

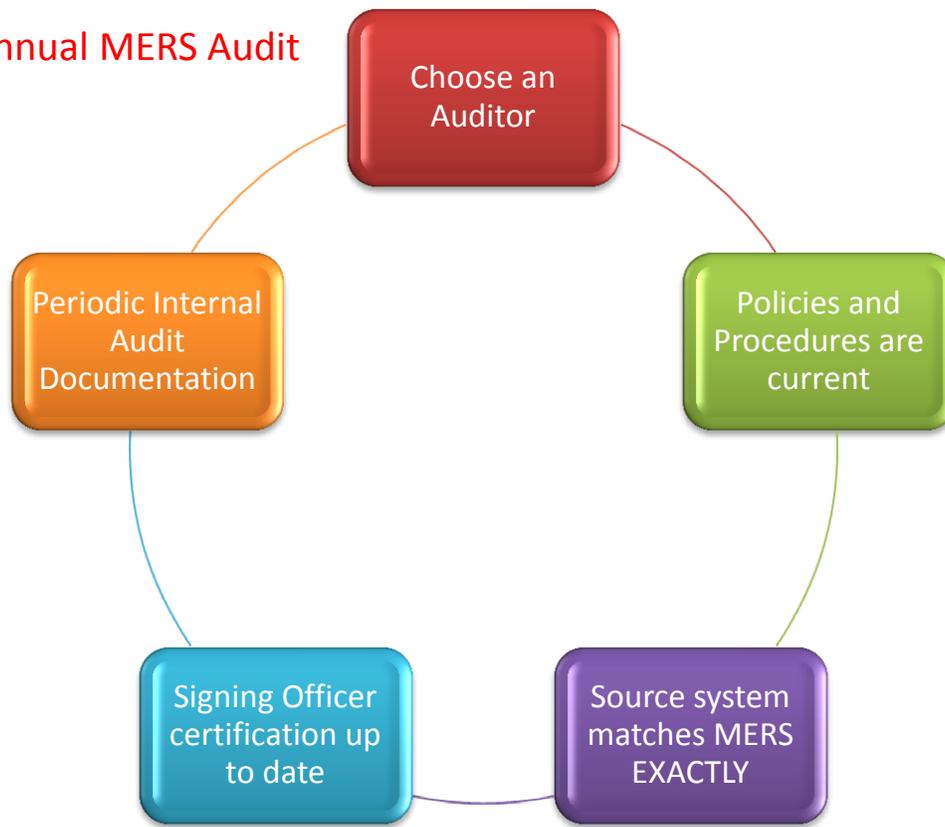
## OMG....I have a MERS audit!

By Thomas Sitzler and John Pomaranski

Time and time again, clients have made similar statements. It's not that big of a deal, but it is that big of a deal. Any audit, whether it's 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. The same preparation works for your MERS audit. For your MERS audit, it's all about the MINs. A Mortgage Identification Number (MIN) is 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. With that definition, you already have solved one of your primary audit concerns. You should never have duplicate MINs. This only gets easier!

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.

### Surviving Annual MERS Audit



When you have MORE than 1,000 MINs you must engage a 3<sup>rd</sup> party to review and certify your progress against your MERS Quality Assurance plan. The 3<sup>rd</sup> party will perform a detailed quality assurance audit to certify the effectiveness of your organizations MERS policies and procedures. This is where most people get concerned. Who do I pick for my auditor? You may say to your organization, “that’s easy”. But for some groups, it’s not so easy, especially if this is your first MERS audit that needs to be completed by a third party.

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 having your MERS audit you can’t beat an auditor 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. Face it; we all perform the same validation functions for MERS. Having an auditor who not only performs the audit but understands MERS, the data, and the processes and concepts behind electronic mortgage registration are 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 a single driver 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. They will provide additional 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 around to answer questions and provide ongoing support.



Louis Pasteur once said: "In the field of observation, chance favors only the prepared mind."

Now that you’ve 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. When we go in and perform an audit, the first thing we do is read your policies and procedures, i.e. 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)

We 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 and greatest 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 we 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. They should match exactly. If the borrower has a middle name in your system, they should have a middle name in MERS. 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.

In preparation 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 being cleaned up prior to the audit. The following are typical findings our clients have had trouble with 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
- Subservicer is not providing files required, or ensuring the appropriate accuracy

In order to save time and cost, these kinks should be worked out before an audit which typically means, follow your own procedures.

Ensuring the authorized signing officers are certified and up to date is pretty straight forward, but seems to cause findings for some clients. We recommend creating a reminder to review the list of officers captured in MERS and ensure they are updated with the required certifications annually in 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 might want to think of 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 3<sup>rd</sup> 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 3<sup>rd</sup> party review.

There are numerous things to do to prepare for a MERS audit some of which we have discussed here. We have found it extremely helpful to an organization to have a single resource be responsible for preparation and coordination of all the MERS activities. They should be detail oriented and 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. As long as 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 at the same time ensuring you are managing your MERS portfolio accurately and efficiently. After all, who said an audit isn't fun!

---

*Thomas Sitzler is a Senior Manager at Actualize with over 20 years of Mortgage process and Multifamily expertise. He may be reached by email [TSitzler@actualizeconsulting.com](mailto:TSitzler@actualizeconsulting.com)*

*John Pomaranski is a Manager at Actualize with over 11 years of project manager and successful change agent experience specializing in the secondary mortgage market. He may be reached by email [jpomaranski@actualizeconsulting.com](mailto:jpomaranski@actualizeconsulting.com).*