

NAMFS Offers an Alternate Perspective on Performance of Pre-Foreclosure Inspections

On March 25, 2014, The Federal Housing Finance Agency's (FHFA) Office of Inspector General released an audit report titled *FHFA Oversight of Enterprise Controls Over Pre-Foreclosure Property Inspections*. The purpose of the audit was to assess the quality assurance measures the FHFA has in place to mitigate risk and fraud with respect to the performance of pre-foreclosure property inspections.

Understandably, great emphasis was placed on the expense caused by inaccurate results of pre-foreclosure property inspections. The audit posed questions about the quality of those inspections, the accuracy of inspection results, and the controls in place to monitor the individuals performing the inspections. To support the findings, the report provided examples of manipulated, inaccurate or incomplete inspection results as representative of the work performed by the mortgage field services industry. After the report was released, headlines followed that indicated the examples presented were frequent and widespread.

A closer look at the report finding and the mortgage field service industry may help to provide a perspective not included in the OIG audit report.

Size and Scope of the Audit

The audit report acknowledges that the 12 loan servicers reviewed for the audit ordered over 15 million pre-foreclosure property inspections during 2011 and 2012; of these 15 million inspections, the audit report examined eighty-four or .0000056 percent. The report states that 50 percent of the loan servicers examined used one national field services provider. The OIG audit bases its analysis of quality control requirements for pre-foreclosure inspection processes on information drawn from the Enterprises' records and on inspections from the quality control files of twelve of the top loan servicers. This provides a very small pool of inspections drawn from quality control files that typically collect questionable inspection results.

The scope of the report included auditors performing field work at the Enterprises and the offices of loan servicers; however, the report did not indicate whether or not the auditors conducted field work at the offices of the mortgage field services providers. By performing field work at the offices of mortgage field services providers, the auditors would have been able to gather information on the quality control methods used prior to releasing inspection results to loan servicers. Additionally, the audit could have included the percentage of inaccurate inspection results as compared to accurate inspection results released to loan servicers.

Further, the FHFA response to the OIG recommendations, "...does not believe that the report findings and the examples of deficiencies provide compelling support for the imposition of uniform standards and processes for all pre-foreclosure inspections of properties that collateralize delinquent loans held or guaranteed by the Enterprises."

The National Association of Mortgage Field Services (NAMFS) would like the opportunity to offer information on the quality control, training and guidelines that the mortgage field service industry has long had in place for the independent contractors who perform inspection and preservation work.

Mortgage Field Services Quality Control and Industry Changes

The pre-foreclosure inspection results profiled in the audit report are disturbing. The mortgage field service industry acknowledges the occurrence of inaccurate inspections results. However, there have long been quality control processes in place at the vendor-level designed to address these occurrences. If an inspector returns a questionable inspection to the field services provider, it is sent through a quality control process before reaching the servicer. Every effort is made to provide accurate inspection results to the servicer, including assigning the work to a different inspector and re-inspecting the property.

In late 2012 and early 2013, the Enterprises updated regulatory guidance related to the findings of the OIG audit. Therefore, the timeframe of data collected in the audit may not accurately reflect current conditions. Additionally, the audit does not include factors such as foreclosure moratorium or that no access results are often due to homeowner association restrictions and gated community barriers.

NAMFS Creates Mortgage Field Services Provider Training and Certification

In March 2013, two months prior to the audit field work conducted by the OIG began, the National Association of Mortgage Field Services launched the NAMFS Academy. The Academy provides training and certification to its members on performing property inspections and property preservation work. Additionally, NAMFS conducts webinars in a continuing effort to educate association members on new industry requirements. Last year, NAMFS hosted its 25th annual conference, where breakout and educational sessions were attended by association members.

NAMFS Initiates Industry Standard Background Checks and Outreach Efforts

The OIG audit indicated the need for background checks on property inspectors and property preservation contractors. In fact, NAMFS has identified a background check provider creating an industry standard that meets the strictest requirements.

Understanding the processes, training, legislative requirements and the quality control measures involved in pre-foreclosure inspections by mortgage field servicers is an important part of the conversation. To that end, further articles will be published by the National Association of Mortgage Field Services (NAMFS) with the goal of providing greater insight into the role of mortgage field service in default mortgage servicing.