

Enhancing Property Preservation and Compliance Using an Integrated Platform

Abstract

Property preservation is critical to ensuring a property is well maintained and compliant with local codes, thereby protecting housing value as well as the mortgage servicer's reputation. Property preservation vendors play an important role in the process by acting as intermediaries between the servicers and local municipalities, thereby becoming the principal influencers.

With increased monitoring of servicers by the Consumer Financial Protection Bureau (CFPB), the compliance burden has now permeated to the vendors. Varying regulatory guidelines, geographical spread of field service providers, impaired communication with local officials, and delays in getting necessary approvals act as barriers to conformance.

This paper outlines the compliance requirements for property preservation and addresses the challenges in adhering to local codes and timelines. It also proposes a technology-based integrated platform to ensure superior compliance management.

Non-compliance with Property Preservation Guidelines: The Implications

The Government Sponsored Enterprise (GSE) and non-GSE servicing guides mandate the servicer to perform all property maintenance functions throughout the default process. Unfinished or unattended preservation work leads to increase in blighted properties in the community, greatly diminishing the chances of converting such properties into useful assets due to overwhelming code violations. Servicers are monitored for any gaps in compliance, making it critical for them to ensure tight vendor management using best practices. Penalties for non-compliance include:

- **Code violations:** Unfinished or unattended preservation work can lead to issuance of citations by local municipalities. Unsettled code violations are a huge impediment to distressed property sales.
- **Monetary penalties:** Unoccupied households that are in violation are subject to substantial penalties and probable court trial. Each county or city has its own code enforcement division.
- **Loss of servicer contracts and reputation:** Existing contracts with servicers may be terminated. Licenses to perform preservation activities in the geographical areas might be revoked, leading to loss of servicer goodwill and reputation.
- **Rejection of servicer reimbursements by investors:** Servicers submit their property maintenance reimbursement claims at the end of a borrower's delinquency period or right after loan liquidation. The rejection of such reimbursements converts to non-recoverable costs incurred by servicers due to non-compliance by property preservation vendors.

Why Property Preservation is Not an Easy Job

Property preservation is not as simple as it may sound. A host of challenges stand in the way of vendors securing, preserving, and maintaining properties:

- **Dynamic regulatory environment:** The governing environment at the state level continues to evolve, with diverse local codes, laws, and municipal requirements. This in turn leads to heavy reliance on process experts to precisely interpret local requirements.
- **Geographical spread of vendors:** Servicers are faced with the enormous task of gathering information around what, when, where, and how vendors are carrying out the preservation activity. Traditionally, servicers place an order and demand extensive visibility into the vendor's adherence to service-level contracts and timelines.
- **Lack of report documentation proficiency:** Scarcity of competent on-field processors who are able to document interior or exterior damage, accurately assess bids, and recommend repairs needed on the property.
- **Delays in bid approvals for work orders:** Work orders don't always come on time. Take for instance a vendor initiates a bid for a repair work order but uploads incorrect photos, or the bid calculation is not in accordance with the investor allowable matrix, or perhaps the bid is over the allowable limit. In the first two scenarios, several days will be lost as the work order needs to be corrected and resent to the vendor for rectification. This may occur due to inadequate information on compliance requirements. In the third scenario, the servicer and the vendor must await investor approval to commence the repair work.
- **Investment in building technology infrastructure:** Partnering with the right vendor that offers a mix of an integrated platform for servicers and vendors through mobile applications, along with continuous process improvement.

Leveraging Next-Gen Technologies to Ensure Compliance

Clearly, vendors and servicers need to address various challenges and inefficiencies in the traditional property preservation process. Leveraging the right technological advancements for workflow and vendor management, communication, and quality assurance, can help ensure compliance with the guidelines (see Figure 1).

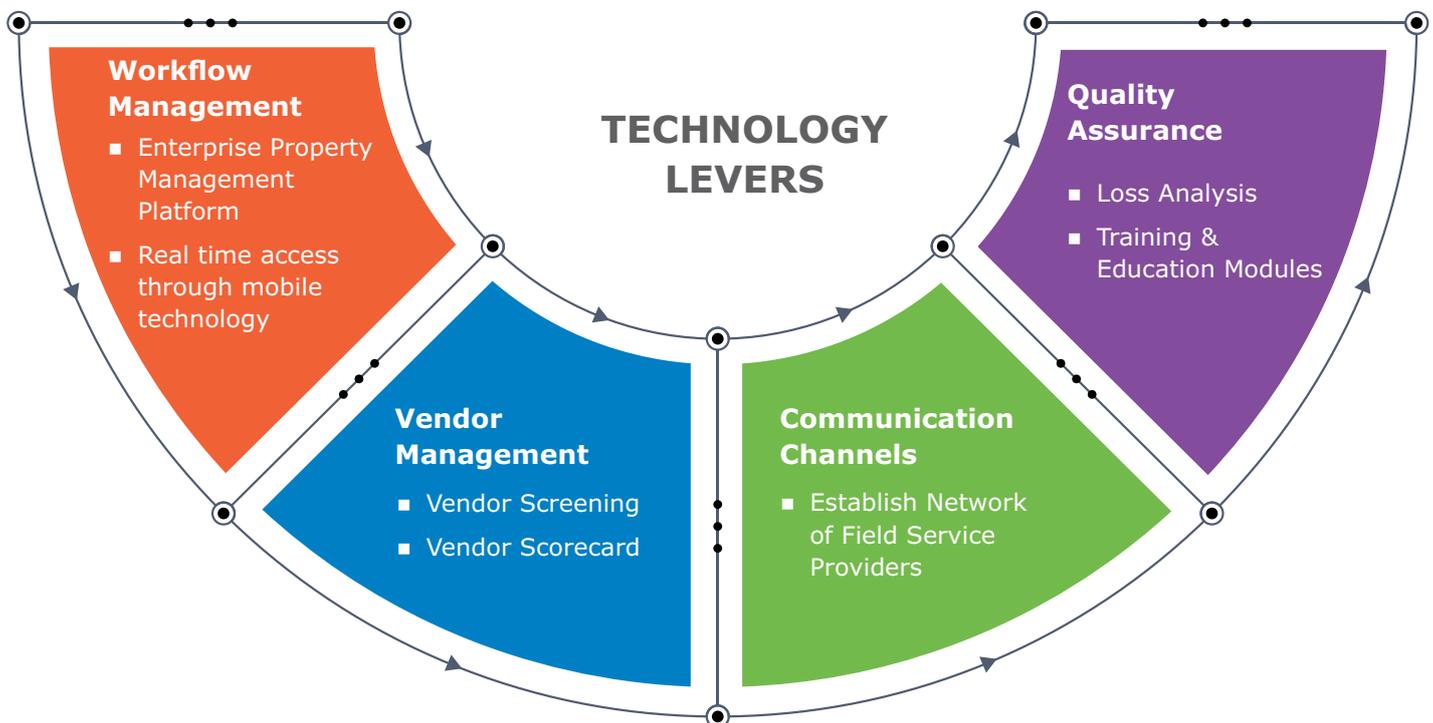


Figure 1: Using an integrated platform to ensure compliance

The various modules of the comprehensive technology-based solution create an environment of continuous compliance and must ideally include:

- **Integrated platform for workflow management:**

Property preservation is a necessary cost that servicers must incur in order to ensure that the property is maintained and is in saleable condition. This is an intensive on-field activity that requires vendors to personally visit the property and complete the inspection and preservation work. The activities in turn result in reports and status updates. Investing in an enterprise-level property preservation platform can simplify and enhance real-time reporting through a centralized repository. Enabling access to the reports on mobile apps can further simplify reporting of the complex tasks. In essence,

dedicated real time modules of work order creation and work order status updates enable reporting from anywhere, anytime.

Optimization of repair bids is also critical. Algorithms for standard work orders can be built, enabling comparisons with historical bids and range of approvals for an activity, with the goal of generating auto-approval or rejection workflows. Non-standard workflows can be handled through manual exception processing. The algorithms can also support in-built alerts to flag issues such as those related to bids over the allowable limit, duplicate bids, non-geo tagged photos without time stamp, and so on.

- **Analytics for quality assurance and vendor management:** The metadata available through the creation of digitized processes and workflows can be utilized for intelligent analytics by the servicer's Loss Analysis team. Rather than conducting time-consuming and error-prone manual reviews of denied reimbursements at the account level, they can perform a target vendor-based review on vendors responsible for denial of claims. The results of the analysis can be easily made available through dashboards to all stakeholders for increased visibility and transparency. This also acts as a gap analysis for the vendors.

The available metadata can also be used to analyze and highlight vendor compliance with investor timelines, cost schedules for work orders, and availability of documentation for agency audits. The resulting vendor scorecards can then act as inputs to standard industry databases to generate industry-driven ratings for vendors. Storing the results of the analyses in the cloud, enables servicers and investors to access real-time comparative dashboards on vendor performance. The result: enhanced ability to choose strategic vendors who are better aligned with the servicer's business objectives, while retaining and strengthening relationships with the best-performing vendors and discontinuing relationships with non-performers.

The platform can also be extended as an online portal for comprehensive e-learning that provides access to documents on the latest regulations and demonstrated best practices, enabling superior knowledge sharing and training.

- **Technology-based communication channels:** Planned and constant communication improves accountability and satisfaction. By adding voice, video, and messaging capabilities, the platform can be offered in an as-a-service model – communications platform as a service (CPaaS). For instance, servicers can trigger push notifications pertaining to time-sensitive decisions on mobile phones of vendors on the field. These alerts could be about scheduling updates of new work orders or of orders in the nearby vicinity of an ongoing repair work or even a simple status update. Vendors can trigger similar push notifications of real-time issues or concerns and also provide status of the tasks to servicers through CPaaS capabilities.

Going from Preservation to Proactive Management

In an increasingly digital world, capitalizing on an enterprise property preservation management platform is clearly the way forward. Such a platform will not only enable seamless work order management and act as a data storehouse, but will also help harness insights through analytics for shaping field strategies and proactive management. The solution however cannot be implemented in a silo. It must be deployed as an enterprise-wide application in order to realize its true potential. As property preservation becomes more than a mundane upkeep activity, servicers and investors that leverage the integrated platform will be well-positioned to partner with strategic vendors to drive efficiencies and stay compliant.

About The Author

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Rajesh Ramu Chhatriya is a domain expert with TCS' Banking, Financial Services, and Insurance business unit. He has over 10 years of experience in handling project delivery in the default servicing space. He also has extensive expertise in developing training plans, policies, and procedures; reengineering process flows; implementing process enhancements; and enabling transition management. Chhatriya holds a Post Graduate Diploma in Business Management in marketing from the N. L. Dalmia Institute of Management Studies & Research, Mumbai University, India.

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