

SERVICING MANAGEMENT®

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Flurry Of Regulatory Changes Requires Servicers To Evolve

New systems and current market conditions have led to a seemingly endless series of revised reporting requirements.

Last year was a record year for regulatory and compliance changes affecting mortgage servicers: Changes and new rules came from every direction, including Ginnie Mae, Fannie Mae, Freddie Mac, the Federal Financial Institutions Examination Council (FFIEC), the Department of Veterans Affairs (VA), the Department of Housing and Urban Development (HUD), the Office of Thrift Supervision (OTS) and the Internal Revenue Service (IRS).

This year is shaping up to be equally busy. In addition to the explosion of new requirements servicers faced this past year, additional regulatory compliance changes and updates are expected to challenge servicers in the coming months.

Broadly speaking, most of the changes thus far have required more in-depth reporting from servicers, with greater reporting frequency as well as increased breadth of reported information required. While the nature of future changes cannot be fully known, data consolidation from multiple systems will likely be required to achieve compliance - a difficult task for servicers.

In fact, some shops have been forced to achieve compliance by forgoing the benefits of automation and performing manual data entry, re-

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porting and data transfers because of this difficulty.

Fortunately, at the same time, service bureaus have been actively pursuing solutions for these new regulatory requirements, giving servicers the ability to achieve compliance without decreasing the efficiency of their operations.



Compliance updates can be accommodated by incorporating appropriate changes into the servicing platform, which allows for new requirements to simply become a part of the servicer's automated workflow. Still, it is a good idea for servicing organizations to understand all new regulatory changes before their implementation dates, and to make sure they know how their service bureau is planning to address them.

GSE requirements

From the government-sponsored enterprises (GSEs) to the VA, and

HUD to the IRS and the OTS, servicers are being asked to meet a significantly increased demand for data about the nation's mortgage holders. Specifically, given the ongoing turmoil in the mortgage market, agencies are looking for increased default-related information.

One example of an area where more details are required is status changes. Agencies are now asking for status changes as they occur to make sure all contacts with borrowers are handled in a timely way and that the logical progression through the default and foreclosure process is closely monitored.

Many of Fannie Mae's new requirements for servicers involve accommodating its new system, the Servicer's Reconciliation Facility (SURF).

In addition to tracking adjustable-rate mortgage (ARM) interest rates, due dates and anything that might affect remittance information, servicers have now been asked by Fannie to provide more default information, more frequently. Rather than reporting delinquency and/or default information on a monthly basis, they must provide status updates throughout the month.

Fannie Mae has also made changes to its servicing guide regarding the New Single Family-Trust Agreement on both the default and investor sides. The former requires the effective date of delinquency status, while the latter requires payoff information for all scheduled/scheduled remittance-type Fannie Mae mortgage loans.

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Meanwhile, Freddie Mac is also exploring a new servicing platform and will be requiring more detailed loan data from servicers. While the new servicing system will necessarily initiate further servicing changes, Freddie Mac is already asking for additional default-related information and is currently making revisions to its default status codes.

Ginnie Mae has likewise undertaken a major effort to improve its business processes, including GinnieNet submissions, the investor reporting cycle and loan-level reporting. The forthcoming Reporting and Feedback System (RFS) will support a new monthly reporting process.

Ginnie Mae's new approach to monthly reporting will require servicers to meet changes in monthly pool-, loan package- and loan-level data reporting processes.

Additionally, Ginnie Mae now allows issuers to pool London Interbank Offered Rate (LIBOR)-indexed ARM loans into their securities. As a result, issuers will be using new ARM suffixes, which the servicer's platform must support to set up new pools. When reset dates for ARM loans occur, the system must properly update the pool reporting.

Reporting changes

Servicers will also notice that HUD has revised its regulations to require lenders to report the status of all HUD-insured single-family mortgages in default after 30 days or that are 90 or more days delinquent.

HUD is employing a logical progression matrix which details a sequence of elements that must be reported, such as multiple status codes over the course of a single month rather than one for the month as a whole. To comply with this rule, servicers must add new default status codes to the system to report an ongoing history of status changes to HUD.

The VA has redesigned virtually all of its loan servicing regulations, processes and reporting requirements, with the new regulatory environment implemented through an application service - the VA Loan

Electronic Reporting Interface (VALERI) - that replaces its old loan servicing system.

As is the case at HUD, VALERI also makes use of a logical progression matrix that tracks default information through multiple sequences and status changes. Whereas in the past a servicer was required to report the status of a given loan at the end of a current month, now the VA is looking to see what steps the servicer took - and what status changes the loan experienced - throughout the month.

On the tax reporting side, the IRS has made several changes to the tax code, its operations and systems that affect lenders and servicers. Of course, 2007 was the first year private mortgage insurance (PMI) as well as mortgage insurance premiums (MIP) became tax-deductible. Because most leading servicing platforms already store data on PMI paid from the escrow account, providing this information to the IRS was a relatively straightforward enhancement.

Additionally, new rules have been issued for trustee reporting on widely held fixed investment trusts (WHFIT). While servicers of Ginnie Mae pools are also the trustees of those pools, not all the information that the IRS is requesting is easily obtainable.

As the new WHFIT regulations require changes to 1099 reporting, the servicing system must be updated to eliminate the IRS 1041/K1 extract, add a 1099B record, change other 1099s and alter screens to handle these changes, primarily for Ginnie Mae I pool loans.

For WHFIT reporting, servicers must also include two new data elements, original issue discount (OID) and market discount fraction (MDF). For Ginnie Mae pools, the OID is most likely zero, but calculating the MDF is more complex and involves certain data that may not currently exist on all servicing platforms.

Another potential change relates to the reporting of property taxes. Today, these payments are usually reported to the IRS not by the servicing organization, but by the borrower. The IRS hopes to add property tax payment information for escrowed loans to the

1098 information mortgage servicers currently provide.

Of course, many loans are not escrowed, and others' escrow status may change throughout the year. The servicing platform must therefore be able to accommodate all scenarios should the IRS follow through with the filing requirement change.

Finally, in 2008, the IRS will require lenders to perform end-of-year reporting directly to the IRS via its Filing Information Returns Electronically (FIRE) system. Whereas in the past institutions have delivered these filings on paper or, more recently, magnetic media, the IRS is doing away with tape submissions and will instead require the use of the FIRE System.

The servicing platform must be adapted to the new formats and allow for direct, automated uploading of the necessary information.

Compliance partnerships

Adjusting systems, processes and operations to comply with the overwhelming volume of new requirements is a tremendous challenge, whether the requirements are regulatory changes or new rules guidelines. Here are a few more to consider:

- Changes that are associated with Regulation Z of the Truth-in-Lending Act regarding effective APR for HELOCs;

- FFIEC changes to its Call Reports that require servicers to provide borrowers with ARM payment options in monthly statements; and

- OTS' new line items for the Thrift Financial Report to provide information on ARM loans that have or could negatively amortize.

Of course, the list of rules and regulatory changes noted here is not exhaustive, but it does help convey the widespread nature of those changes.

As the mortgage market tries to regain its footing and federal agencies take steps within their mandates to assist borrowers and minimize the number of lender failures, financial institutions will continue to face ongoing adjustments to what they have to do and when they have to do it in order to comply.

Certainly, for institutions to manage

the related system- and operational adjustments that are required to remain in compliance can be a very complex undertaking, particularly for servicers that must update their applications internally or modify their processes to accommodate manual involvement. In these cases, the cost of compliance might include the increased possibility of human error, slowed operations, reduced customer satisfaction and compliance failure.

Servicers that utilize a leading servicing platform should expect

their application providers to do the heavy lifting for them, incorporating and propagating the updates that are needed to enable their ongoing compliance.

As agencies and other regulatory bodies update or introduce new requirements, these partners should be aware of what changes are coming and work in advance of anticipated rollout dates to make sure servicers are ready and able to meet them.

As the industry makes its way through what promises to be another

busy year of new regulatory requirements, servicers must make sure their servicing platforms and internal processes will fully support their compliance.

Compliance is an all-or-nothing affair, and servicers must keep pace with evolving regulations without fail. By partnering wisely and staying aware of changes that are developing or are likely to occur, financial institutions can meet the compliance challenge head-on, even during times of tremendous change. **SM**