

Preparing for a Successful MERS® Audit

BY JOHN POMARANSKI

Any audit, whether it is from your regulator or your internal audit group, is important. How you prepare and manage the audit is just as important as passing the audit. Your MERS® audit is one of those important audits. For your MERS® audit, it is all about the Mortgage Identification Numbers (MINs), an 18-digit number that uniquely identifies a mortgage loan registered on the MERS® System. A MIN is permanently assigned to a mortgage at registration and cannot be duplicated or reused. To process information on the MERS® System, you must enter the MIN. You should never have duplicate MINs.

When you have less than 1,000 MINs all you need to do is perform an internal certification for MERS®. You ensure that all your MERS® Quality Assurance policies and procedures are up to date and your staff is following these procedures. You send your certification to MERS along with an updated copy of your MERS® Quality Assurance procedures and you are good to go. You follow these steps until the number of MINs in your portfolio exceeds 1,000.

When you have MORE than 1,000 MINs you must engage a third party to review and certify your progress against your MERS® Quality Assurance plan. The party will perform a detailed quality assurance audit to certify the effectiveness of your organization's MERS® policies and procedures. Picking an auditor may seem easy. For some groups, it is not easy, especially if this is your first MERS® audit that needs to be completed by a third party.

STEPS FOR A SUCCESSFUL AUDIT

- 1 Choose an Auditor
- 2 Ensure Policies and Procedures are Current
- 3 Ensure Source System Matches MERS®
- 4 Ensure Signing Officer's Certification is Current
- 5 Maintain Periodic Internal Documentation



In the field of observation, chance favors only the prepared mind.

– Louis Pasteur

When preparing for your annual MERS® audit there are three major factors you should consider when selecting your auditor:

- > Experience
- > Cost
- > MERS® knowledge

When it comes to your MERS® auditor, you want someone who is knowledgeable in MERS® and all its idiosyncrasies. A knowledgeable auditor

will not only come in and perform your audit but they will also provide you with additional training and process improvements where necessary. All accredited auditors perform the same validation functions for MERS®. However, having an auditor who not only performs the audit but understands MERS®, the data, and the processes and concepts behind electronic mortgage registration is invaluable.

Value is important to every company and in today's economy, costs need to be monitored. The cost associated with a third-party audit is a strong consideration in choosing your auditor. Though important, cost should not be the only consideration for your selection. You may not get what you need, even though you pay for it.

A good auditor will come in and not only evaluate your procedures against your audit plan but offer solid recommendations for improvement and cost saving measures in your day-to-day activities. Additionally, they will provide training and discussions about MERS® best practices. Finally, they will create a relationship with your team so that even after an audit, should a question arise on process or MERS®, they will be available to answer questions and provide ongoing support.

Once you have selected your auditor, you face the more daunting prospect of preparing for an audit. The first thing you can do to prepare for your audit is to make sure your policies and procedures are up to date. The next most important thing you can do is to make sure you follow your own procedures. The first thing a good auditor will do is read your policies and procedures, i.e., your MERS® Quality Assurance Plan.

Your Quality Assurance Plan should have procedures for the following activities:

- Registration
- Reject/Warning
- System-to-System Reconciliation
- Transfers of Beneficial Rights (TOB)/Transfers of Servicing Rights (TOS)
- Corporate Resolution Management (CRM)

The auditor will compare your Quality Assurance Plan to the most recent procedures published by MERS®. The purpose of this comparison is to ensure that your procedures are up to date with all the latest MERS® requirements. Keeping your quality assurance plan up to date is an important measure in passing your MERS® audit.

The auditor will observe you perform each of these activities. They will compare how you perform the activity to the steps in your quality assurance plan. The activity performed should match the process steps. When the performance of the activity does not match your quality assurance procedures, then you will need to update your procedures so that you will pass your audit.

Remember the Pasteur quote? The next and what we consider to be the single most important thing you can do to ensure you have a successful audit is to make sure the data in your source system matches the MERS® registry exactly. This can be an overwhelming task and is the number one reason why clients

have audit findings. The auditor will randomly select 30 MINs and request to see the data in the source system for the 25 MERS®-required fields. The auditor will compare the data from the source system fields to the data in the MERS® registry. For example, if the borrower has a middle name in your system, they should have a middle name in MERS®; or if the property street in MERS® is “Main St.” then your property street in your source system should be “Main St.” MERS® does allow for abbreviations and non-abbreviations for “Street” vs “St.” These are considered a match for MERS®.

To prepare for the data reconciliation portion of the audit, it will be helpful to have a solid process in place and the MINs that fail are cleaned up prior to the audit. Actualize has found the following typical issues for our clients that resulted in audit findings and additional clean up:

- Internal process not capturing all required fields;
- Internal process not updating MERS® or source system with findings;
- Sub-servicer is not providing files required or ensuring the appropriate accuracy.

To save time and cost, these issues should be resolved prior to an audit, which typically means that you follow your own procedures.

Ensuring the authorized signing officers are certified and up to date should be simple but seems to cause findings for some of our clients. Actualize recommends creating a reminder to review the list of officers captured in MERS® and ensure they are updated with the required certifications each January. Those that are not up to date with their certifications should be reminded that they need to do their annual MERS® certifications in the coming year, prior to the next MERS® audit. If they are not currently signing any documentation, you should consider removing them to save time tracking down officers and making sure they are taking the proper CRM certifications. This will give you plenty of time to ensure you are ready for your MERS® audit.

MERS® QA standards require periodic internal audits of the data. The third-party auditor will review the documentation and ensure the internal audits are reviewing and sampling the required data per your QA plan. It is important before an external audit to make sure this process is being followed and the internal auditors and documentation are available during the third-party review.

There are numerous things to do to prepare for a MERS® audit, many of which are discussed here. Actualize has found it extremely helpful to an organization to have a single resource be responsible for preparation and coordination of all the MERS® activities. That person should be detail-oriented, organized, and, above all, patient. Keeping all the MERS® data up to date and in sync can be daunting, especially as your portfolio continues to grow. If you are putting in the effort to manage your MINs, it will be reflected in the audit. The annual audits should be a tool for your team to help you improve your processes and reduce costs, while at the same time ensuring you are managing your MERS® portfolio accurately and efficiently.

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