties are put in the highest marketable condition and remain so throughout the sales cycle. A key component in the process must be a mechanism to routinely evaluate and improve the performance of contractors working in the field.

Safeguard Properties' REO department has developed a new quality-assurance process that has resulted in significant improvements in quality. The company's REO department witnessed a 39 percent overall increase in properties with no deficiencies or quality issues since Safeguard started the program in November 2011.

The purpose of this new quality-assurance process is to provide Safeguard's clients with REO properties that are in the best marketable condition and comparable to other properties in the neighborhood.

To accomplish this, a field service company, like Safeguard, needs to improve internal quality scores, external scores from clients and brokers, drive contractor behavior and, ultimately, increase overall client satisfaction. Field service companies need to raise their standards and deliver properties that are deficiency-free, hazard-free, have properly reported damages and are in clean, marketable condition.

The program begins once Safeguard's contractors complete initial services. When the first contractor enters the property, he or she removes debris, remedies health hazards and completes a deep initial maid-service cleaning. The contractor will also inspect the property for any damages that may be present.

Also during the initial service visit, all properties are secured according to the field service company's client's specifications. In general, all locks are changed (including deadbolts) and keyed to a client-specified code. Padlocks are then placed on all outbuildings and sheds. Pool areas are secured with padlocks on surrounding fences.

The contractor will install a lockbox with working keys inside to facilitate future access for contractors, inspectors, the listing agent and buyers' agents. In addition, any openings that present a security risk, including broken windows and doors, and unsecured crawlspaces, are boarded based on Federal Housing Administration (FHA) standards.

Following a script to ensure quality

Under its new quality-assurance plan, Safeguard will have a team of inspectors visit the property and assess the work completed during the initial service visit. The new process includes a 178-question script that inspectors must follow as they go through the house.

Those inspectors will go station-by-station to perform a "white-glove" review of the interior counters, lights, floors and any other surface. They literally use a white glove or a white cloth, wiping against the surface and taking a photo of each action as they double-check the work completed by the first contractor and follow the questions on the script.

That script includes checklists for the kitchen, bathrooms, bedrooms, common rooms (living room, dining room, front room, den, etc.), basement, attic and overall general conditions. All items should have been completed by the first contractor when it provided the initial and 30-day refresh services. Some of the questions on the script include:

- Are the floors clean and free of debris?
- Are all flat surfaces clean, and free of debris and dust?
- Is there a missing gas cap, exposed wires, missing light bulbs, missing face plate/switch plate covers or missing vent covers?
- Is the oven or stove clean?
- Is the dishwasher clean?
- Is the shower or tub clean and free of debris?
- Are the sink, vanity and mirrors clean and free of streaks?

Tackling the property's exterior

The next step in Safeguard's REO quality-assurance program includes a checklist for the exterior of the REO property. Depending on the time of year, the first contractor will complete an initial grass cut. Safeguard increased its grass-cut performance—which includes evaluating timeliness, proper length of grass and overall lawn condition—by 76 percent since implementing this quality-assurance program.

Contractors are expected to edge along curbs and sidewalks; to use a weed trimmer along fences, foundations and walkways; and to trim shrubs as warranted. They also are required to provide photos documenting the "before" and "after" condition of all work completed.

When the inspector is deployed under the new quality-assurance program, he or she must check the quality of curb appeal services completed. That inspector also must follow cer-

tain measures outlined in the script, such as using a ruler to show the length of the grass or lawn and photo-documenting the result. Questions on this part of the script may include:

- Is the grass cut and the lawn free of debris?
- What is the height of the grass (in inches)?
- Do the bushes present a neat, orderly appearance?
- Are outbuildings and garage secured?

In addition to the checklist, the inspectors are given a requirement for the number and types of photos that must accompany each response to questions on the script. All of this is done to ensure all questions on the quality-assurance script have been addressed and to help

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determine if the initial contractor completed the work to servicer and investor standards or guidelines.

Checking the work being done in the field

Once the inspectors have completed their checklist, they are required to submit this information to the team at Safeguard. A group of designated quality analysts will then review the results for each property, carefully analyzing the script responses and accompanying photos.

If any deficiencies are identified at the property, an order is opened and the contractor is asked to return to rectify the issues. Additionally, this triggers a review of other properties the contractor has serviced for Safeguard.

If a pattern of deficiencies is identified, an improvement plan may be put in place for that contractor. The improvement plan often includes recommendations for additional training. Once such an improvement plan is developed, the contractor will be further monitored for quality improvement.

The quality-assurance team then will generate a daily report based on the inspector's findings. The report will contain specialized data such as market performance, state performance, field quality-control representative performance and client performance. It will identify trends in a market and/or trends in a contractor's operation.

The goal is to provide significant detail to drive the change in the contractor's performance and guide the corrective action plan.

Collecting outside data

In addition to the information from the inspectors who visit the properties throughout the country, the quality-assurance process gathers feedback from outside sources. Safeguard collects information from its clients, the brokers and the company's field quality-control representatives, in addition to the information collected by the inspectors during their initial service follow-ups.

The broker sign-off data, which include information from inspections completed by the broker who has to sign off on the condition of the property and information from the clients' internal inspections completed by their own field teams, are collected and reviewed. This data, along with what has been gathered by Safeguard's field quality-control department, in addition to data from clients' third-party contracted group of inspectors, are compared with similar information gathered by Safeguard's inspectors and analyzed by its quality-assurance team. These data include property and quality scores that are based on a standard industry checklist. The script Safeguard's quality-assurance inspectors use was designed after this industry checklist.

The purpose of gathering feedback from multiple sources is to remove the potential for individual bias, because each person reviewing the properties brings his or her own separate and subjective viewpoint.

Safeguard gathers all of the data and reviews them to

determine the next steps to take, if any are needed. If multiple data points are consistent, the company can have greater confidence in the results.

Another advantage of gathering information from multiple sources, especially from clients, is that it helps field service companies better understand their clients' and brokers' reporting mechanisms. Servicers and investors rate their field services companies through scorecards that are based on quality and performance.

If a company already has a process in place that thoroughly examines those areas of the process, there should not be any surprises on servicer and investor scorecards. They will have already identified deficiencies and begun to address them. The company will be in a better position to proactively address underperforming markets and contractors. Also, this valuable market information will be available in real

time because the quality-assurance team produces reports daily.

Analyzing findings

In its quality-assurance program, Safeguard brings together all of the data to conduct a statistical analysis. The data are used to evaluate the performance of each of the field service company's contractors in addition to the quality within certain cities and regions.

Once analyzed, the data are used to create a "heat map," identifying with designated colors the areas or regions in which the contractors are meeting the requirements and standards. It also is used to determine the regions where contractors are deficient.

Areas on the map, broken down by state, highlighted in red indicate a significant level of deficiency. Orange indicates moderate deficiencies, yellow represents low deficiencies and no color means there is no deficiency in that particular area.

By identifying the weakest areas, the company can take corrective action. Safeguard's field quality-control team is deployed to areas that are deficient to correct the problems.

Once the quality-assurance team identifies contractors who are not compliant in specific categories, it sends a corrective-action memo. That memo explains the deficient categories and describes what is needed to correct that deficiency to increase quality. The memo also helps by setting goals for the contractor with a timeline to get his or her quality scores back on track.

Field service companies may also choose to deploy their field teams to visit "hot areas," or those that are red on the heat map, and work with contractors individually based on their performance, as Safeguard does in its new process. The company's field quality-control representative will use the same script the inspectors use to evaluate the contractors to help them understand the company's and clients' expectations.

For example, if an area near Columbia, South

In its quality-assurance program, Safeguard brings together all of the data to conduct a statistical analysis.

Carolina, is showing up in red on the heat map, Safeguard's quality-assurance team will identify which contractors are deficient within that area. The company will then deploy its field quality-control representative to meet with that contractor and check its work.

The representative will go over the script or REO checklist with the contractor and explain the company's guidelines and expectations. The representative may even take the contractor through a house and point out potential problems or areas needing improvement.

That contractor also will receive additional training, and specific goals for improvement will be set for the contractor. A four-week plan will be put into place that will incorporate multiple unoccupied property visits, contractor field training and office visits. The contractor will have its work checked for compliance and monitored for that period of time in accordance with a plan the field quality-control representative sets up.

Identifying best practices and weaknesses

All of the data collected through this new quality-assurance program are gathered and compiled to create detailed client reports. The reports may include the overall inspection results, week-over-week or month-over-month trending, heat maps, area-specific improvement plans provided by field quality-control representatives, and any follow-up from previous improvement plans.

The report also will rank the lowest-scoring contractors per area, taking into account all of the data collected internally and from outside sources.

Another quality initiative is testing random samplings of contractors' work. The process is similar to the follow-up inspections completed through the quality-assurance process, but the sample takes a top-down approach to gain an understanding of the overall business structure and performance of the contractor.

These random top-down audits help to identify contractors that are not compliant in specific areas and

also those that are. They look at everything the contractor has done, and can help identify areas of improvement or best practices that need to be shared. The contractor can get additional training and be set on the right path to improving errors.

Quality prevails

Continuing high rates of foreclosures mean that mortgage servicers and investors need their field service companies to continue to focus on quality, especially in the REO, post-sale space.

In addition to a 39 percent overall increase in quality—or an increase in properties with no deficiencies or quality issues based on a 178-question review of the company's contractor network—Safeguard's inspection scores from its clients have increased 17 percent since initiating this new quality-assurance program.

Something similar to Safeguard's quality-assurance process can help all field service companies improve the quality of REO properties and keep them in the highest marketable state.

It is important to maintain a high-quality level of service in addition to high-quality contractors because of the large volume of vacant and foreclosed properties within the servicers' and investors' portfolios. It is easy for a contractor to become overwhelmed by the fast-paced and demanding environment the housing crisis has created. But if guidelines are clearly set and reviewed, the contractor has a better understanding and guidance for improving its performance.

Widespread adoption of this new process to validate performance will foster significant improvement in the quality of property maintenance and performance of contractors, something Safeguard has already experienced. **MB**

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