

LARGE-SCALE TRANSFORMATION HELPED THIS FINANCIAL SERVICES INSTITUTION RESPOND TO THE ONSLAUGHT OF REGULATORY MANDATES

Financial Services Case Study

North Highland deployed more than 100 experts with mortgage specific advisory services, customer experience, human capital, change management, and process improvement capabilities to help this bank revamp its default mortgage servicing program. The North Highland team brought order, clarity and speed to a chaotic situation characterized by numerous federal and state agencies enacting tough – and sometimes conflicting – regulations on the handling of default mortgages. Over the two-year engagement, North Highland helped the client avert \$10B+ in penalties, recoup \$60M+ in government subsidies, and begin to reverse the considerable damage imposed upon its reputation.

THE CLIENTS

Our client is one of the largest financial services institutions in the world and a leading US mortgage servicer with a complex portfolio of loans owned by a diverse group of investors, each with its own servicing policies and guidelines. Along with other mortgage servicers, our client became the focus of government intervention as the collapse of the US housing market triggered an historic level of home foreclosures.

THE CHALLENGE

With the consequences of the economic recession affecting tens of millions of households in the US and beyond, public sentiment quickly turned on the country's "too big to fail" financial institutions. A patchwork of government agencies responded with a flurry of stringent mortgage

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servicing regulations, an array of new products for qualifying mortgage customers with negative equity, and multiple relief programs for individuals whose loans were determined to have been mishandled. Without proof of compliance, our client would suffer massive fines, the loss of government subsidies, more lawsuits and additional blows to its reputation.

The client's backlog of default loans was at the highest level in history. Yet, new regulations forced the need to work through that backlog at unprecedented speed, using a manually intensive process that was constantly changing to adhere to fresh government regulations. The situation was made even more untenable by the fact that often, new regulations imposed by the various agencies were at odds with one another.

The new standards required no less than a total cultural and operational shift in the way mortgages were serviced. Until 2009, mortgage servicers viewed the investor community (such as Freddie Mac and Fannie Mae) as their primary customer. However, the regulators were clear that this had to change; homeowners were to become the focus of the mortgage servicing process with access to a single point of contact and information and decisions that would affect them.

The client recognized a need for three essential initiatives:

1. Rapidly assess the operational impact that the government's barrage of new regulations would have on the business
2. Develop swift and thorough remediation plans
3. Achieve and sustain compliance standards

North Highland had an extensive and ongoing relationship with this client and a successful track record of working within the client's culture. Additionally, our expertise in planning and executing complex process improvement projects and managing change coupled with our work in mortgage servicing and our ability to quickly bring the necessary capabilities to the project made North Highland a logical fit for this engagement.

to become more strategic and proactive while continuing to develop its strengths. For this, he turned to North Highland, which had supported him in

NEW AND SOMETIMES CONFLICTING REGULATIONS

The world's largest credit union, Navy Federal Credit Union, who provides financial services to all military personnel and their family members.

Between 2009 and 2011, these government agencies issued mandates against our client requiring immediate, significant, and often conflicting changes in mortgage servicing standards:

- Federal Housing Administration (FHA)
- Federal Housing Finance Agency (FHFA)
- Government Sponsored Entities including Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac)
- Home Affordable Modification Program (HAMP)
- Office of the Comptroller of the Currency (OCC)
- Private investors
- Mortgage insurance companies
- State Attorneys General (AG)
- US Department of Justice (DOJ)
- US Department of Treasury (DOT)
- US Department of Housing and Urban Development (HUD)

THE SOLUTION

To meet the immediate and considerable client demand for support, North Highland assembled a team of highly skilled consultants in project and change management, workflow automation, quality control methodology and organizational design to work hand-in-hand with the client's team. In addition to having functional expertise, every member of the North Highland team had extensive experience in mortgage servicing.



North Highland supported the client on more than 50 critical default servicing initiatives across the entire default service value chain.

One of our most important contributions was to strategically assess the operational impact of each regulation, identify cross dependencies and build a roadmap to close the gaps against the standards. We also developed and executed a strategy for change management so that as priorities shifted with each additional government dictate we were able to prepare the client's employees for change.

Specific deliverables included:

- Development and implementation of the servicing standards compliance required by HUD for Making Home Affordable programs.
- Integration of new HAMP guidelines with established proprietary products.
- Incorporation of new government standards for net present value test for loan eligibility.
- Establishment of a quality assurance program management office to implement and automate consent orders from the Office of the Comptroller of the Currency (OCC). This effort required a revamped workflow for handling foreclosures and default servicing for mortgage loans.

We responded with our full arsenal of capabilities:

- Mortgage servicing
- Process improvement
- Workflow automation
- Quality control methodology
- Organizational design
- Change management
- Business readiness
- Call center design and implementation
- Third-party vendor engagement and risk management
- Program and project management

- Assessment of the operational impact of new Fannie Mae and Freddie Mac servicing standards, and identification of gaps in standards against current operations for government sponsored enterprise (GSE) loans. Our resulting remediation program included both an immediate interim solution and a long-term, fully compliant realignment of the client's entire mortgage servicing work stream.
- Evaluation of the operational impact of the DOJ and AG settlement on mortgage servicing standards and assistance in developing the remediation solution proposal presented to the government.
- Creation of automated workflow within the proscribed 30-day decision window.
- Establishment of an efficient, convenient, Single Point of Contact (SPOC) for default mortgage holders

THE VALUE

North Highland brought functional and industry expertise and a scalable consulting capability to this client during a time of intense need. Over the two-year engagement, North Highland provided critical value through:

- Remediation of 300+ government mortgage servicing standards, averting \$10B in fines
- Regaining Making Home Affordable compliance, which enabled the client to recoup \$60M
- Resolution of 30,000 backlogged claims, plus an average of 5,000 new claims per week, which enabled a timely settlement with Fannie Mae and Freddie Mac
- Establishment of an enterprise-wide quality assurance function that earned compliance with the OCC, DOJ and HUD
- Significant improvements throughout the mortgage servicing process:
 - › Workflow automation to expedite the processing of loan modification evaluations, reducing processing time by 3 days
 - › Tools to more effectively manage collection call center workflow, reducing costs by \$100K per month
 - › Converted 5% of delinquent loan population to an automated decision process
 - › Designed and implemented new call center operations, reducing litigation risk

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- Development of an extensive training curriculum and business readiness plan for 15,000+ associates

We contributed significantly to the client's ability to respond appropriately to regulatory mandates that carried sweeping operational implications. And, just as important, the North Highland team helped the client navigate a charged political and cultural environment that not only changed daily but carried enormous potential personal and organizational consequences. And, because we combined our national experts with local office consultants, we were able to keep expenses to less than 1% of fees.

With North Highland's assistance, our client:

- Averted \$10B+ in penalties
- Recouped \$60M+ in government subsidies
- Reduced rep and warrant exposure
- Began to reverse the considerable damage imposed upon its reputation

This enabled the client to downsize the default mortgage servicing division resulting in:

- Reduced expenses
- Decreased risk management
- Reallocation of resources to focus on developing more sustainable lines of business

ABOUT NORTH HIGHLAND

North Highland is a global management consulting firm that delivers unique value, relevant big ideas and strategic business capabilities to clients around the world. The firm solves complex business problems for clients in multiple industries through an integrated approach and offers specialty services via its Data and Analytics, Managed Services, and Sparks Grove divisions. North Highland is an employee-owned firm that has been named as a "Best Firm to Work For" every year since 2007 by Consulting Magazine. The firm is a member of Cordence Worldwide (www.cordenceworldwide.com), a global management consulting alliance. For more information, visit northhighland.com and connect with us on [LinkedIn](#), [Twitter](#) and [Facebook](#).

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