PwC's CFPB Mortgage Servicing Standards Perspectives

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Issue 8/February 2014

CFPB Mortgage Servicing Standards

Post-Implementation Considerations: Enhancing Internal Reporting to Manage Non-Compliance Risks

Introduction

This newsletter represents the eighth in a series of publications offering perspectives on the Consumer Financial Protection Bureau's (CFPB) Mortgage Servicing Standards. With the initial effective date of January 10, 2014 now behind us, this edition focuses on how servicers can more effectively manage the ongoing risk of non-compliance in operational functions by improving the quality of internal reporting.

Overview

Most servicer systems and processes have undergone considerable change in the months leading up to the January 2014 effective date for the new CFPB Mortgage Servicing Standards. While the majority of required process changes, technology upgrades and employee training sessions generally were completed in advance of the deadline, most servicers are still undertaking efforts to close out post-implementation activities. This includes resolving last minute implementation issues, refining and ensuring documentation is up to date, conducting "pre-exam" validation of compliance as of January 10th and planning the execution of any long-term enhancements that were deferred. This is particularly the case where the required changes involve a high degree of complexity or where servicers intend to rely on technology upgrades that could not be completed in time.

To date, servicers have been focused on making sure that operational functions and processes are in compliance with the regulatory requirements by the effective date. As a result, many servicers have not yet also been able to update the associated internal reporting functions. While that was generally a reasonable trade-off, reporting is an important activity that does need to be completed in order to evidence ongoing compliance. It is therefore a critical area for review as part of the servicer's post-implementation activities.

This article provides key considerations on enhancing reporting to better manage the risk of non-compliance going forward, including examples of specific business level reporting and considerations relevant to the nine areas covered by the CFPB Servicing Standards.

Key considerations

The implementation of enhanced internal reporting should cover all three types of business-level reporting:

1. Exception reports;
2. Aging and inventory reports; and
3. Reconciliation reports.

Servicers should review current reports of all three types, as well as the underlying parameters and triggers, against CFPB requirements to determine gaps in their effectiveness in managing the risk of non-compliance. If more stringent parameters are needed due to other rules and requirements, it is important that these are incorporated.

Those reviews should also take into account other key considerations, including:

- Whether there are clear business processes in place to resolve issues and exceptions identified in business reports;
- Whether required data elements are readily available to create these monitoring reports; and
- Whether existing reporting dashboards to management and the board provide appropriate coverage of compliance, as this is a focus of the CFPB.

Internal reporting for the new CFPB requirements

The nature of internal reports is dependent on the specific operational process being monitored. Key factors include whether underlying processes are automated or include manual intervention, the complexity of system triggers, and the level of risk associated with the process. Another factor is the availability of necessary data, as changes to reports may require additional data elements to be captured in varying systems and databases; therefore, clear data requirements and source should be identified early in the design process.

The table below provides examples of business-level internal reports that servicers may employ to mitigate non-compliance risks, aligned with each of the nine areas of regulatory requirements under the CFPB Servicing Standards:

Area	Illustrative business-level reporting
Periodic billing statements	• Exception report to identify borrowers that did not receive a statement in a particular billing cycle • Reconciliation reports provided by a print team or vendor showing all statements printed and mailed • Report of undelivered and returned mail • Online statement vs. mailed statement reports and trend analysis • Quality control reports for statement disclosure accuracy
Interest rate adjusted mortgage (ARM) loan notices	• Exception report to identify borrowers that did not receive required interest rate notices • Reconciliation reports provided by a print team or vendor showing all notices printed and mailed • Report of undelivered and returned mail • Quality control reports for notice disclosure accuracy
Prompt payment crediting and payoff statements	• Exception reports identifying payment receipt dates differing from payment credit dates • Suspense account aged items reporting • Aging report of payoff requests or task tracking report from payoff system • Exception reports for payoffs not provided within 7 days
Force –placed insurance (FPI)	• Reconciliation between notices sent and accounts with FPI charges plus trend analysis • Reconciliation between accounts with cancelled FPI charges and evidence of insurance coverage • Reconciliation reports provided by a print team or vendor showing all FPI notices printed and mailed • Report of undelivered and returned mail
Error notice and information request	• Task tracking reports from complaints management system • Control reports showing items for which response deadlines are imminent • Exception reports showing items for which response deadlines were missed • Breakdown of error notices and information requests by category and trending analysis
General servicing and P&P requirements	• Tracking of servicing file requests and response times (may be tracked with other information requests) • Employee training reports demonstrating adequate completion of modules containing key CFPB areas
Early intervention with delinquent borrowers	• Task tracking report showing contact attempts with borrower prior to 36th day of delinquency • Exception reports for oral and written contact • Daily report showing written “45 Day” notices sent
Continuity of contact with delinquent borrowers	• Summary showing total customers that have been assigned a single point of contact (SPOC) and received 45 day notice • Breakdown of customers per SPOC including active, non-responders and SPOC telephony utilization reports (for capacity planning) • Monitoring report of customer contact & response time with SPOC
Loss mitigation procedures	• Dual tracking prevention reporting showing dates that packages were sent and received, delinquency dates, referral dates for foreclosure filing, dates foreclosure actions were stopped etc. • Loss mitigation packages sent/received summary reports by category and with trend analysis • Exception reports for missing docs letters or application acknowledgement letters not sent within 5 days • Trend reports for loan mod appeals and appeal decisions

Don't forget the vendors

Servicers are responsible for the compliance or non-compliance of vendors operating on their behalf, and both the CFPB requirements and guidance, and recent guidance from the Office of the Comptroller of the Currency (OCC) and the Federal Reserve highlight the importance of vendor oversight and the increased regulatory focus on vendor risk management. As a result, servicers should consider reporting by vendors to monitor their compliance against regulations and rules as a critical element of their compliance risk management. For example, each servicer should determine the key performance and risk indicators that it will need vendors to report to enable the servicer to monitor each vendor's compliance with CFPB rules.

Conclusion

The mortgage servicing industry has been hard at work preparing to comply with the new CFPB Servicing Standards by its January 10, 2014 effective date. However, the level of compliance achieved by that date is sustainable only if servicers have in place a mechanism to track ongoing compliance. Having well developed business-level internal reporting to track potential breaks, and having defined processes to resolve these issues in operational functions, will be key to managing the ongoing risk of future non-compliance. Strong internal reporting also provides a solid documentary trail evidencing continued compliance against the CFPB Servicing Standards.

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