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CONSUMER FINANCIAL PROTECTION BUREAU SUPERVISION FINDS MORTGAGE SERVICERS' ONGOING TECHNOLOGY FAILURES AND PROCESS BREAKDOWNS TRIGGER RULE VIOLATIONS

CFPB Releases Special Edition of Supervision Highlights and Updates Mortgage Servicing Exam Procedures

WASHINGTON, D.C. — Today the Consumer Financial Protection Bureau (CFPB) released a special edition supervision report focused specifically on mortgage servicers. The report found that some mortgage servicers continue to use failed technology that has already harmed consumers, putting the company in violation of the CFPB's new servicing rules. In its examinations covering numerous mortgage servicers since the new CFPB rules took effect in January 2014, CFPB examiners have found violations because of deficient technology and process breakdowns. Specifically, examiners have observed problems with loss mitigation and servicing transfers. To spur industry in its general compliance with CFPB rules, the Bureau today is also releasing an updated mortgage servicing exam manual.

"Mortgage servicers can't hide behind their bad computer systems or outdated technology. There are no excuses for not following federal rules," said CFPB Director Richard Cordray. "Mortgage servicers and their service providers must step up and make the investments necessary to do their jobs properly and legally."

Mortgage servicers are responsible for collecting payments from the mortgage borrower and forwarding those payments to the owner of the loan. They handle customer service, collections, loan modifications, and foreclosures. Even before the financial crisis, the mortgage servicing industry at times experienced problems with bad practices and sloppy recordkeeping. As millions of borrowers fell behind on their loans because of the crisis, many servicers were unable to provide the level of service necessary to meet homeowners' needs.

To address these widespread mortgage servicing problems, the CFPB put in place new, common-sense rules designed to eliminate surprises and runarounds for homeowners. The rules require servicers to maintain accurate records, give troubled borrowers direct and ongoing access to servicing personnel, promptly credit payments, and correct errors on request. The rules also include protections for struggling homeowners, including those facing foreclosure. Compliance with many of these requirements necessitates strong policies and procedures related to systems and technology.

The CFPB's supervision program has made it a priority to address mortgage servicing problems. Today's report includes supervision work completed between January 2014 and April 2016. While the servicing market has made some investments in compliance, those investments have not been sufficient across the marketplace to ensure compliance. CFPB examiners found that outdated and deficient technology poses risks to consumers across a number of mortgage servicers. In addition, several mortgage servicers lack proper training, testing, and auditing of their computer systems and software platforms and those of their service providers. As a result of this insufficient investment, mortgage servicing problems continue to plague consumers. Among the mortgage servicing problems observed by CFPB examiners:

- **Information about loan modifications is late, incorrect, or deceptive due to technological breakdowns or malfunctions:** CFPB examiners found problems with loan modification acknowledgement notices, including sending them too late and having incorrect information or deceptive statements. Examiners found one or more servicers failed to send any acknowledgement notices due to a repeated processing platform malfunction over a significant period of time. These breakdowns caused delays in converting trial modifications to permanent modifications, resulting in harm to borrowers.

- **Consumers get the runaround when loans transfer to a new servicer with incompatible computer systems:** The rights to manage a loan are frequently bought and sold among servicers. Transferring loans during the loan modification process heightens risks to consumers, including the risk that documents and information might not be accurately transferred to the new servicer. CFPB examiners found that a number of servicers had incompatible technology platforms that led, in part, to the new servicers failing to identify and honor modification agreements already in place.

Where CFPB examiners find violations of law or other significant problems or weaknesses, they alert the institutions to their concerns and outline necessary remedial measures. When appropriate, the CFPB opens investigations for potential enforcement actions. The CFPB expects all entities under its supervision to respond to customer complaints and identify major issues and trends that may pose broader risks to their customers. The CFPB often finds problems during supervisory examinations that are resolved without an enforcement action. When examiners find violations of law, they direct entities to change their conduct and remediate consumers as applicable.

CFPB examiners also observed that some servicers have made significant improvements in the last several years, in part by enhancing and monitoring their service platforms, staff training, coding accuracy, auditing, and allowing for greater flexibility in operations. For example, one or more servicers had tools in place to search, review, and track complaint records for potential regulatory violations. One or more servicers also created a complaint governance committee to oversee all customer complaints to ensure they receive appropriate treatment.

Mortgage Servicing Exam Procedures
The CFPB regularly publishes a mortgage servicing chapter of the CFPB Supervision and Examination Manual to reflect regulatory changes, to make technical corrections, and to update examination priorities. Today, the CFPB released a third update to its exam procedures. The exam procedures offer valuable guidance to financial institutions and mortgage companies on what the CFPB will be looking for in its exams. Among other things, mortgage servicers should note a greater emphasis in exams on the following:

- **Complaint handling and requests by troubled borrowers:** The CFPB has enhanced the section related to consumer complaints to highlight that examiners will be reviewing whether the servicer has an adequate process for expedited evaluation of complaints or information requests from borrowers facing foreclosure. The possibility of foreclosure puts even more weight on the importance of an appropriate complaint escalation process, which is essential to any compliance management system.

- **Discrimination issues:** The CFPB is conducting targeted reviews of mortgage servicers' compliance with fair lending laws. This includes looking at those servicers that are creditors, such as those that participate in a credit decision about whether to approve a mortgage loan modification. These reviews include making sure creditors do not discriminate in any aspect of a credit transaction because of race, color, religion, national origin, sex, marital status, age, income coming from a public assistance program, or an applicant's exercise of certain consumer protection rights.

This Supervisory Highlights Mortgage Servicing Special Edition is available at: **http://www.consumerfinance.gov/policy-compliance/guidance/supervision-examinations/supervisory-highlights-mortgage-servicing-special-edition-issue-11/**

The updated mortgage servicing exam procedures is available at: **http://www.consumerfinance.gov/policy-compliance/guidance/supervision-examinations/mortgage-servicing-examination-procedures/**

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