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A Change For The Better: Remediating Regulatory Concerns

Data are the cornerstone of servicing, yet most shops do a poor job of putting data to work to support their operations.

by James Gary Owens

Change is the one constant within today's mortgage servicing industry. Fallout from the financial crisis has resulted in unprecedented change to nearly every aspect of our business. Consent orders, Fannie Mae and Freddie Mac policy modifications, new federal and state regulations, dramatically increased compliance scrutiny and the expectation of a single set of national servicing guidelines all combine to drive constant and often dramatic changes in how servicers operate. Servicers are being asked to address several systemic concerns - most of which relate to the adequacy of staffing, quality, process efficiency, performance reporting and controls.

Viewed individually, the amount of change appears almost chaotic in nature and impossible to manage. However, when viewed holistically, several key themes emerge and suggest a unified framework for remediation. Servicers can implement a remediation program that addresses three of the most impactful changes being requested: capacity management, process improvement and performance reporting/key performance indicators (KPIs). The best part: All three functions are symbiotic and reinforcing, require similar skills and can have a dramatic impact on overall operational performance.

Effective remediation begins with a painfully realistic assessment of the "current state" of the organization - i.e., how the business works today. Experience has shown that reality rarely matches management's perception of how a business actually works. Process flows are outdated - assuming they even exist. Policies and procedures are followed at varying degrees. Gaps in supporting technology have spurred any number of "wrap applications" or manual processes. Reporting is tactical - counting the widgets being produced - but rarely provides useful insight into how the operation is actually performing. Capacity plans are based upon flawed assumptions, built on invalid data or poorly maintained. All of these factors form the reality of why an operation performs the way it does and, therefore, provides the basis for key remediation activities.

Most of these issues occurred for the simplest of reasons - everyone was incredibly busy and needed an immediate issue solved. Unfortunately, these quick, tactical work-arounds became unintended permanent fixes that compounded one another. Making the process even more challenging is that oftentimes what appears to be the problem is actually a symptom of a very different or larger problem.

Start with the processes

In order to effect meaningful change, an organization has to take the time and effort to understand the reality of its current state. A thorough assessment of the current state begins with inventorying the processes, policies and procedures for the function being reviewed.

Once an inventory is complete, observing the processes in action within the business provides important clues as to why a group may be underperforming or have lower overall quality standards than expected. During observations, it is critical to identify gaps between the documented processes and the reality of the operation. It is also important to identify areas that are inefficient or introduce increased operational risk. This information will become important when formulating a "future state" that remediates key concerns.

Understanding technological support

Understanding the business processes is not enough - technology is often a key component in the underlying efficiency of a process. In a perfect world, technology would walk users through the appropriate steps of a process, guiding them toward the correct action and away from actions that might violate a policy or a procedure.

However, processes are rarely perfectly supported by underlying technology. More often than not, there are gaps in the way technology supports the process, requiring manual keying of data or utilization of multiple technologies to fulfill a task. These gaps are often the points of failure that result in costly defects or cumulatively add to process inefficiencies.

Understanding where technology is supportive of business processes, how systems interact or should interact with one another, and identifying where the gaps exist is critical to effectively remediating challenges and should be a component of any current-state review.

The value of data

Data are a cornerstone of the mortgage servicing business. Every aspect of every business function produces tremendous amounts of data. Yet, most businesses do a poor job of putting data to work to support the operation of the business. Certainly, most servicing operations have their share of reporting; often, there are far too many reports.

These reports tend to focus on the operational "widget making," answering tactically significant questions such as "How many?" or "Who did what?" but not really addressing the issues that are strategically relevant.

This is not to say that operational reports are not important, but if an organization does not have visibility into the deeper trends that are influencing its business, it is at a significant disadvantage. Businesses need KPIs that provide insight into operational quality and efficiency and also act as leading indicators for problems that may not have fully surfaced.

As part of a current-state review, reporting needs to be cataloged and compared against the needs of the business from an operational and strategic perspective. Do the line managers have the information they need to manage and assess the performance of their business? Equally important is assessing whether executive management has the level of visibility into the holistic performance of the operation.

More often than not, both areas are lacking. Too much of the right data can also be a problem - large reports saturated with detail often blind managers to the broader perspective. Ultimately, management should rethink what could be done with the data and determine how to operationalize these possibilities.

Capacity planning

Capacity plans are a manager's best friend. They provide a way of determining the right number of resources relative to an amount of work that needs to be completed. Accurate and well-maintained capacity plans are essential management tools that help an organization manage operational costs, drive efficiency and enhance both customer and employee satisfaction. Unfortunately, many organizations oversimplify their capacity plans, maintain them haphazardly or use wildly inaccurate, outdated or optimistic assumptions. In these cases, the inherent flaws of the plan can drive poor decision-making with very real consequences.

During the current-state review, capacity plans should be evaluated to ensure they are being consistently maintained and fed with realistic assumptions. Simple "back testing" using historical operational reports can be leveraged to compare past projections against actual performance - a great indicator of the accuracy of the plan.

Creating a future state

Once the reality of the current state is well understood, an organization can begin defining a future state. The future state is the shape of the organization after the gaps, challenges and key operational risks have been remediated and strategic initiatives have been implemented. The goal of the future state is to solve the challenges of the past and to pave the road to an enhanced future.

After reviewing the current-state processes, technology alignment, reporting capabilities and capacity plans, the organization will have a realistic understanding of what needs to be remediated. Findings should be empirically prioritized by what is most valuable to the organization holistically. The costs, benefits and potential risk-reduction calculus of each remediation activity must be weighed against one another and ranked according to what is most important to the organization as a whole. A formal cost/benefit analysis approach will provide the most empirical, unbiased results.

Remediation tips

Process improvement. Process engineering is a science, not an art. If you are not basing process changes on hard data and facts, you are guessing and will likely be disappointed with the end result. In the worst case, you may end up wasting significant money and not achieving your goals. Proposed process changes can be tested using process simulation software to provide insurance against making a bad decision. Process simulation is an excellent way to test operational hypotheses without having to make significant hard-dollar investments.

Make sure functional interrelationships are known and factored into process changes. For example, loss mitigation and foreclosure are directly related due to the impact that loss mitigation can have on the overall progression of the foreclosure timeline. Making changes in one area without regard to the impact in the other can have unintended consequences. Taking a holistic perspective when making localized process changes is imperative to the overall success of the effort.

Reporting and KPIs. After ensuring the right operational reports are in place to support the day-to-day management of business operations, a tremendous lift can be gained through identifying the KPIs that describe the true performance of the business holistically. Fight the urge to have more than a handful of KPIs - this is definitely a case where less is more. Combining the KPIs into a scorecard or dashboard will allow executives to quickly assess the performance and health of the operation.

KPIs should be measured against thoughtful benchmarks that quickly identify if the organization is trending better or worse. Select KPIs that are demonstrative of quality and efficiency factors - and many of the evolving regulatory requirements directly mandate this. Evolving national servicing standards will likely require the industry to "prove it" to its regulators. KPIs are the easiest way to provide the verification while greatly enhancing the overall efficiency and quality of the operation - a classic win-win.

Capacity planning. If your capacity plan is driven by an eight-hour productive workday, you are likely understaffed. Resources attend meetings, answer emails, and take vacation or sick leave - all adding up to something less than an eight-hour productive workday. In most cases, six-and-a-half hours provide a proven, realistic assumption for a productive workday.

We have all heard the adage "Garbage in, garbage out." If your volume forecasts are optimistic, your plan is equally optimistic and you are likely to find yourself either understaffed or overstaffed - each carrying its own financial consequences. Strive to tighten the volume-forecast estimation process as much as possible, and finding the right staffing balance will become easier.

Build your plan based on work standards - the amount of time it requires to perform a specific task - versus using simple time-based ratios. Knowing that it takes one-and-a-half hours to perform a quality audit is much more useful than knowing 100 audits a month are performed. Plans driven by work standards will be more accurate and easier to adjust when process efficiency changes are made. Additionally, KPIs and reports can be used as a verification of the capacity plan's projections.

Finally, management should use the plan to proactively make staffing decisions or engage other variable-capacity options, such as outsourcing. There is always a lag between hiring employees or contractors and their performing effectively. The plan should take this into consideration, and management should react accordingly. Otherwise, they will find their workforce perpetually misaligned relative to the volume of work.

Increased regulatory scrutiny and the likelihood of national servicing standards will continue to impact the mortgage servicing industry for the foreseeable future. As an industry, we cannot view this as an insurmountable challenge, but as an opportunity to significantly increase our efficiency and the quality of our interactions with our customers.

Those who resist the need for change will quickly find themselves outpaced by their competitors, increasing regulatory and compliance scrutiny and the amount of dissatisfied customers and employees. Companies that recognize the need for change and embrace it will become the industry leaders of tomorrow. SM

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