options when their mortgages are in arrears.

In particular, the Consumer Financial Protection Bureau (CFPB) and Federal Trade Commission (FTC) have recently proven themselves resolute and unconditional in pursuing three perceived problems: delays in application processing, incorrect or non-standard income calculation methods and insufficient borrower communication. Within the past year, the CFPB penalized one relatively small institution $37.5 million, and the CFPB and FTC jointly fined another for $63 million.

This type of enforcement is avoidable by paying rigorous attention to getting mortgage loss-mitigation right on the front end. Loss-mitigation processes—in particular, application processing—must be both correct and timely every time with every borrower and every encounter, or they are wrong. There is no such thing as “best effort.” It’s much easier to establish quality mitigation procedures than to wait for litigation or enforcement.

Here are eight basic rules of the road for a good loss-mitigation application process.

1. Put the right resources in place
Depending on the size of the company, managing loss mitigation should be handled by a dedicated department consisting of an executive, several managers, underwriters and, if needed, third-party vendors.

Business-line leaders should have the authority to make decisions and the responsibility for getting the job done. Simply hiring the right person with the relevant experience will not solve the problems. Success depends on providing the freedom to use that experience. Nobody wants to work in an environment where there is no discretion to make decisions—especially decisions they know from past experience to be effective.

At the same time, understand that one person cannot manage it all. Putting all responsibility to deliver on one person may overwhelm that person to the point of ineffectiveness.

Instead, seek redundancies of roles to ensure that multiple individuals, each with unique specialties, address the same issues. Each borrower is important, but so is each employee. Loss mitigation is a high-stress activity, and employees need to be able to take occasional breaks. Redundancies create comfort and confidence in the workplace, which leads to effective and manageable borrower-related decisions.

Follow this time-tested credo: “Happy employees create happy customers.”

2. Champion the learners
There are few underwriters who know every nuance of every investor requirement. Champion individuals who receive constructive feedback positively and implement the feedback into their underwriting. Teach staff to want borrowers to succeed and honor their debt obligations. Provide incentives for employees
who show that they want to improve. Replace toxic employees quickly.

3. Set clear third-party vendor expectations
The law is clear: You are responsible for the actions of your third-party service providers. Establish specific and documented service-level agreements (SLAs) with third-party vendors. As part of the SLAs, implement oversight procedures, such as random audits and sample reviews, to ensure that vendors meet or exceed your expectations. Remember: When a borrower calls the third party, he or she is still calling the bank, regardless of who picks up the phone.

If vendors cannot meet requirements—such as assigning single points of contact, acknowledging a borrower application within five business days or adequately underwriting a complete application within 30 calendar days—promptly address the situation.

4. Do the math: Volume-based staffing
Once a borrower submits all required documentation, it should take about two hours for a well-trained loss-mitigation underwriter to render an approve/deny decision. One underwriter should be able to process two to three accounts per day (or 12 per week), given other aspects of the job, such as borrower phone conversations, document mailings, internal communications or executing the program for borrowers who have qualified. It’s not subjective: it’s math.

Each group of 15 underwriters needs one dedicated manager to provide support when needed. Staff for less than that and you will get further behind and invite regulatory disapproval.

5. Establish clear QC controls
Regulators view having three lines of defense as standard practice these days. While that can be effective, it must be carefully balanced. Your loss-mitigation group or third-party vendor should have its own quality-control (QC) process functioning in real time. You and the vendor should conduct periodic internal audits to ensure that requirements are met on a sampled historical basis. Remember, though, that any real-time QC on application functions must still occur within the established CFPB time frames.

Here is where the high school football coach might say: “This game is just blocking and tackling. It’s not rocket science.” Identify your most well-trained and experienced resources to provide single-process, real-time QC oversight that examines every step of the servicing process, from origination to servicing transfer to reunderwriting.

Train first-line reviewers to understand the importance of QC and iterate that the goal is not to point out an individual’s deficiencies, but to help employees be the best they can be. Create feedback loops so that areas for improvement are formally relayed to the first-line underwriters without embarrassment from colleagues.

6. Measure and report results daily
Daily dashboard reports are critical. Implement systems that capture the date an initial borrower response package is received. Monitor accounts nearing the five- and 30-day response deadlines.

QC process reports help identify root-cause underwriting issues and then can be used to mitigate the issues before they explode. Volume reports show when it is time to bring in reinforcement underwriters and processors. Remember that all the reports in the world are worthless without someone reacting to them in real time.

7. Standardize the process
Holding each business unit, processing team or third-party vendor to the same set of standards is critically important. Detailed documentation such as policies, procedures and system user guides help maintain consistency while demonstrating expectations to new employees, regulators and auditors. As regulations change, so too must your written documentation. Assign the development and accountability for policies and procedures to an individual who understands the process and who has experience with regulatory gap analysis to ensure documentation is airtight and up to date.

8. Don’t be penny-wise and pound-foolish
As the old TV commercial said: “You can pay me now or pay me later.” In this case, later is often really, really expensive.

Nothing exasperates a regulator more than an institution focused more on the cost of fixing its problems than on actually fixing the problems. If you are already behind the curve, don’t think you can manage the issue and control costs the way you do in your lines of business. You may need to bring in experts with industrywide expertise, give them access to the right people and systems, including third parties, and allow them to independently create solutions.

Takeaway
Let executives and managers lead. This will save your institution time and money in the long run, because your process leaders and their advisers will be focused on solving the issue, reinventing processes and bringing consensus to varying lines of business—all of which leaves you to focus on running your business and managing your brand.

That’s it. Loss mitigation is a reality of our business. Do it right, and you return to running your business profitably. Do it wrong and, well, you could feel the regulatory heat.

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