

How Lenders Manage Third Party Vendor Compliance for Field Services

Whitepaper

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Introduction

With the American housing market slowly recovering from its 2008 crash and the banking business on firmer footing, the Consumer Finance Protection Bureau (CFPB) is sharpening its oversight.

One area the CFPB is shining its light is on third party vendor management and the range of consumer facing field services, including property preservation, property management, appraisers, real estate agents, and claims adjustors.

The agency wants financial institutions to exercise strict oversight on all their processes and procedures with regard to third-party vendors. With consumer complaints on the rise, CFPB's scrutiny shouldn't come as a surprise.

Some third party vendors see an increase in oversight as intrusive and say it interferes with how they run their companies.

Others, however, view the CFPB's warning as an opportunity to control the industry's future. The property preservation and inspections services sector, for example, believes that standardized vendor compliance background checks will lead to more accountability within the industry while encouraging a higher level of consumer confidence.

"One of the things we were looking for and we have talked about for years is standardization," says Jack Bryant, executive vice president of client relations at MSI, a national vendor with 30 years of experience in the field services industry. "Now at least we have this opportunity to have some standardization on criminal background checks."

Working together as an industry to design a standardized vendor compliance criminal background check presents an opportunity for financial institutions and vendors to team up for a common cause, something that, in the long term, can only strengthen relationships and improve the profession.

Collective collaboration of this type is already happening. A diverse working group made up of the National Association of Mortgage Field Services, Wells Fargo Bank, Aspen Grove Solutions, national and regional vendors and two nationally recognized background check companies have created a comprehensive, standardized, data rich, auditable vendor compliance program.

The flexible solution allows for easy customization to the specific needs of different industry sectors while still meeting the CFPB's guidelines and preempting it and other federal agencies from imposing government authored solutions.



Current Compliance Issues

All lenders in their Master Services Agreement (MSA) require background checks and vendor management as a business condition. Consequently, most field service companies have some type of compliance background check policy in place. However, standards and procedures vary widely from company to company.

For instance, one field service company may prefer a criminal background check that spans a decade while a competitor chooses a program that stops at seven years. Some companies may refuse anyone with a felony conviction, while another will accept those applicants.

It's true then that individual vendor background checks are currently being performed - without established standards. Compliance checks without established standards aren't auditable and a background check that isn't auditable is virtually meaningless.

“There is no consistency from one company to another in deciding what is allowable for our industry. We now have a standard format in determining who we hire and who we pass up.”

Michael Evangelo, National Mortgage Field Services

Standardized background checks are important because the field service business is an elongated, tiered process. It starts when a financial institution issues a work order to inspect or perform work at a property. They typically contract with a national field service provider to perform the requested work.

Depending on the property's location, a national vendor sub-contracts the work to a regional business that in turn assigns the work to a local company. The owner of the local company then chooses the appropriate field service professional to complete the work order.

The bank almost certainly doesn't know anything about the individual chosen to represent them at the property.

Whether or not the field service professional has been properly vetted is vitally important because the CFPB expects financial institutions to hold third party vendors to the same standards as full-time employees. Essentially the CFPB has told the financial industry you can outsource the work, but not the risk.

Satisfying that mandate requires a vendor compliance solution that is auditable and has a consistent process of identification and verification to ensure that the people undertaking field service work do not have a pattern of behavior that may pose a risk to consumers or neighborhoods.

Many financial institutions currently outsource the risk to their national vendors who in turn outsource the risk to a regional vendor and so on. This gives rise to a lot of misunderstanding of the requirement and its implementation. Banks, lenders and GSE's can ill afford to be non-compliant in the eyes of the regulatory authorities. More importantly, they have a corporate desire and obligation to protect consumers and reduce complaints. In light of this they have taken an active part in the formation of a solution by standing shoulder to shoulder with their network of vendors and the industry as a whole to implement an industry standardized solution.

New Law, New Rules

In 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. Two years later the CFPB started flexing its muscles, giving banks and mortgage companies their first warning that the third party vendors they hired should not present “unwarranted risks to consumers.”

The Federal Housing Finance Agency’s (FHFA) Office of the Inspector General followed suit, recommending that Fannie Mae and Freddie Mac establish uniform pre-foreclosure inspection quality standards and quality control processes for inspectors.

The Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and an alphabet soup of other federal agencies have also chimed in and started clamping down on these areas. Like the CFPB, the FDIC has also told banks and mortgage companies that they are responsible for overseeing anyone hired through third party relationships and “identifying and controlling the risks arising from such relationships, to the same extent as if the activity were handled within the institution.”

“All these entities are basically saying to the mortgage field services industry and the mortgage service industry that they need more accountability,” says Bryant. “This is not a passing fad. This is a requirement now and will be a requirement 20 years from now.”

The message delivered by the federal agencies is clear: No matter what type of vendor compliance background check a national, regional, or local field service company says it has completed, if something goes wrong while representing the financial institution, the financial institution are the responsible and accountable party.

“There is a huge misunderstanding that needs to be addressed,” Evangelo says. “It is not the lenders or any of my clients who initiated this new standardized background check process. It’s the government.”

But it’s still within the industry’s power to define what that standardization will look like. That was the task at hand when the first of its kind working group met in 2013.

“Our goal is to assist our NAMFS members meet the increasing regulatory requirements and cost associated with background screening.”

Eric Miller, Executive Director, NAMFS

The group knew that the service level agreement between a financial institution and a national mortgage field service vendor obligated the vendor to ensure background checks were conducted. In turn the national vendor, as the owner of a network, stipulated the same requirement of the regional vendor, and so on down the line.

However the only proviso in the agreements was that a background check be performed. Generally agreements of this nature do not define what constitutes an acceptable compliant background check. Nor do they state who must undergo a background check. Does it apply to just the principal of the company? Or does it mean that every individual hired to do a property visit must be vetted?

To eliminate the confusion, the working group settled on requiring that anyone visiting a property must have a valid background check. But that raised another issue. The Equal Employment Opportunities Commission does not allow spurious, non-job related background checks.

The working group spent countless hours and a huge amount of effort working through the issue. The group eventually arrived at a unique solution which it termed 'Fit for Purpose' that meets EEOC standards.

How does it work? Well, roughly 80 percent of every compliance background check, no matter the industry, is pretty much the same. The remaining 20 percent is industry specific. And that's where Fit for Purpose comes into play.

The Fit for Purpose approach allows for varying levels of background checks.

For instance, a Fit for Purpose vendor compliance background check for an appraiser may be different than the check for a real estate agent. Likewise, the background check for a real estate agent may be different than a background check for someone mowing the lawn.

The working group recognized the need for confidentiality to protect each business network. The ability to identify and verify individuals, while guarding against physical identification, was ultimately achieved through a unique vendor ID and unique individual ID features.

Protections were also put in place for the field service professional. Those scoring below the highest level receive a copy of their vendor compliance background check report. A dispute resolution process is available for anyone who feels his or her results are inaccurate or shouldn't be considered in the Fit for Purpose solution.

The Software Powering the Solution

The technology driving the industry vendor compliance solution comes from Aspen Grove Solutions and its vendor management compliance platform Aspen iRecord™. The technology company does not conduct the criminal background checks. It does, however, provide the vendor compliance management portal that enables the process that integrates financial institutions and vendors with nationally known background check companies First Advantage and Sterling BackCheck.

Aspen iRecord™ also provides network owners and vendors with a cost effective and much needed solution to assist with the increasing demands of vendor network management and compliance.

Aspen iRecord™ empowers auditors to immediately and remotely assess if required, the verification of any contractor or sub-contractor conducting business at a property. But its technology goes beyond being a conduit for all the parties involved. It also includes a unique proof of compliance at the point of service.

"It's one thing to ask vendors and their field service representatives to ensure that those attending a property have appropriate background checks, but how do you satisfy yourself as to the quality and extent of the process being used to manage this?" says Edmond Buckley, Aspen Grove Solutions' chief operating officer.

Aspen's answer, Buckley says, is to integrate the solution with a number of prominent mobile app providers used across the industry. This seamless integration identifies the person, establishes that they were at the property, and verifies that he or she is compliant with the industry approved background check standard and process.

But it doesn't end there.

Using their own mobile device, field service professionals can virtually sign in themselves, their crew, and visitors at the property via a mobile app. The date, time, and geo location of the property is received and compared with the information in Aspen iRecord™. If something doesn't match, it is recorded and is available for performance reporting and to support any internal or external audit requests.

"There isn't anyone in this industry who hasn't wished they had a way to verify they or their crew is at the right property," Bryant says. "We want to make sure that we are at the right property."



The Value Added

Adopting a standardized vendor compliance background check has several benefits; the most obvious of course is preventing the CFPB from imposing its own industry solution. More importantly, accepting a standardized background check is right for the industry. A NAMFS endorsed standardized background check system adds a level of professionalism that previously didn't exist for mortgage field service professionals.

For field service vendors and their network of contractors, standardized background checks will lessen the expense of doing business.

Until now individuals have had to pay for multiple background checks to satisfy different clients and work providers. A universally accepted, one-size-fits-all program translates into money saved.

"The industry standard background check solution obtainable from Aspen iRecord™ allows our members to secure one standardized and compliant background check and reuse it over and over again with multiple organizations," Miller says.

There is a substantial upside to adopting the working group's plan aside from burnishing a field service vendor's professional profile. Using the industry's standardized background check assures potential clients their company is a safe business partner to the consumers and the neighborhoods in which they live.

"These are steps that move us in the direction of more accountability and a higher level of confidence," Bryant says. "I believe this is a win/win for the field services industry."

Conclusion

Aspen iRecord™ is to be welcomed by financial institutions, service providers, and consumers as a much needed standardized solution that provides a win/win scenario for all who wish to remain compliant in today's heightened regulatory environment.

If you are interested to learn more on how Aspen iRecord™ can help your organization or industry to develop and improve vendor compliance management, log on to www.aspenirecord.com

About Aspen Grove Solutions

Aspen Grove Solutions, founded in 1997, is an end-to-end property solutions software firm delivering high speed to value for its clients. They apply simplicity and process to the complexity of managing properties, compliance, vendors and third party suppliers in the areas of distressed assets and sales; inspections and field services.



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