SERVICING MANAGEMENT®

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Collaborate For A New Environment

The default servicing arena stands to benefit greatly from the adoption of industry electronic reporting standards.

BY MARY HUNTER

The default servicing industry has historically operated in a complex environment where multiple parties perform a variety of disparate - and often redundant - functions in an effort to get the job done.

As a result, while the default servicing network has mastered the art of juggling crucial information between all parties involved, the means and tools of communication often impede the efficiencies that are critical to increasing productivity - which is the key to profitability.

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According to the Mortgage Bankers Association's (MBA) most recent "Cost of Servicing Study" (COSS), total direct servicing costs per loan have increased, while productivity has decreased. In the last five years, the amount of loans being serviced has more than doubled, and the cost of servicing a loan has increased by more than 50%. Despite the use of outsourcing services to handle this increased loan volume, productivity declined from 2002 to 2003.

Operationally, the default servicing network of partners often duplicate efforts in communicating loan-specific events, along with contact and crucial business information, by maintaining redundant, standalone databases. The COSS results - combined with industry predictions of a significant rise in default rates in the near future - challenge servicers, investors and their default servicing network partners to explore new solutions to communicating, maintaining and updating crucial data and business information.

For many functions and tasks within the industry, communication boils down to one-on-one exchanges. That is, one person needs to identify and connect with another person who performs a specific function in a specific department at a specific company. Given the many different partners needed to manage defaulted loans, this becomes complex. Add to the mix varying rates of staff turnover, training new staff and understaffing to minimize costs, and the situation becomes not only one of frustration, but one of potential risk and loss.

Work together

Industry partners must have a clear and up-to-date roster of who is handling what. Many in the industry can relate to stories about a communication breakdown that resulted in a serious financial quandary or complex problem. If industry partners agreed to work together and collaborate to build one platform where all contact information is stored, such problems could be significantly diminished.

Solutions should be developed after carefully considering the issues surrounding diminishing gains in productivity. For example, technological solutions - in and of themselves - can aid in increasing efficiencies. However, technology without industry collaboration is not likely to yield significant gains in either productivity or profitability. The same goes for non-technological solutions.

There is a real need for increasing standardization in the default servicing industry. Currently there are five case reporting systems within the mortgage servicing industry that essentially do the same thing - ensure that everyone communicates all the same data in a certain time frame. This puts a significant burden on law firms that deal with many clients because it forces them to report on five different systems, and train their staff to report on five different systems. An additional burden is placed on law firms, as they must comply with the time frames triggered by completed "events," which vary from system to system.

The MBA recognized the need for standardizing the events and information contained in electronic reporting systems and established a special committee, the Mortgage Industry Standards Maintenance Organization (MISMO), in 1999. This collaborative committee's mission is to "develop, promote, and maintain voluntary electronic standards for the mortgage industry."

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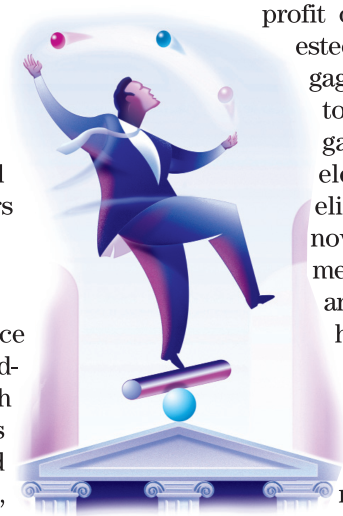
The key word here is "voluntary." However, it seems clear that the adoption of industry electronic reporting standards would serve to increase industry efficiencies - particularly in default servicing, which carries the burden of strict time frames. Standardizing the reported events that trigger the time frame parameters of defaulted loans would help ensure that the completed event carries the same meaning for all default network partners across the board.



Streamlining

Collaborative commerce is one method to standardize procedures through consolidating all of this crucial information and storing it on a single, secure platform. Rather than conforming to various client demands for proprietary e-mail, collaborative commerce equips servicers and investors with the ability to store their respective contact information on a secure platform that is accessible 24/7. Collaborative commerce can facilitate the streamlining of overall operational efficiencies, while enhancing data integrity by providing a secure platform in which data can be better stored and transferred.

The good news is that the default servicing industry has shown great promise in meeting the challenges ahead. Key among the many emerging trends are those that seek to build greater collaborative networks among industry partners.

Consider the success of the Mortgage Electronic Registration System (MERS) as a collaborative tool for the industry.

MERS was launched in 1996 as a nonprofit organization with interested parties in the mortgage industry who wanted to streamline the mortgage process by using electronic commerce to eliminate paper. MERS now boasts almost 2,000 members, including lenders and correspondents that have bought into the system, having everyone that utilizes the system pay for it. Its success is attributable, in part, to multiple industry partners coming together to develop solutions.

Identifying the need to more efficiently manage the way mortgage ownership and servicing rights are originated, sold and tracked, participants within the mortgage industry developed MERS and invested money in this system for the betterment of the industry at large. By operating on an electronic network, MERS effectively eliminates the tedious process of preparing and recording mortgage assignments when trading loans.

Also, MERS remains the mortgagee and reduces the amount of time typically associated with redundant data entry spent re-registering a loan with the county recorder each time it is sold to another servicer. With its focus on increasing efficiency throughout the entire industry, MERS serves as an excellent example of collaborative commerce.

Another example of collaborative commerce initiatives in the default servicing industry is the National Data Center (NDC). Formed by the National Association of Chapter 13 Trustees (NACTT), the NDC allows real-time analyses of Chapter 13 cases through capturing verifiable and complete statistical data to aid industry policy decision-makers. Like MERS, the NDC is an industry-wide solution brought about through collaborative effort.

While studies such as the MBA's COSS are of great benefit to the industry, there is little statistical information available that specifically examines the complexities the industry faces with regard to default servicing. This is particularly troubling considering that managing defaulted loans is among the highest cost factors affecting profitability for the industry as a whole. As the COSS illustrates, nearly 30% of direct servicing costs are attributable to default management.

Increasing the availability of statistical data is critical, as this information can be utilized to target areas for collaborative intervention. Collaborative intervention will, in turn, serve to maximize human capital, increase efficiency and lead to greater overall profitability. SM