October 31, 2022

Federal Housing Finance Agency
400 7th Street SW
5th Floor
Washington, DC 20219

Re: Fintech in Housing Finance: Request For Information

To Whom It May Concern:

Thank you for the opportunity to submit a response to the Federal Housing Finance Agency's (FHFA) Request for Information ("the RFI") on the role of technology in housing finance. We applaud the FHFA for taking the initiative to establish the Office of Financial Technology and view this is an important milestone in the evolution of the agency. While technology long has played a role in the origination and servicing of mortgage loans, technological advances made over the last decade have significantly changed how consumers expect to navigate the home buying and home ownership processes. Moreover, a proliferation of services in both the originations and servicing markets has fundamentally changed how mortgage operators provide their services to consumer. Sagent is pleased to have this opportunity to provide comments on the RFI and looks forward to continued engagement with the FHFA on this important topic.

Background

Sagent is a software as a service (SaaS) technology company that provides technology solutions to mortgage and consumer loan servicers. Our platform powers the servicing experience for over 12 million consumers, representing approximately 2 trillion of unpaid balances for over 30 clients, including large and regional depository banks, publicly traded and independent non-bank mortgage companies, credit unions, and consumer lenders.

Sagent's products straddle both the operator and consumer segments of the mortgage servicing market. In the B2B (operator) space, our servicing and default platforms, LoanServ and Tempo, handle all activities associated with both performing and non-performing loans. Users of these products are servicing and subservicing operators who rely on our systems to perform tasks in compliance with federal rules and guidelines established by guarantors including Fannie Mae, Freddie Mac, and Ginnie Mae, as well as for private investors. Also in the B2B space, our Datascape product provides servicers with ready access to their mortgage data for the purposes of managing business operations and deriving insights around portfolio performance and our LoanBoard product helps facilitate the transfer of loans from origination platforms to our servicing platform.

In the B2B2C (consumer) product segment, our CARE platform (CARE stands for Consumer Attention, Retention, and Engagement) provides a consumer interface that allows for management of payments, escrows, and other digital banking services. CARE is offered as a white label product, meaning it can be customized by the servicer to provide a look and feel consistent with their brand as well as with additional features and functions to help enhance the consumer servicing experience.

Of note, in February 2022, Sagent announced a partnership with Mr. Cooper to develop the industry's first cloud-native, homeowner-first servicing platform.[1] Our partnership with Mr. Cooper is a unique opportunity to develop the next generation of financial technology to serve both the B2B and the B2B2C segments of the market.

The Problem Sagent is Trying to Solve in Mortgage Servicing Technology

For many decades financial institutions have been managing the mortgage asset by collecting payments, managing taxes and escrow, remitting monies to investors and insurers, and taking assets back when a borrower could not pay. In the period leading up to the 2008 financial crisis, this technology, which was designed for payment processing and asset accounting, was sufficient to meet the needs of the servicing industry.

During the great recession the industry was faced with more delinquent assets than it could manage and minimal rules governing the process of working through them. As lenders, servicers, and regulators struggled through the resulting chaos, the industry dramatically changed. In short order, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) delivered the Consumer Financial Protection Bureau (CFPB) and inspired the Independent Foreclosure Review, the National Mortgage Settlement, the birth of the Real Estate Settlement Procedures Act (Reg X) and the Truth in Lending Act (Reg Z), and a fast series of enhanced state consumer protection laws and investor/insurer requirements quickly followed.

Overnight, mortgage servicing operators were expected to evolve into sophisticated managers of risk and information, scholars of enhanced legal requirements, and six sigma experts to ensure that where the law meets the process there were no mistakes. Servicers had to hire more people and attempt to develop human-dependent ways to keep up with the ever-increasing regulatory expectations. Ultimately, regulators held the servicing community accountable for its failure to meet these new expectations with lookbacks, civil money penalties, and redress obligations in the tens to hundreds of millions of dollars.

The rules changed, and while servicers tried to change, the core technology remained the same, limiting the ability to the industry to effectively adapt to the new paradigm. In the years to follow, delinquency substantially decreased and with it, the industry lost many of its best people. The regulatory environment became even more intense but lacked technical or other solutions to keep pace and servicers in general failed to meet regulatory or consumer expectations. Saddled with aging, expensive technology stacks and low morale, servicing became a break-even at best business, with limited opportunity for investment or enhancement.

Servicers have been scrambling for over a decade for incremental operational, band-aid workflow, and wrap-around solutions to plug the holes where the core legacy technology

[1] https://sagent.com/2022/02/11/mr-cooper-sagent-partner-create-mortgage-industry-first-cloud-native-servicing-platform/

has not evolved. In the wake of COVID-19's insurgence, servicers are left with more problems, wrap-around solutions, and more legal changes than the industry has ever seen.

Servicing has become a series of fragmented, human-controlled processes facilitated by legacy technology never designed for the level of control and scrutiny that today's market demands. Consumers are disconnected from the process and do not trust and understand that the servicer does not want to foreclose. Even when a servicer is proactively attempting to assist a consumer in financial distress, the consumer is reluctant to believe it. Operators struggle to juggle the regulatory, financial, and consumer sides of their business – with legacy technology, there is no clear path out of this maze. Executives spend millions of dollars on workaround workflow solutions, attempting to bring efficiency to the operations, but often creating un-auditable blind spots and more work. Regulators are penalizing servicers for their failure to keep up with existing requirements, while simultaneously developing higher-bar requirements making the pursuit of actual compliance a Sisyphean task.

Sagent's Perspective on Fintech and Responsible Innovation

FHFA RFI focuses on two key terms, *fintech* and *responsible innovation*. Sagent's perspective on fintech generally and the RFI specifically is guided by our experience providing software products that serve mortgage operators (the B2B segment) and consumers (the B2B2C segments). Below we explore these terms in greater detail and offer a framework for how FHFA should consider both based on our experience operating SaaS platforms.

Defining Fintech

We believe that the term "fintech" is more often associated with consumer experience in shopping and obtaining financing for a product, particularly given that much of what has been written in recent years about fintech has been focused on the loan origination component of the consumer financial journey[2]. While the origination process is an important facet of the housing finance journey, it has a defined end and typically lasts less than 60 days. By contrast, the consumer relationship with their mortgage servicer can last years, if not decades, but is unique in the sense that (1) borrowers do not have a choice of who services their mortgage, and (2) borrowers can exit the servicing relationship at any time by selling their home or refinancing with another lender, often without prepayment penalty.

As such, in our response, we advocate for a more expansive understanding of fintech that takes into account the important role of mortgage servicing in the homeownership journey as well as the needs of the mortgage operator, who is also a consumer of financial technology.

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[2] A 2018 staff report by the Federal Reserve Bank of New York (FRBNY) defined a "Fintech Lender" as one that "offer[s] an application process that can be completed entirely online."[2] The US Treasury offered a similar definition of fintech in its 2018 white paper on nonbank financial operators, defining the sector as "play[ing] important roles in providing financial services to U.S. consumers and businesses by providing credit to the economy across a wide range of retail and commercial asset classes."[2] If one were to look at the FRBNY and US Treasury white papers alone, it could be easy to conclude that fintech only applies to the extension of credit or facilitation of lending and payment services for the benefit of the consumer. While there is nothing fundamentally wrong with this view, its bias toward loan origination excludes the important role of *mortgage servicing* in the housing finance ecosystem.

We note that FHFA presents two ways to think about fintech in its RFP. In the broadest sense, the FHFA defines fintech as "the application of new technologies to the production or provision of financial services and products." Within this definition, the RFP offers a narrower subset definition of "mortgage tech" that includes the technologies in mortgage origination, underwriting, servicing, investment, and other associated businesses.[3] We would argue that all mortgage tech is inherently fintech and respectfully suggest that any segmentation adds undue confusion to what constitutes fintech.

The Important Role of Mortgage Servicing in the Homeownership Journey
Once the origination process is complete, the servicer becomes the key intermediary for all the consumer's needs and must perform these functions in a manner that is compliant with regulations and investor requirements.

When things are good for the consumer and defaults are low, the role of the servicer is to collect payments, provide statements, ensure investors and escrows are paid, and field general questions and complaints. However, when the consumer experiences financial hardship, it is the servicer's responsibility to help the consumer navigate options to help preserve their home and avoid foreclosure.

A recent example of the important role played by servicers in the mortgage ecosystem is the role they [servicers] played in administering the payment relief and credit protection provisions authorized in the Coronavirus Aid, Relief, and Economic Security (CARES) Act that became law in March of 2020.[4] As noted by the CFPB in subsequent reviews of mortgage servicing during the pandemic, high call volumes (at a time when everyone was switching to remote work) resulted in significant confusion around what forbearance was, how one would enter, and subsequently, how one would exit.[5] Servicers played a critical role not only forbearance when needed, but also helping them to navigate post-forbearance options when the forbearance period ran out.

When it comes to deployment of technology in the servicing segment, Sagent's CARE platform has become a critical interface between the consumer and servicer, allowing for a digital servicing experience that can help the consumer quickly and easily access mortgage statements, make payments, and interact with their servicer. Though not often seen as fintech solution, we see our CARE platform as a key product that helps to drive additional digital adoption, reduce costs, speed up turn times, and improve the overall consumer experience in mortgage servicing.

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[3] FHFA RFP, p 3
[4] P.L. 116-136 allowed consumers to enter into mortgage forbearance for up to 12 months with no negative reporting on their credit files. Certain borrowers who entered forbearance in mid-2020 were permitted to stay on forbearance for up to 18 months. As of this writing, consumers are still allowed to entire (and in some cases re-enter) forbearance.
[5] See CFP Mortgage Servicing COVID-19 Pandemic Response Metrics available at https://files.consumerfinance.gov/f/documents/cfpb_mortgage-servicing-covid-19-pandemic-response-metrics_report_2021-08.pdf

Reflecting on the most recent experience with servicing during a pandemic, there are many use cases for how fintech solutions, like CARE, can assist borrowers in need by offering self-service options for requesting forbearance entry/exit and giving access to a set of frequently asked questions published by the servicer. Given the rise of environmental events like floods, fires, and hurricanes, there are additional use cases where a B2B2C product can deployed in a manner that means a borrower does not need to get on the phone with their servicer.

The Needs of the Mortgage Operator
In both originations and servicing, there is a mortgage operator who sits opposite of the consumer to help them navigate both the home buying and home owning process. Though often not thought of when it comes to conversations about fintech, these operators are not only consumers of financial technology, but also play a critical role in ensuring a well-functioning housing ecosystem.

Mortgage servicing technology platforms like Sagent's LoanServ product play a vital role in ensuring that payments are property routed, consumer credit is accurately reported, escrow funds are paid on time, and investors receive precise information as to the status of the loans they guarantee. Inaccuracy in any of these areas directly impacts consumers, investors, and the GSEs to name a few. With the advent of better underwriting guardrails from Dodd-Frank, consumer defaults remain at historic lows, meaning the vast majority of consumers will never encounter financial difficulty during their home ownership journey. However, when a loan stops performing, it is the servicer who must step in to bring the loan back to performing status or usher the consumer(s) through a loss mitigation waterfall before pursuing foreclosure. The complicated nature of this job means that it *cannot* be done at scale accurately without the assistance of technology. In this way, servicers bridge the gap between homeowners and the investors who provide the capital that fuels the U.S. housing finance system.

Unfortunately, legacy systems have made the transition to better technology for the mortgage servicing operator difficult. Mortgage servicers have been forced to build proprietary solutions that solve for gaps in enterprise systems and more easily extract data. Sagent's goal for the future of mortgage servicing tech is defined by the mantra "*humans where necessary servicing*." We believe that modern tech can automate functions that require manual work today, allowing the servicer to reduce costs and focus on exception cases where the consumer has the greatest need. Our view is that mortgage servicing data should be easy to access for the servicing operator, providing them with access to the information they need to run their business and drive a better experience for the consumer.

Responsible Innovation

The other issue highlighted in the RFP is the facilitation of responsible innovation. As conservator of the Enterprises, FHFA is keenly aware of the risk presented by lenders and servicers who constitute third party risk to the GSEs. There are thousands of lenders and servicers who are counterparties to both Fannie Mae and Freddie Mac; these lenders and their employees must use mortgage technology solutions each day in the course of their work. Well-designed technology that can automate manual tasks, digitize paper processes, and scale quickly reduces risk to the GSEs; conversely, poorly designed technology does just the opposite and poses greater risk to the Enterprises.

Moreover a recent FHFA OIG report details so called 4th party risk to the enterprises; while the context of this risk was generally oriented toward cloud computing providers, we believe that other technology providers also provide 4th party risk to the GSEs.[6] Given the proliferation of mortgage technology companies who provide key origination and servicing solutions, we believe the focus on responsible innovation needs to consider how the technology utilized by the mortgage operator creates or reduces risk for the Enterprises. The GSEs rely on counterparties (lenders and services) who in turn rely on technology solutions to facilitate the work of lending and servicing mortgages. How well these solutions operate is directly correlated to the risk the GSEs encounter in the course of normal business. In this sense, mortgage technology should be seen not just as an offering that is on the same level as other consumer-oriented fintech products in the market, but as a critical component in the manufacture and proper servicing of loans guaranteed Enterprises.

As a technology provider, compliance with industry regulations and investor requirements is top of mind in everything that we do. Any time laws, regulations, or investor requirements change, Sagent must adapt its systems to ensure that its clients can continue to operate in a manner that conforms to these standards. Similar to any lender or servicer, when regulatory or investor changes are announced, Sagent employs a change management process that brings together our product, compliance, and software development teams to understand the change, which parts of the system that are impacted, and what must be done in order to bring the system into compliance. This process begins the software development lifecycle (SDLC).

In the context of responsible innovation, we believe FHFA needs to expand the universe of stakeholder engagement to include not just the lenders and servicers who they work with each day, but technology providers who provide origination, servicing, point of sale, and other tech solutions that are being used more broadly in the industry. Any engagement model must consider how Enterprise policy changes, broader regulatory policy changes (e.g. originations or servicing requirements promulged by the CFPB), and state regulation are ingested by technology providers in order to provide safe and compliant solutions to the industry. Technology providers should be engaged along side lending / servicing clients with FHFA and the Enterprises to understand: 1) the scope of proposed changes, 2) the intention / goal of proposed changes, and 3) timelines along which these changes will take place. Doing so will help to establish timelines for implementation of key changes that take into account time to deliver software updates and effectuate change in operating policies and procedures.

[6] See FHFA OIG report: https://www.fhfaoig.gov/sites/default/files/WPR-2022-001.pdf

Conclusion

On behalf of Sagent's employees and clients, I would like to again thank FHFA for the opportunity to engage on the important topic of the role of fintech in our housing ecosystem. We are encouraged by the creation of the Office of Financial Technology and welcome the opportunity to engage on this topic in the years ahead.

Sincerely,

Courtney Thompson
Chief Product Officer

Questions

A. Fintech and Innovation

Question A.1:	How do primary and secondary mortgage market participants define fintech in the housing sector? What key factors should be considered?
Answer:	We believe the notion of fintech has been primarily understood in the context of the extension of consumer credit in the originations process. While this is obviously an important aspect of the homeownership lifecycle, we advocate for a more expansive definition that includes how technology can be deployed to improve the consumer servicing experience. In addition, we believe that fintech should not be limited just to the consumer experience, but must also take into account the needs of the mortgage operator.

Question A.2:	How could FHFA facilitate adoption of "responsible innovation?"
Answer:	FHFA should include technology providers as a dedicated stakeholder constituency with which it engages on a regular basis. When policy updates are made by the Enterprises, (or other regulatory bodies) these changes must also be made in loan origination and servicing systems. Technology companies deploy software development lifecycles (SDLCs) to incorporate changes into technology platforms. At Sagent, servicing policy updates are treated as high priority and are deployed as quickly as possible. Engagement with technology platforms can help the Enterprises understand reasonable timeline for deployment of updates as well as other operational challenges that can arise from these changes.

Question A.3:	What factors currently inhibit the adoption of fintech innovation in the primary and secondary housing finance sector? Are there specific challenges related to privacy laws, industry standards, or current practices?"
Answer:	Mortgage servicing by its very nature is complex and highly regulated. As noted is the response to Question A.2, policy changes by the Enterprises are treated with great sensitivity by lenders and servicers to ensure they are deployed and put into operation accurately. Incorrect reporting, inaccurate data, or other errors can result in consumer harm / confusion and also have implications to lender scorecards that carry financial or other penalties.

	Industry standards by their nature can help establish a baseline expectation for how changes are made and implemented. We believe technology providers should be held to the highest possible standards when it comes to operating in compliance with industry laws, regulations, and guidelines. This means maintaining robust change management processes, utilizing third party testing, and adhering to best practices around System and Operational Control (SOC) testing by engaging in SOC1 and SOC2 audits. Additionally, legacy systems have forced servicers to build proprietary solutions to solve for gaps in enterprise systems. This makes the transition to better technology difficult as it is a complex, time consuming, and resource heavy effort to ensure nothing is broken upstream/downstream. Often servicers do not believe the implementation effort is worth the gain. Sagent believes that servicing platforms should be open source and allow for better access to mortgage data. If it is fundamentally difficult for servicers to access their data, it will be harder to understand what is happening in a given portfolio.

B. *Identifying Fintech Opportunities in the Housing Finance Ecosystem*

Question B.1:	What kind of fintech activities have the greatest potential to positively impact the housing finance sector? Describe several situations in which a product or service has been or could be used, the factors considered in determining importance, and associated impacts.
Answer:	We believe that modern tech can automate functions that require manual work today and enhance back and forth between the servicer and the borrower. This will allow the servicer to reduce costs and focus on exception cases where the consumer has the greatest need. Situations in which modern technology could be used include (not limited to): electronic applications, eSign/eNotarization, and online form submissions. Generally, servicers prioritize technology integrations based on number of borrowers impacted as compared to amount of time saved for the servicer, consumer, third-party vendors, etc.

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Question B.2:	What are the typical time requirements of each process withing the mortgage lifecycle? What are the "critical path" activities that drive the mortgage timeline and borrower expense? How could fintech be applied to improve efficiency, reduce costs, reduce time requirements, or facilitate equitable outcomes for borrowers?
Answer:	Timeline requirements of many key servicing processes are driven by regulatory, investor/insurer, and state law requirements. Our view is that mortgage servicing data should be easy to access for the servicing operator, investors/insurers, vendor partners, etc. providing them with information that need to the information they need to run their business more efficiently, drive a better experience for the consumer, and meet or exceed critical timeline requirements.

Question B.3:	What are the typical drivers of repetitive requests to borrowers or reevaluation of underwriting information by the lender in the mortgage process, and what opportunities exist to automate processes?
Answer:	Given how disconnected borrowers are from the servicing process, they are often reluctant to believe that the servicer is well intended. This results in feelings of mistrust, complaints, call backs, etc. Automating processes and creating more self-service options in modern technology would provide the borrower with more confidence and trust in the relationship with their servicer.

Question B.4:	What are the existing data challenges that most prevent data-driven decision-making in the mortgage lifecycle?
Answer:	There is a lack of servicing data standards; wherein, each servicer defines their own data elements. Given the inconsistency in data from servicer to servicer, regulators and investors/insurers are challenged in understanding what is happening in servicer portfolios cannot swiftly compare servicer performance. Inconsistency in data is a particular challenge when loans are service transferred.

Question B.5:	What are the existing regulatory and policy barriers to adopting and implementing fintech within the mortgage lifecycle?

Answer:	Regulators are penalizing servicers for their failure to keep up with existing requirements while simultaneously developing higher-bar requirements. Adopting and implementing fintech solutions is often a method servicers take to comply with the rapid changing, inconsistent, rule environment. Many fintech companies are also challenged to keep up which requires the servicer to create interim work around solutions and robust oversight programs.

C. *Equitable Access to Mortgage Credit*

Question C.1:	What new fintech tools and techniques are emerging that could further equitable access to mortgage credit and sustainable homeownership? Which offer the most promise? What risks do the new technologies present?
Answer:	Sagent's borrower portal, CARE, provides a consumer with direct access to all of their loan data. We are seeing interest in adding additional functionality to facilitate financial planning, accessing credit (HELOC, home equity loans etc.) that will allow CARE to be used as a financial planning tool. As noted in our response above, our CARE portal can also serve as a conduit to the borrower, providing an opportunity for the consumer to reach the servicer when assistance is needed without having to get on the phone.

D. *Identifying and Mitigating Fintech Risks*

Question D.1:	What risks do fintech and fintech firms present to the economy and the financial sector? To the housing finance sector? To FHFA-regulated entities? To counterparties of FHFA-regulated entities and other third parties? To mortgage borrowers and consumers?
Answer:	While there is great promise with the deployment of technology to drive the consumer and operator experience, we see concentration risk as the biggest threat to the constituencies outlines in this question: 1) To the economy generally and housing finance sector specifically: innovation is possible when companies like Sagent have an opportunity to build new technologies and compete for business on a level playing field. To the extent possible, FHFA should seek to avoid consolidation among technology providers; if certain providers are allowed to gain unfair market share through mergers or acquisitions, we believe the incentive to

	develop new, competitive solutions will diminish and ultimately hurt the ability to drive further innovation in this space. 2) To the regulated entities: we see risk in their ability to get data out tech platforms who see the data as their own (vs. belonging to the lenders, servicers, or investors). 3) To counterparties: dominant platforms will make switching hard and lock consumers into long term contracts that prevent them from moving to better platforms. 4) Borrowers and consumers: lack of innovation that results in less satisfaction and worse outcomes.

Question D.2:	What risk management practices do industry participants use to address risks posed by fintech and innovation in housing finance?
Answer:	Risk management is core to the problems we are trying to solve. Fragmentation in the mortgage ecosystem resulting from legacy technology solutions drives how mortgage services manage risk today. Standardizing mortgage data, providing the servicer with access to this data, and designing technology that facilitates *humans where necessary* servicing will help to solve this challenge.

Question D.3:	What particular risks to consumer privacy have been associated with fintech? What practices are being used to manage these risks?
Answer:	Lenders expect that technology providers adhere to best practices when keep consumer's data safe and secure. Control audits (SOC 1 and SOC 2) provide assurance that fintech companies have sufficient controls in place to keep consumer data safe.

E. *Office of Financial Technology Activities and Stakeholder Engagement*

Question F.1:	What forms of stakeholder engagement are most effective in facilitating open, timely, and continuous discussion on the challenges and opportunities presented by the application of fintech to housing finance?
Answer:	Technology providers must be kept in continuous dialogue with the FHFA and Enterprises to understand goals and objectives around changes to investor guidelines and other desired technology improvements.