

## **INTERNATIONAL BUSINESS PROCESS OUTSOURCING IS GROWING: FOR U.S. MORTGAGE SECURITIZATION SERVICERS**

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### **SUMMARY OPINION**

Moving some business operations overseas, if implemented successfully, can provide benefits to mortgage servicers. Attracted by the prospect of a large, low-cost, well-educated, English-speaking labor pool, a growing number of servicers have gravitated toward offshore locations such as India. Technology has facilitated this growth, in particular the decreasing cost and greater availability of fast, reliable and secured data transmission lines. FAB Infosolutions expects the trend toward shifting operations overseas to expand, and potentially shift to other locations as competition for labor drives up the costs in popular offshore destinations.

To build a successful operation overseas, servicers must effectively anticipate and address the challenges that are inherent in offshore operations such as additional training, high employee turnover, safeguarding of borrower information, and long-distance management. FAB Infosolutions believes that larger firms are likely to be more willing, and able, to make the large-scale investments necessary for creating captive operations overseas, while smaller firms may need to rely on third-party business process outsourcing (BPO) companies to assist them in shifting their operations offshore.

In assessing the performance of servicers with overseas operations, FAB Infosolutions evaluates the performance achieved within those operations, as well as the effectiveness of the policies and procedures that the companies have established to address specific challenges posed by offshore operations.

### **INTERNATIONAL MORTGAGE SERVICER OUTSOURCING**

Although it still represents a relatively small portion of the overall operations of the U.S. mortgage servicing industry, international business process outsourcing (often referred to as off shoring) has been a growing phenomenon in mortgage servicing during the past five years. At the time of this publication, of the 35 U.S. primary residential mortgage servicers that FAB Infosolutions publicly rates (securitization servicers), nine had offshore operations. Of these, seven servicers have outsourced customer contact functions overseas, including six servicers that outsourced portions of their collections function.

The processes being moved offshore vary from servicer to servicer, and range from customer contact functions, such as customer service and collections, to purely back-office tasks such as document imaging, loan payoff quote preparation, and foreclosure and real estate owned (REO) vendor management. Servicers tend to retain in the U.S. those functions that they view to be core competencies, such as late-stage collections or loss mitigation. To ease their entry into overseas markets, a number of securitization servicers that FAB Infosolutions rates have partnered with local BPO providers, while others have created their own operating units.

Of FAB Infosolutions rated U.S. securitization servicers that have offshore operations, the percentage of staff that is located internationally ranges from less than 10% to a majority of total personnel. India remains the most popular site for off shoring, although some servicers have outsourced to other English-speaking locations such as the Philippines, or to Spanish-speaking locations such as Costa Rica.

Most securitization servicers that have taken their operations offshore have reported overall satisfactory results and many intend to further develop their international infrastructure. FAB Infosolutions reviews servicers' key offshore operations on an annual basis, typically either by conducting site visits or through conference calls with key management personnel. The review encompasses an operational assessment of the offshore site, as well as a quantitative analysis. The review includes a special focus on those portions of the operation that have direct customer contact.

### **POTENTIAL BENEFITS OF INTERNATIONAL OUTSOURCING**

Cost reduction is cited by most mortgage servicers as the main driver for the decision to go offshore. Servicers have found that labor costs at offshore locations can be as low as one-third of their U.S. cost. These lower labor costs enable some firms to hire a larger staff than is immediately necessary, often providing a 10% to 20% buffer to mitigate the effects of turnover. This buffer also allows servicers to readily reassign personnel to focus on temporary business needs, while maintaining an overall low-cost basis. If a servicer is undergoing high portfolio growth or experiencing a temporary spike in call volume, this flexibility becomes especially valuable.

Another potential advantage of offshore sites is that they can be in different time zones than the U.S., offering servicers a relatively low-cost means of extending their call centers' hours of operation and improving turn-around time in non-call-center functions. For example, India, currently the most popular destination for offshoring, has a nine-to-thirteen-hour time difference with the U.S. This allows servicers to extend more easily their hours of operations beyond standard business hours in U.S. sites alone. Extended hours may be beneficial to servicers' collection efforts through greater coverage of evening and weekend hours. Longer hours also allow servicers to provide borrowers with more accessible customer service.

FAB Infosolutions has found that improved time coverage can play an important role in improving call center metrics, such as abandonment rates and right-party contact rates. Finally, offshoring allows servicers to increase more easily the availability of back-office operations, potentially improving document turn around time.

### **POTENTIAL CHALLENGES OF INTERNATIONAL OUTSOURCING**

One of the primary hurdles that international outsourcers face is the significant investment in telecommunications and information technology required for an offshore presence. Because larger companies can better take advantage of economies of scale to offset these high fixed costs, offshoring typically makes the most business sense for larger rather than smaller servicers.

Another hurdle is the sometimes extensive training necessary to address overseas personnel's lack of mortgage servicing expertise and familiarity with U.S. business practices. In addition, even in English-speaking countries the accents and use of language of call center employees sometimes may be unfamiliar to U.S. customers, making communication more difficult. Due to the increasing demand for labor by call centers in popular offshore sites, such as India, it has become increasingly difficult for servicers to retain trained, high-quality personnel. While U.S. call centers are also typically plagued by high turnover rates, the intense competition for experienced call center personnel in offshore locations has resulted in even higher turnover rates than are commonly found in the U.S., and has created some unique employee retention issues for servicers.

For example, job abandonment, the practice of quitting a job immediately after payday without giving an employer notice, is a more common occurrence in offshore call centers. With annualized turnover rates as high as 100%, servicers are forced into a constant cycle of recruiting and training new employees, making it difficult to create and maintain a consistently high-quality servicing organization.

An additional offshoring challenge is the safeguarding of borrowers' information. To address this challenge, most of the securitization servicers with offshore operations that FAB Infosolutions rates have instituted a set of strict procedures to protect the security of borrowers' information. The measures taken include clean desk policies, random desk audits, and metal detectors at facility entrances.

Finally, long-distance management oversight of an international servicing operation can present additional challenges. Due to the considerable distance between a servicer's U.S. operations and its offshore site, a servicer must commit additional resources to the monitoring process in order to maintain servicing quality at a level consistent with U.S. operations.



## **MAKING IT WORK — MITIGATING POTENTIAL PITFALLS**

FAB Infosolutions believes that the steps to a successful overseas operation begin with a strong commitment to training, employee retention, safeguarding of information and monitoring.

### **Training**

Though servicers in the U.S. also typically make substantial investments in screening and training their employees, the costs may be higher abroad. Particularly in the initial stages of implementing offshore operations, U.S.- based trainers may need to be sent overseas to organize training programs, which generally last one to two weeks longer than new-hire training programs in the U.S. The training and coaching continues throughout the employee's tenure, as servicers often focus on accent and ease of understanding in monitoring calls of offshore staff to mitigate potential issues in customer communication. In addition to accent reduction classes, employees also participate in training on such topics as U.S. culture and business practices.

### **Staffing**

Securitization servicers have addressed the large and continuous hiring needs of an overseas operation through a more extensive initial screening process than servicers currently utilize in their U.S. operations. Potential hires, typically, go through cognitive and profile testing prior to a formal interview to ensure an appropriate fit for each position. To further mitigate the problems of high turnover and job abandonment, servicers place a heavy emphasis on employee referrals in the offshore hiring process. Servicers provide their employees with referral incentives in order to attract candidates to their operation and typically hire more than 20% of their staff through employee referral programs, which tend to attract higher-quality workers.

Employers also require new hires to produce a "release of employment" form, a document the candidate needs to attain from the previous employer before leaving the firm. Reviewing this form allows the hiring manager to screen out candidates who abandoned their previous positions. Given the high turnover prevalent in the industry, employee retention is a major concern for servicers. Many servicers over-staff to maintain a cushion of labor to compensate for employee turnover. Servicers also mitigate this issue with policies such as providing tuition reimbursements, using performance-based incentives and quality recognition programs, and encouraging promotion from within. FAB Infosolutions believes that a combination of these and other programs may assist servicers in retaining their servicing personnel.

## **Data Security**

To address data security, servicers have implemented a number of upgrades to their processes including securing and monitoring access to their facilities through electronic key cards and video cameras, installing employee lockers where personal belongings must be stored, and requiring the signing of formal confidentiality agreements. Except for the cash management facilities of some servicers, many of the precautions found in offshore servicing operations represent a more rigorous security policy than commonly found in the U.S.

In addition, FAB Infosolutions noted that employees of offshore operations do not have access to output devices such as storage drives, printers or the Internet, and any violation of security policy may result in immediate termination. Finally, servicers typically house their major operating systems in the U.S. and do not utilize offshore locations for data storage.

## **Management**

A management structure that can oversee far-flung operations and quality control, and maintain effective communication between sites, is crucial to ensure consistency in servicing quality and to maintain effective controls in the monitoring of an offshore call center. To maintain consistent calling strategies, for example, collections campaigns are typically determined in the U.S office and communicated to the offshore location.

Additionally, supplemental internal audit and quality assurance programs may be necessary to assess the additional risks involved in operating within each offshore location. Successful oversight of international operations may require dedicating senior managers to the task, both in the U.S. and at offshore sites. FAB Infosolutions believes that a rigorous monitoring and oversight program as well as ongoing internal communications between head- quarters and the offshore site are critical to the success of an offshore operation.

Overall, FAB Infosolutions has found that off shoring can involve substantial commitment and investment by the servicer. If international operations are not closely monitored and managed by the servicer, the benefits of lower labor costs can be eroded quickly if issues such as employee turnover, staffing, quality control and borrower security are not managed properly. Despite these challenges, a number of servicers have yielded quantifiable benefits from their offshore operations.