CPM PROJECT

Improving the Efficiency and Accountability Of the Foreclosure Process

Lisa E. Brewer
SC State Housing, Finance and Development Authority
(803) 734-1187
lisa.brewer@sha.state.sc.us

March 22, 2002

Good work, Following recommendations.

Supervisor Brice R Donaldson
Brice R. Donaldson
Director of Homeownership

Lisa E. Brewer

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Within the Mission and Value statement of the SC State Housing, Finance and Development Authority is the commitment to be visionaries, to be creative and open to change. We constantly seek to improve our knowledge and service to our customers. Professionalism, quality and innovation are the hallmarks of the Authority.

By continually seeking to improve our processes and streamlining tasks, we align ourselves with this goal, for the department and for our agency.

The division of Homeownership, of which we are a part, is responsible for the purchasing, servicing and monitoring of all mortgage loans in SC State Housing Single Family Programs. The role Loan Administration plays within the SC State Housing Authority is one of regulation.

Problem Statement

How can we improve the foreclosure reimbursement process to make it more efficient and accountable for Loan Administration?

Loan Administration is responsible for over-seeing both internal and external Servicers in accordance with Authority procedures and Bond Indentures, as well as insurer and federal regulations. The foreclosure portion of our responsibilities will be the focus of this project.

The goal of this project is to identify and research ways in which this process can be better controlled and funds made available as soon as possible.

Two sub-problems will be encountered. These are: Is the current reimbursement method more complex than it needs to be; and why are we dependant upon the Servicers to close out files?

Historically, once a loan goes into foreclosure, the monthly monitoring of the loan becomes almost obsolete. After a foreclosure sale is held, Servicers remit a claim to the insurer for payment of the principal on the loan. Approximately six months later, an additional claim is filed for covered expenses regarding the foreclosure process. Claims are not monitored for timely processing, giving way to missed deadlines, interest curtailments, and delayed reimbursements. Foreclosure files can easily 'fall through the cracks' without a tracking device and not be discovered for years.

Funds are received and applied at the Servicers discretion. Our files are not closed out nor funds applied until all monies have been received. This becomes a problem because the funds cannot be reconciled and utilized until they are complete and identified.

Data Analysis and Findings

Sub-problem 1

Is the current reimbursement method more complex than it needs to be? In researching the current claims process, a flowchart was developed through interviews with employees that process claims (Appendix A-1). This was invaluable in following the process inside and outside of the division. With the flowchart, we are able to identify bottlenecks and redundant procedures now in place. Several hours each month was devoted to researching individual details and tracking the funds that had not cleared in the past six months. The current method lacked specific timeframes for posting, was complex and out-dated.

Sub-problem 2

Why are we dependant upon the Servicers to close out files? Currently, Servicers are required to complete a manual report for all loans in foreclosure. This is a detailed, loan-by-loan record of every action during the process. In addition, they are required to forward copies of all legal actions taken throughout the foreclosure. In theory, this should have provided Loan Administration the information we needed to track the progress of files. In practice, it was an arduous task. The information provided was incomplete and often inaccurate. Information we recorded on our system was outdated and could not be utilized in monitoring or follow-up.

In researching the history for standard processing time, an Excel spreadsheet was devised (Appendix A-2). This spreadsheet contained loan number, dates of processing for Part A (the initial claim), Part B, (the expenses claim), as well as dates the foreclosure department received and processed the claim. The last column was the date the file was closed.

As a result of information collected in the spreadsheet, it became evident that research into the workings of our software and its' capabilities was necessary. In December, numerous system-generated reports were analyzed for information on actual timeframes and workloads.

In addition, through interviews with employees and our software vendor, it became apparent that the software system was not being operated at its full capacity, and therefore, not performing at the optimum level. We had to rely on the Servicers due to the lack of accurate monitoring on our part. We did not have timeframes in place, nor the ability to scrutinize the progress of loans in order to keep them on track and require they be closed out at specific times.

A focus group, consisting of employees with a stake in the process, met several times in January to review the findings of the flowchart and spreadsheet, as well as the generated reports. After a lengthy deliberation, it was decided that the entire foreclosure reporting process would need to be re-vamped.

In January 2002, after compilation of data, it was discovered there were 81 loans that needed to be reconciled and removed. Of these 81 loans, 61 were over 2 years old and several dated back to the original system conversion in 1994. These were loans that had been overlooked without procedures in place to monitor them.

Recommendation and Implementation

Sub-problem 1:

In addressing the complexity of the current reimbursement method, we were able to eliminate several steps and allow funds to be processed as they are received. This will cause funds to be available almost immediately for use, rather than becoming a constant reconciling problem. In comparing the initial flowchart and proposed flowchart (Appendix A-3), the redundant procedures have been streamlined. This will create a savings for the Finance department by controlling the amount of time spent on reconciling each month. It will also allow for immediate identification and better control over the outstanding funds in the foreclosure account. Posting payments as they are received will result in a two-fold benefit. First, by posting at receipt, we will eliminate the confusion of later identifying a seemingly arbitrary amount. Second, by eliminating the majority of reconciling items that must be researched and explained, the Finance department will be able to reconcile quickly without the need to follow up for detail information. A tracking system will be utilized to define appropriate time frames.

Sub-problem 2:

In 'over-hauling' our foreclosure tracking system and processes, we could provide exception reports to the Servicers that only listed loans that have exceeded our required time frames. This would eliminate the need for reporting on each loan if that loan was handled correctly. The Servicers would then be held accountable for timely processing and accurate reporting.

This would also provide us with an internal mechanism to chart Loan Administration processing time. Employees and management could run reports at any time to ascertain whether time frames for claim processing are being met. These reports can be used to notify the Servicers of loans that have exceeded the time frames; they can also be used to list all loans that require action on our part prior to the deadline. This would successfully track each loan and 'close the gap' for loans that previously had been lost in the process.

Loan Administration could then define a time limit and impose a deadline in closing out files. We would no longer have to rely on the Servicers to close out files. Files would be completed, closed out and taken out of our tracking system in a consistent manner. The cost in this undertaking is difficult to define. By more quickly processing claims, thousands of dollars will be made available several months earlier to be used in Bond Debt reduction. This will allow us to pay down the bonds that back our mortgage loans more quickly, resulting in the ability to produce additional loans. Also, by more closely monitoring Servicers, we will call attention to claims that have exceeded time frames thereby decreasing interest curtailments. By accurately monitoring each foreclosure, it will require our Servicers to submit more timely claims or run the risk of shouldering non-recoverable losses on loans.

The cost in human resources will be greater. The amount of time spent, from initial research through full realization of the plan, will be approximately one year. The initial costs of time to bring the system up to new standards will be realized as savings after full implementation.

The focus group will meet to evaluate the findings regarding set-up of the system and current operating procedures. It will be necessary to educate everyone on the self-imposed limitations and the implications caused by lack of monitoring data. A revision to our operating procedures could allow us to control tracking of all information throughout the foreclosure process. This would not only permit us to manage the process more efficiently, but also make the system and employees more accountable, as well as enabling us to more closely monitor Servicer actions with less work.

An agreement was reached to hold additional focus group meetings in order to revise foreclosure time frame requirements, reporting stages and the information each employee would be responsible for collecting and entering into the system. After redefining system requirements and internal procedures, the complete listing of loans in foreclosure would need to be updated to conform to the new standards. This will be a monumental task and our largest obstacle.

Detailed information must be printed on each loan. Research must then be done to track the current stage and next action required. Loans will then be divided by status. Older loans that are outdated must be removed from the tracking system, while current loans must be updated with accurate information. I will be compiling data and taking action on this essential first step.

The focus group came together in defining our time frame requirements. Much deliberation was needed in setting a standard definition for each stage that would be tracked. A uniform definition would allow a better integration into standard operating procedure. The tracking system was separated by each type of foreclosure, then further examined and discussed.

Integration into standard operating procedure will be the next obstacle. After outdated foreclosures are removed, concentration will be directed to internal procedures updates, reflecting the focus group recommendations. Employees will be assigned the stages of default and foreclosure that they will be responsible for tracking. Each employee will update the system as information is received. Once new procedures are in place, the effect on the updated system will be immediate. Constant communication will allow us to monitor the new procedures and their impact as well as 'tweak' the details for better implementation. Memos to the Servicers outlining the changes in reporting would be available for distribution approximately one month after updates have been in place.

Evaluation

By May 2002, it will be possible to run automated reports (Appendix A-4) to evaluate how the new procedures have affected the process. Servicers will receive the first of the exception reports and notify us of inaccurate information. After this initial update to our tracking system, the loans with exceptions should minimal. Exception reports will be generated monthly allowing Loan Administration to monitor and measure the progress of all loans. This will also provide feedback to the Servicers on the accuracy of their reporting. The focus group will reconvene to discuss impact, further revisions and setting benchmarks.

The new reporting procedures will also be instrumental in measuring employee performance. Previously, this area has had no measuring tool. This will create the incentive of timely processing and monitoring of claims when it is used in conjunction with EPMS performance standards.

Greater accountability and more efficient tracking will reap extensive benefits, not only for Loan Administration, but other areas as well. Our Finance department will have less reconciling items each month and less funds outstanding on each loan. Our Servicers will be held accountable for timely processing of claims and close out of files.

During the research and implementation process, I investigated the parallel between our use of the system and our in-housing Servicing departments' use of a similar system. There were many of the same underlying problems. Foreclosures were almost impossible to track. Claims and payments were not successfully monitored. Accurate employee production could not be tracked.

In sharing our research and findings on the topics covered, they could utilize their system much more effectively. By redefining Servicing procedures to utilize the discoveries of this project, a tremendous impact could be seen in accountability, accurate employee performance measurement and in cost savings for timely submissions for foreclosures and claims. This would also enable them to maintain tracking of all foreclosure stages.

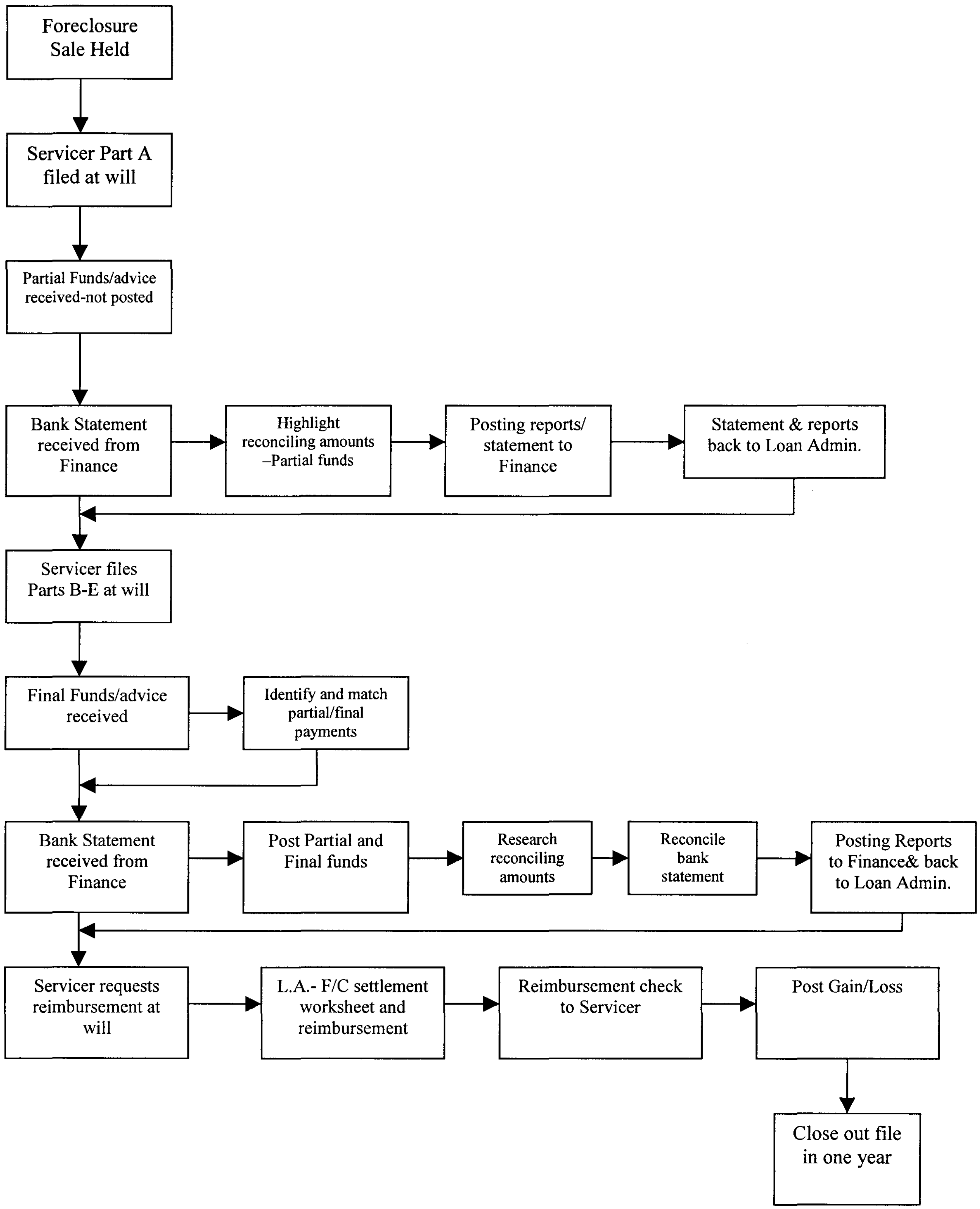
In summary, this project has set the stage for greater accountability and efficiency for Loan Administration. The spectrum of this project has broadened from the initial analysis of the foreclosure process to all aspects of default reporting and foreclosure. It has brought to light the essential link in early, accurate reporting and the final timeframes for claims.

The research has shown us the weaknesses in the system. Investigation and communication has led to the best solutions for each stakeholder. This has been a groundbreaking project that has opened the doors and opened our eyes for re-evaluation of our standard operating procedures.

The status quo has been challenged and we must continue to question the way we do business. This has been an exciting and educational project that I am certain will culminate into great benefits for Loan Administration and other areas in the Housing Authority.

APPENDIX A

Initial Flowchart of Reimbursement and Claims Processing



Excel Spreadsheet
Tracking Actual Claims Processing Time

Loan Number	Sale Date	Part A Settled	Posted	Time A	Part B Settled	Posted	Time B	Check Req.	Time Reim.	Post G/L Closed	Time req-g/l
111021754	3/2/98	3/31/98	05/20/98	50	08/20/01	8/28/01	8	10/1/01	34	12/18/01	78
2109600401	DIL	6/9/98	07/17/98	38	07/11/01	8/28/01	48	10/1/01	34	12/18/01	78
201611210	6/7/97	9/15/98	10/27/98	42	08/20/01	8/28/01	8	10/1/01	34	12/19/01	79
111020394	3/3/97	4/1/97	05/06/97	35	08/20/01	8/28/01	8	10/1/01	34	12/19/01	79
2009601116	6/1/98	3/12/99	04/09/99	28	07/31/01	8/28/01	28	10/1/01	34	12/18/01	78
2005700396	2/5/01	3/13/01	04/25/01	43	07/16/01	8/28/01	43	10/1/01	34	12/13/01	73
2006901119	2/5/01	3/9/01	04/25/01	47	08/13/01	8/28/01	15	10/1/01	34	12/18/01	78
112322984	2/5/01	4/25/01	05/16/01	21	08/10/01	8/28/01	18	10/1/01	34	12/18/01	78
113222415	4/11/01	4/26/01	05/16/01	20	08/10/01	8/28/01	18	10/1/01	34	12/18/01	78
2708922204	4/3/00	4/21/01	05/08/01	17	07/10/01	8/28/01	49	10/1/01	34	12/18/01	78
112923204	1/2/01	5/7/01	06/14/01	38	07/16/01	8/28/01	43	10/1/01	34	12/13/01	73
103622746	3/5/01	5/11/01	06/14/01	34	07/27/01	8/28/01	32	10/1/01	34	12/13/01	73
2706922133	3/5/01	5/11/01	06/14/01	34	08/09/01	8/28/01	19	10/1/01	34	12/13/01	73
2311422688	5/7/01	5/30/01	07/24/01	55	07/30/01	8/28/01	29	10/1/01	34	12/13/01	73
103822396	5/7/01	5/30/01	07/24/01	55	07/31/01	8/28/01	28	10/1/01	34	12/13/01	73
106922398	5/7/01	6/18/01	07/24/01	36	08/15/01	8/28/01	13	10/1/01	34	12/13/01	73
2306922614	4/2/01	6/18/01	07/24/01	36	08/06/01	8/28/01	22	10/1/01	34	12/13/01	73
2712923241	7/2/01	7/16/01	08/28/01	43	08/20/01	8/28/01	8	10/1/01	34	12/13/01	73
2206400073	3/5/01	4/24/01	04/30/01	6	09/10/01	9/17/01	7	12/7/01	81		
2711100856	4/2/01	5/10/01	06/14/01	35	09/06/01	9/12/01	6	12/7/01	86		
2109600462	7/2/01	8/27/01	09/04/01	8	09/26/01	10/5/01	9	12/7/01	63		
2003101026	6/4/01	6/22/01	06/29/01	7	09/05/01	10/5/01	30	12/7/01	63		
903602510	7/16/01	7/16/01	08/28/01	43	09/10/01	10/5/01	25	12/7/01	63		
103621378	8/1/01	8/1/01	08/24/01	23	10/31/01	11/7/01	7	12/11/01	34		
106921328	2/5/01	7/16/01	08/28/01	43	09/05/01	10/5/01	30	12/12/01	68		
109622925	9/4/01	10/15/01	11/07/01	23	11/15/01	12/3/01	18	12/19/01	16		
2711322438	7/2/01	9/11/01	10/05/01	24	10/04/01	10/17/01	13	12/19/01	63		
2212300051	4/2/01	7/27/01	08/28/01	32	11/13/01	11/28/01	15	12/19/01	21		
2708622268	7/2/01	10/19/01	11/07/01	19	11/26/01	12/3/01	7	1/10/02	38		
2706922032	9/4/01	10/16/01	11/07/01	22	11/23/01	12/3/01	10	1/16/02	44		
2711022425	10/1/01	10/16/01	11/07/01	22	12/06/01	12/19/01	13	1/31/02	43		
2111000265	10/1/01	11/14/01	11/28/01	14	12/10/01	12/19/01	9	1/31/02	43		
203111246	9/4/01	9/20/01	10/05/01	15	12/06/01	12/19/01	13	1/31/02	43		
970210001								2/6/02			
1205900974	1/5/98	3/10/98	05/11/98	62	11/20/01	12/3/01	13	2/6/02	65		
1708600868		6/16/98	08/01/01	1142	05/18/99	6/23/99	36	2/6/02	959		
									0		
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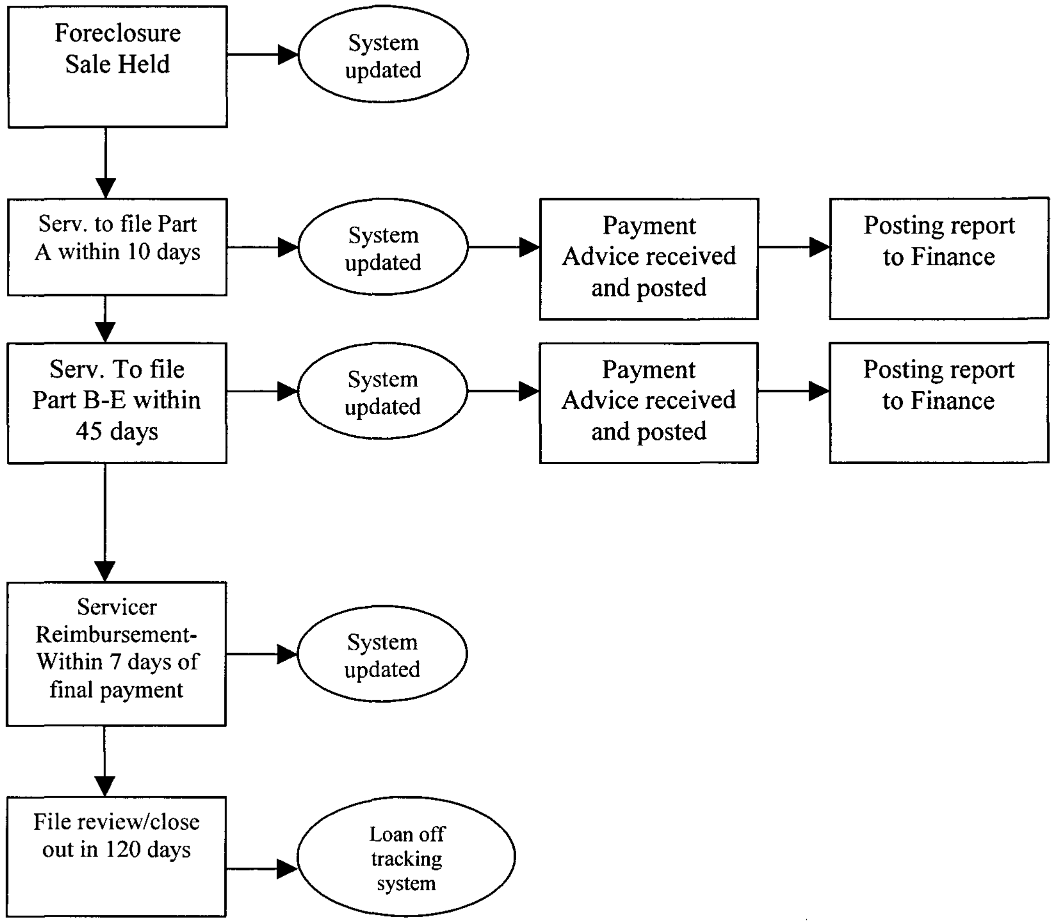
Averages				63			20		69		76

Updated Process for Claims and Payment Posting



Servicer Exception Reports to be run monthly to identify loans that have exceeded established time constraints

SAMPLE OF AUTOMATED MONTHLY REPORT TO SERVICERS BEGINNING MARCH 1, 2002

SERVICER 999 - 999
BOND SERIES 001 - 001

SOUTH CAROLINA STATE HOUSING FIN
SERVICER TRANSMITTAL STATUS

PAGE #
REPORT #
DATE RUN

SERVICER 999 SCSHFDA
BOND SERIES 001 1979-A SF (Series 01)

LOAN # SERV LOAN #	BORROWER NAME/ADDRESS	STAGE INFORMATION NO.	DESCRIPTION	DATE	MONTHS DELQ	# A	DAYS LLOWED	#DAYS EXCEEDED	OUTSTANDING PRIN BALANCE
001007022553 8266	JONES MARIANNE C 1142 BRIGANTINE DRIVE CHARLESTON SC 29412-0000	06	LIFT GRANT	08/31/00	1		60	472	54,192.88
COMMENT:_____									
001036022076 3810	DINKINS PEARLENE 1201 CHESTERFIELD AVE LANCASTER 29720-0000	03	CHP 7	02/25/00	2		90	630	32,667.56
COMMENT:_____									
001057023106 10034	BALLARD TARA L 431 PISGAH LANE INMAN SC 29349-0000	02	FB PLAN	12/12/00	1		120	309	63,512.21
COMMENT:_____									
001064020069 2495	MITCHELL DELORES 472 DOGWOOD DRIVE SUMTER SC 29150-0000	05	HEARING	04/02/01	15		90	228	28,802.19
COMMENT:_____									