



Executive Summary:

Opportunities Exist to Enhance the Board's Oversight of Future Complex Enforcement Actions

2014-SR-B-015

September 30, 2014

Purpose

The Board of Governors of the Federal Reserve System (Board) and the Office of the Comptroller of the Currency (OCC) negotiated a payment agreement with mortgage servicers to amend requirements in consent orders that address deficient mortgage loan servicing and foreclosure processing practices. Our objectives for this evaluation were to (1) evaluate the Board's overall approach to oversight of the amended consent orders, (2) determine the effectiveness of the Board's oversight of the slotting process, and (3) determine the effectiveness of the Board's oversight of the servicers' paying agent, Rust Consulting, Inc.

Background

The payment agreement replaced some requirements in consent orders that the Board, the OCC, and other agencies issued in 2011 and 2012, which established the Independent Foreclosure Review—a prior effort to identify and remediate actual harm to borrowers. In January 2013, the Board, the OCC, and 13 mortgage servicers agreed to the payment agreement. In February 2013, the Board and OCC issued amended consent orders that required the servicers to provide about \$3.67 billion in payments to nearly 4.2 million borrowers based on possible harm and to provide other foreclosure prevention assistance.

Findings

The Board's advance preparation and planning efforts for the payment agreement with the 13 servicers that joined the agreement in January 2013 were not commensurate with the complexity associated with this unprecedented interagency effort to remedy possible harm at an individual borrower level for nearly 4.2 million borrowers. This enforcement approach involved multiple mortgage servicers supervised by the Board and the OCC. Further, three Reserve Banks had responsibility for monitoring five servicers' implementation efforts.

In addition, project management resources were not available to the Board's oversight team for this initiative to assist in guiding and supporting this large, complex initiative. We believe that complex initiatives could be better supported with a staffing plan that includes project management resources. Such an approach would allow a project management office to guide an initiative from planning through execution with support and direction from senior Board officials and may limit the need for official staff to engage in daily oversight activities during the execution phase.

The payment agreement required servicers to slot borrowers into categories of possible harm—with payment amounts set for each category—that were defined by Board and OCC staff. While we did not seek to validate the results of the slotting exercise at an individual-borrower level, we found that data integrity issues at two mortgage servicers impacted the reliability and consistency of the slotting results. These issues may have resulted in borrowers who experienced similar harm receiving different payment amounts. We also determined that the Board has not selected its approach to end the payment agreement.

Despite these challenges and limitations, as of August 15, 2014, borrowers of the 13 servicers that joined the payment agreement in January 2013 had cashed or deposited checks representing about \$3.15 billion, or approximately 86 percent, of the total \$3.67 billion.

Recommendations

We made five recommendations to improve the Board's oversight of future complex enforcement strategies. In its response to a draft of our report, the Board generally agreed with our recommendations and noted the corrective actions that it has implemented or intends to implement.

Access the full report: <http://oig.federalreserve.gov/reports/board-future-complex-enforcement-actions-oversight-sep2014.htm>

For more information, contact the OIG at 202-973-5000 or visit <http://oig.federalreserve.gov>.