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Elements of Good Servicing Exam Preparation

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So the CFPB is coming to audit your servicing operation, and several states have decided to piggyback and audit at the same time.

What now? If you have a strong compliance management system that includes ongoing review and remediation processes, there is still exam preparation work to do, but you may be readier than you think. If your organization is proactive, much of what is needed already exists in the environment. If not, now is the time to get ready for the audit and ensure that your organization is always “audit ready.”

There are three key steps to



getting ready for an upcoming servicing exam: Gather and Review, Remediate and Organize, and Pre-Audit Readiness. Going through these phases of preparation will position your institution for a successful audit.

GATHER AND REVIEW

This process includes gathering internal documentation of servicing operations as well as examining industry trends from both an

internal and external perspective. Your internal documentation should include policies and procedures, organizational charts, and documentation of how your compliance management system functions. Your organization should be reviewing them on an ongoing basis to ensure they are current and to identify any gaps, but this is a good time to take an additional look. It is also a good idea to ensure that someone in ▶

your organization has accountability for refreshing organization charts at least quarterly.

Also, it is important to understand the servicing environment, including both your internal environment and what is happening in servicing enforcement in general. For instance, understand not only what complaints the CFPB has received about your organization, but also what are the trending complaint types in the industry. You should research what other organizations have been cited for recently. It is likely auditors will focus on those issues in your organization's audit. Now is the time to gather your internal complaints and review them to understand any trends that are occurring in your organization and what your organization is doing to address the issues.

REMEDiate AND ORGANIZE

Effective servicing shops are continually changing their operations and often performing remediation activities. Remediation takes many forms, including procedural changes, organizational

realignment, data remediation, and system changes. It is guaranteed and expected that there will be some type of remediation in progress while your audit is occurring, as ongoing monitoring and corrective action is part of the compliance management system. As part of exam preparation, it is critically important to ensure that remediation plans are well defined, documented, and aligned with what specifically they are remediating. Progress must be tracked and resolutions reviewed and monitored, which will demonstrate to auditors that your organization has an ongoing, compliance-focused operation.

Organization is key to an effective servicing operation. If your operation is well organized and controlled on a day-to-day basis, audit preparation is far easier, as producing documentation and loan files is "business as usual," as it should be. Policies and procedures should be organized, easily accessible, and used by the team members doing the job. Any team member should be able to produce the policies and procedures associated with their work on demand and know what is in them. The CFPB has been known to request a list of employees from servicers from which they pick selected employees to interview. Expect them to be asked about the policy and procedures, where they're located, when they were last updated, etc.

In addition, the ability to produce an organized loan file easily is also critical for a successful audit. Loan files that are disorganized and incomplete make it difficult for an auditor to review the file, which may lead to additional findings related to your servicing files. It is important that procedures for naming and indexing documents are well understood and followed so that producing a complete organized loan file for an auditor is easily accomplished.

Organized policies and procedures and clean loan files should be a daily part of your servicing operation. If your organization is doing these things well, this part of exam preparation should not be onerous. If not, this is an opportunity to make doing them business as usual.

PRE-AUDIT READINESS

The third step in getting ready for a servicing

exam includes tactical activities that will make your audit go smoothly.

Organizing your team and facility for the audit is a crucial step for a smooth audit. You should assign a key point of contact for the auditors to work with to ensure there is timely organized responses to their requests. This person should be responsible for coordinating a response process for requests that auditors make. They should track the request, what was provided, who provided it and when. The audit key point of contact should know your organization and where information is located. They should report to a senior executive, probably the Head of Compliance, to ensure the organization reacts in a timely manner. The goal is to respond timely to auditors' requests during the audit.

Your overall team should be ready to respond to the auditor's questions and requests. Anyone who might be involved in the audit should understand what a servicing audit is and what to expect.

Finally, there will be a pre-exam meeting for your team and the audit team. This is an

opportunity for you to provide information about your business model, servicing operations, and organization to the auditors. If multiple agencies are involved, insist on a representative from each agency. You may not get it, but you cannot be accused later of not considering their concerns. Preparing a presentation and materials, such as an organized set of policies and procedures, for the CFPB to use during its audit can help ensure the audit gets off to a good start.

In summary, the foundation to strong servicing exam preparation is having an organized, disciplined, compliance-focused servicing operation on a day-to-day basis. This, in addition to the audit preparation activities discussed above, will go a long way towards making servicing audit preparation go smoothly and the audit have a good result. 

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