WHITE PAPER

How to Vet Subservicers (And Find the Right Fit)

Dovenmuehle

Executive Summary

01 A subservicer works as an extension of your business and directly with your customers.

02 You need a subservicer that's experienced and knowledgeable about the regulatory environment and willing to meet or exceed all performance and customer service expectations.

03 It may take some time to conduct due diligence to find the right partner (our checklist will help). But doing so will ensure your loans are in competent hands and your business can grow confidently with minimal operational or reputational risk.

Protect your business at every step

Because they manage payments, handle and store non-public private information (NPPI), are involved in consumer credit reviews and decisions, and have direct contact with your customers, subservicers are considered Tier 1 or *high-risk* vendors. In other words, subservicers work as an extension of your operation and any mistakes they make can be costly for you. That's why it's vital you select the best possible subservicing partner for your needs and maintain oversight throughout the relationship.

How your subservicer operates – especially with your customers – can impact your reputation in favorable or negative ways. And, of course, if their systems and files are breached, your business (and your reputation) may never fully recover.

If you'll be outsourcing some or all of your mortgage loan servicing, make sure you gather and compare responses to Request for Proposals (RFPs), thoroughly vet subservicers, and choose the one best able to meet your needs.

Understanding Your 'Why'

It's possible you've already heard good (or bad) things about companies A, B or C and may already be leaning in one direction or another. But now's the time to look over the field with fresh eyes to understand which subservicer will best meet your needs.

That starts with defining your "why" — Why you think you need a subservicer in the first place, what benefits are you looking for?

- Is it to improve performance and responsiveness?
- Lower costs?
- Offer enhanced online servicing capabilities to your borrowers?
- Support your business growth plans?
- A combination of the above? Or something else entirely?

Important Must-Haves

Once you have clearly defined your whys, you'll be ready to search for a subservicer that matches your goals rather than one good at touting its own capabilities or using flashy literature.

There are several key elements to consider up front as you develop your Request for Proposal (RFP).

Decades of Industry Experience, Specialty Expertise

A subservicer needs to have been around *at least* 20 years (30 is even better!) and have managed successfully through various business cycles, including rapid increases or decreases in mortgage interest rates, prepayment speeds, and delinquency and default cycles.

The subservicer's ownership and management should be experienced and stable and its finances sound. Be sure to run a financial analysis on all subservicers you are considering and ask them questions about staff turnover, experience with varying economic environments and management continuity. You're looking for a subservicer 100% dedicated to servicing and not, say, in originations or owning mortgage servicing rights (MSR), which could present a conflict of interest.

You'll want to find a company that supports training and development of its staff with performance demonstrated over a long period of time. It's a huge plus if their team is very experienced and "has seen it all."

Finally, you need a subservicer with expertise in certain mortgage loan types and all secondary market GSEs and agencies, as well as interim subservicing for loans sold with servicing released.

A Clean Compliance Record

A subservicer should have technology-enabled, audit-proof processes to avoid fines and reputational damage from non-compliance, with deep knowledge of the regulatory environment and reporting requirements, and a track record of stellar performance over time – going back 30 years or so.

Their approach and commitment to security is equally important – to safeguard against both physical and online threats. Cybercrime is on the rise, and if your subservicer has vulnerabilities then so do you.

Ask the subservicer if they've had any breaches and get all of the details you can. What were the issues and how were they resolved?

Be sure they're ready to *defend your data* with:

- Encryption algorithms
- Network penetration tests
- SOC 1 testing for financial controls
- SOC 2 testing for availability, security, processing integrity, confidentiality and privacy

Flexible, Proprietary Technology

When it comes to subservicing, off-the-shelf technology won't cut it. Your subservicer should offer proprietary technology they build and manage in-house that provides advanced portfolio monitoring, KPI tracking and performance benchmarking to help you manage your business. They should offer multiple systems for different applications, and their effectiveness should be underscored with industry-accepted customer satisfaction scores.

The subservicer should be able to validate the info security/compliance for each system and provide integration options, including single sign-on (SSO) and full application programming interfaces (APIs), for a private-label experience so your customers think they're interacting with you – not a third party. Your subservicer should provide full transparency around the entire process with detailed reports and system access.

Of course, self-service websites and apps also are essential so your customers can pay their mortgages 24/7 and find other helpful information, such as loss mitigation options or who to contact in the case of a missed payment or after a natural disaster. These systems should support secure uploading and downloading of documents.

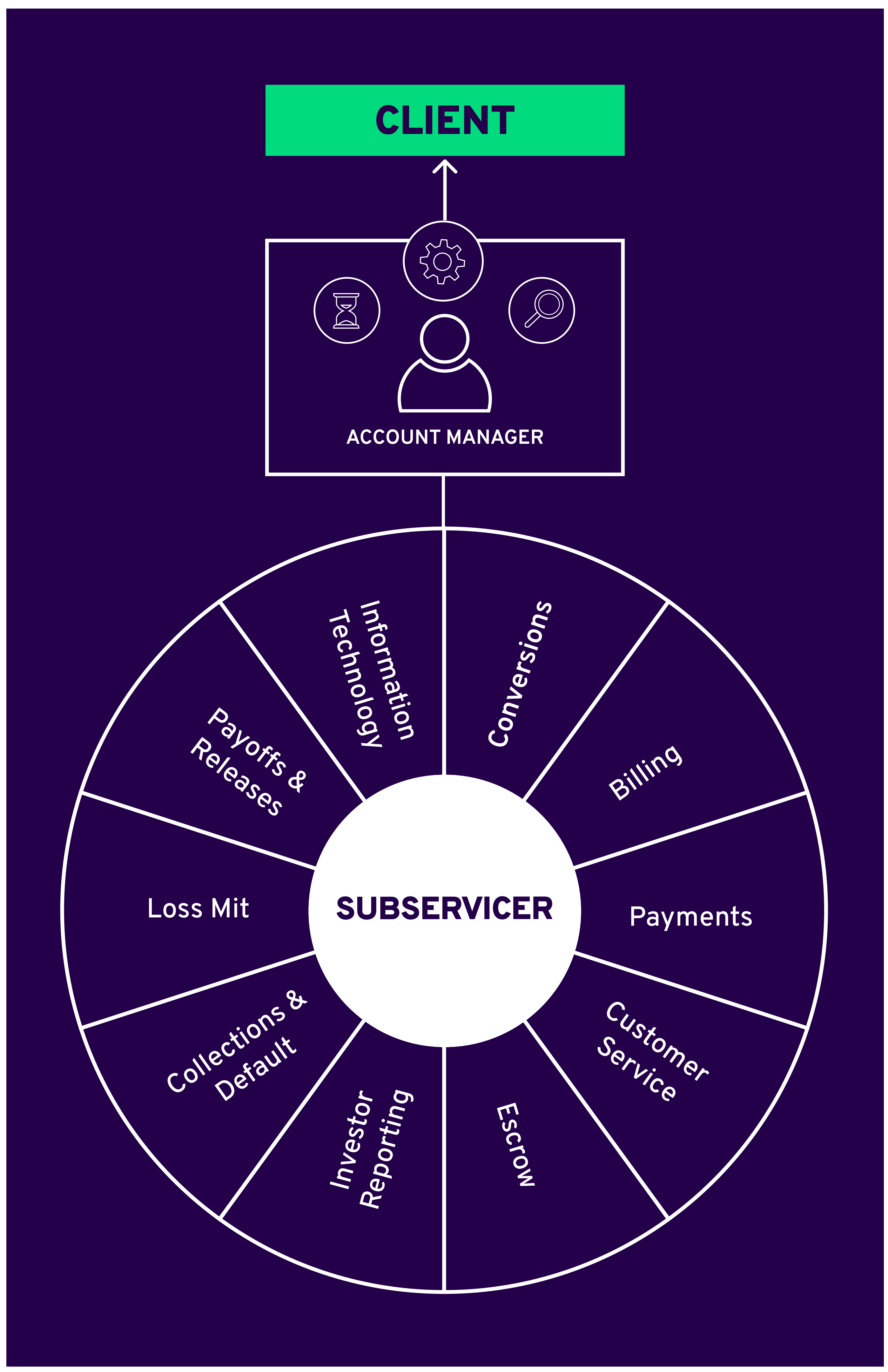
Adequate Staffing and Oversight

Servicing has an extremely high number of discrete functions, and a subservicer should have enough highly trained people to meet your needs and back-up staff for emergencies. A good rule of thumb for staffing levels is one person for every 500 – 1,000 mortgage loans.

However, keep in mind that most subservicers will not provide a dedicated operational staff, but instead use a shared-staffing model, headed by a dedicated account manager.

> A shared model generates operational efficiencies that are passed from the subservicer to the client in terms of lowering costs.
>
> The account manager is your single point of contact and should provide you with relationship management and team coordination.

All of the staff working on your behalf should be adequately trained, with positive scripting to encourage on-time payments or loss-mitigation options. If there will be offshore employees working on your account, you'll want to know about their supervision, reporting structure, information security and performance ratings.

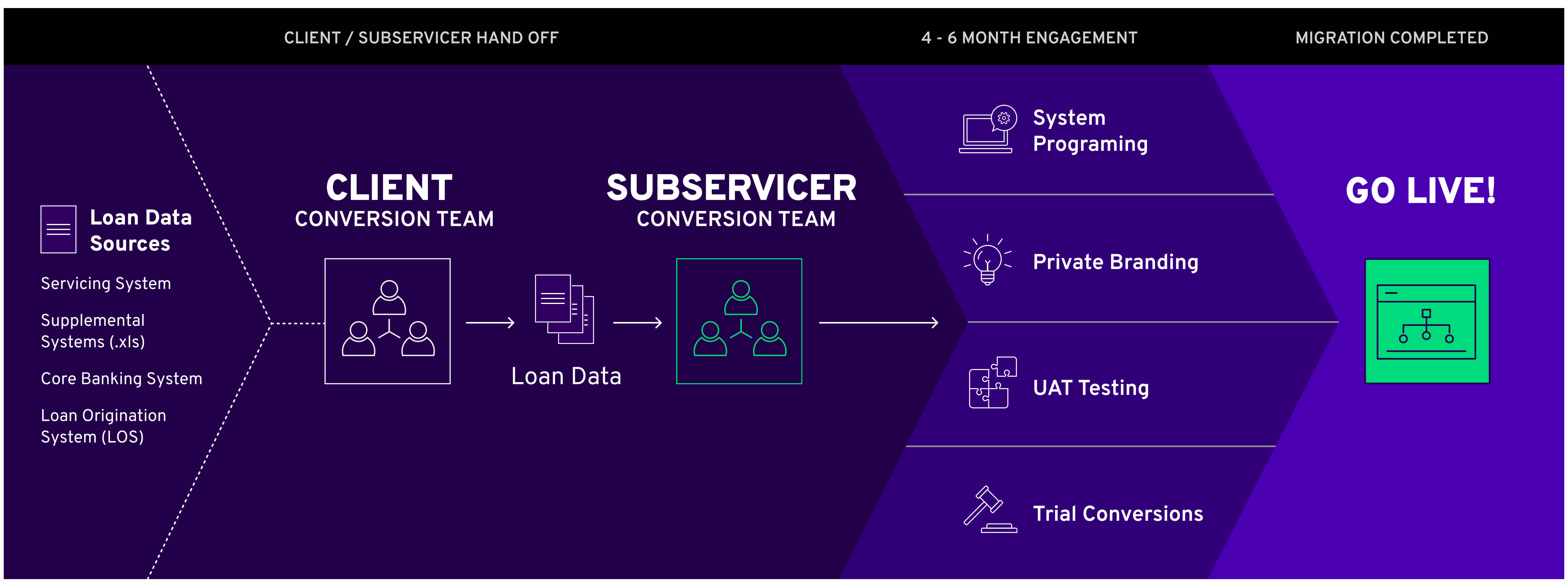


A Plan for Loan Migration

Converting your existing mortgage portfolio to the subservicer's system will be the first test of the subservicer's experience and competence. Lots can go wrong, so it's a good idea to ask about this transition upfront and gather their thoughts on compliance and timing. Specifically, you'll want to know how they plan to welcome new customers to ensure compliance with borrower notifications outlined in the Real Estate Settlement Procedures Act (RESPA) and Regulation X.

You'll want to give the subservicer enough time to migrate and test systems with your data, customize the system interface for your brand, and thoroughly "kick the tires." This takes a minimum of four to six months. Any subservicer claiming to be able to do this faster – in a month or two – is suspect.

When it comes to the actual conversion, be sure it will be managed by a *full-time professional conversion team*, not the operations managers on a part-time basis. This team should be familiar with all the systems that you're converting from, and with real-world experience in conversions.



Commitment to Customer Service

Of course, a huge measure of success will be how well the subservicer can meet the needs of your customers. To mitigate risk, your subservicer should be willing to conduct multiple tests or trial conversions to validate programming accuracy and proactive monitoring of key risk factors for each individual client and portfolio.

Be sure to ask subservicers how they plan to deliver and track a superior customer experience and how customer satisfaction (call center and technology) will be monitored and reported. As an industry expectation, calls from your customers should be answered in 20 seconds or less and you should be provided with metrics on their performance against these measures.

Another measurement you'll want to keep a close eye on are the metrics for the digital self-servicing capabilities provided to your borrowers. These systems and applications should be ranked and scored by reliable third-party sources. Self-service websites and apps should be backed by representatives who customers can reach during normal business hours, which in the case of many lenders means nationwide.

A final but very important metric is looking at the issue-escalation process from both ends. Subservicers should be willing to articulate their complaint management and resolution processes and the priority of these cases from a service and regulatory standpoint.

Live Demos, Q&A Sessions

These days a “live demo” probably means scheduling a series of online calls using Zoom or a similar technology so participants can view screen demos and ask questions.

Watching their systems in action, even over a conference call, will help you understand the features of their technology and staff expertise, and also how the team would interact with your customers, how they escalate issues, and how those issues will be reported to you.

It’s also a good idea to ask for sample reports and customer welcome letters to make sure they meet regulatory requirements and are compliant with your own brand standards.

The demos give you and your team an opportunity to get to know who you’ll be working with and ask questions about their processes and preferences in working with you. This is a very important step – don’t skip it!

In addition to these demos, actual onsite visits to tour the subservicer’s operations and meet the entire management team are extremely informative and helpful. These visits allow you to meet the team who will be responsible for your relationship and interacting with your borrowers. You can evaluate the organization’s professionalism, knowledge, experience, teamwork and culture. The financial regulators and mortgage agencies all encourage onsite due-diligence considering the critical importance of the duties to be performed by any subservicer.

Proactive in Saving Time, Money

In addition to meeting basic performance metrics, an outstanding subservicer will offer capabilities and insights to help you grow your business.

This is particularly crucial in today’s competitive landscape where you want to retain every customer you can and pursue cross-sell opportunities. For instance, a subservicer can send specifically tailored messages to cross-sell other services and help targeted customers be more successful homeowners or execute specialized communication campaigns, such as promoting a product or app, on websites and billing statements.

Other Harder-to-Quantify Essentials

In addition to the comparative information you gather through the RFPs, you'll want to talk to other lenders or consultants about the subservicer's reputation. Ask what it's like to work with them, and try to get a feel for their "culture" so you'll be able to gauge how well it meshes with your own.

Credible References (Hopefully, With Nice Things to Say)

Ask for a list of referrals, preferably with companies that are a similar size to yours and using similar technologies. An experienced subservicer will have worked with most if not all leading LOS systems and have past or current customers in your region and/or business lines.

You'll want to ask the referrals:

- What it's like working with the subservicer and if they've had any issues that they feel weren't adequately resolved.
- About the loan migration process and what customer service metrics were like before and after the changeover.
- How issues were escalated to the in-house team and how well they were managed through resolution.

Most important:

You'll want to know what the subservicer was like day-in and day-out during the relationship. Did the relationship feel like a true partnership where the subservicer operated as an extension of the referral's organization or a one-off job with constantly shifting contacts and a poorly trained staff?

A Culture In Synch With Yours

Culture is a somewhat nebulous term that describes the "vibe" of your team and your business. You'll want to find a subservicer whose culture is a good fit with yours, a long-term partner you're able to live and grow with.

We highly recommend conducting on-site visits to meet the subservicers' teams and see how they operate. By interacting with their staff in person, you'll get a feel for their commitment to customer service and how well they will be able to interact with your team and your customers.

Be wary of representatives who seem rushed, uninterested, or are just plain rude.

Finding the right subservicing partner is not unlike finding best friends, partners, or business associates. They should be trusted confidants you communicate well with and can rely on in good and bad times.

A Proactive Partnership

Ideally, a subservicer should work seamlessly as part of your team, providing transparent interactions with your customers.

In addition to weekly (or more frequent) check-ins, you'll want a subservicer that feels like a full partner in maintaining and growing your business – that includes testing new and improved system features.

Your Partner For the Future

At a time when the cost to service mortgage loans keeps rising, it's important to safeguard your brand reputation and keep existing customers happy. With a subservicer, you are ultimately responsible for what happens from a compliance and customer satisfaction standpoint.

Choosing a subservicer with a solid reputation, a lengthy track record of industry excellence and who's a good fit with your team puts you in a position to exceed expectations and boost satisfaction ratings with every customer interaction.

When it comes to subservicing, your business reputation is truly on the line. Be sure to partner with the best.

What to Look for in a Mortgage Subservicer

Your subservicer has a huge impact on how your mortgage business will be perceived by customers. At a minimum, the subservicer should have these core competencies:

- 20-30 years in the subservicing business (only) with ownership and management continuity
- Consistent and strong financial performance
- Experience in all markets and business cycles
- Compliance expertise and no regulatory violations or enforcement actions
- Pro-active communication regarding compliance initiatives
- Customizable, proprietary technology and customer websites/apps
- System and data transparency, especially for escalation cases
- A workforce that meets service expectations and any specialty-product requirements you have (like HELOCs)
- Ability to meet (or exceed) key performance metrics
- Support for multi-channel borrower communication (website, statements and mobile app)
- A culture that meshes with yours and offers a true partnership

ABOUT

Dovenmuehle

Founded in 1844, Dovenmuehle (Lake Zurich, Illinois) is a mortgage subservicer for commercial banks, credit unions, independent mortgage lenders, MSR investors and state housing finance agencies nationwide. The company subservices portfolio loans, as well as loans sold to Fannie Mae, Freddie Mac, Ginnie Mae and the Federal Home Loan Bank with servicing retained. Using a combination of best-in-class industry and proprietary technology, Dovenmuehle helps lenders reduce servicing costs and deliver consistently high levels of service to homeowners while maintaining compliance with investor and regulatory requirements.

Learn more at www.dovenmuehle.com.