

Transformation of Foreclosure Firms

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Abstract

Law firms in the default industry are facing major challenges to become both compliant and profitable. This article shows the thought process and methodology utilized by the Law Firm of Douglas C. Zahm, P.A. to become among the first to realize the need to transform. The leadership at the firm has partnered with the boutique Management and Technology Consulting Company, Advanture Group. This article discusses the program developed to create a strong technology foundation, streamlined processes and organization structure, including the steps taken to integrate the systems and processes to achieve full compliance, high quality and efficiency. This article describes in detail the “Zahm Advanture Transformation Model Architecture” (ZATMA) and what was learned during the transformation.

Introduction

Business for the Default Law Firm has been paradoxical of late. Business (caseload) is growing but profits are either decreasing or are non-existent as a result of client and regulatory demands, giving many law firms serious headaches. Servicers and Investors, faced with an abundance of unpopular news coverage and scores of new regulations have turned to their law firms and started imposing stringent process and information security requirements. Law firms view this associated compliance regime as a necessary evil. While some law firms deal with these conflicting demands in a “hop-scotch” fashion, a few law firms have started taking a holistic approach to the solutions by going back to the basics. In addition, many of these challenges have diverted the attention of the partners at many of these law firms from practicing law to performing many operational tasks, such as leading the Information Technology team and initiatives. These law firms have realized that they need to develop strategies to become compliant and to streamline their process of handling foreclosures in order to improve quality and profitability. Increased commoditization of the foreclosure process reveals the growing importance of maximizing efficiency in order to maintain profit margins.

The following diagram (Figure 1) illustrates the predominant trends that are dictating the current state of many default law firms:

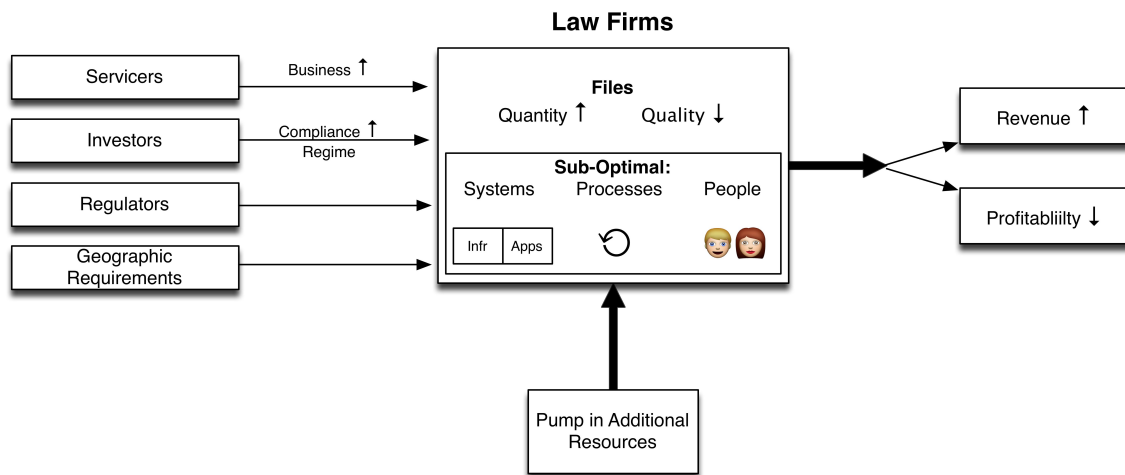


Figure 1

One example, the Florida Law Firm of Douglas C. Zahm, P.A. was a typical foreclosure firm with traditional, home grown IT infrastructure, skilled processers, and strong leadership, all of which could handle a reasonable workload while maintaining quality output. The Douglas C. Zahm, P.A. firm found itself quickly growing to meet the demands of its clients. Typical of many law firms, as the file quantity increased, they added resources to address the workload. However, Zahm realized early on that they could not maintain profitability by dealing with the increasing workload and the evolving compliance regime by just adding people; in addition, they realized the need for a professional approach to streamline the processes and improve file quality and overall performance. Douglas C. Zahm, P.A.'s goal was not only to service the wave of increased volume and industry and legal compliance demands, but also to come out on the other side as a fully compliant, scalable and profitable enterprise, poised for success for years to come.

In collaboration with a management and technology consulting company (Adventure Group), the firm has successfully met the challenges of managing increased file quantity and compliance requirements. To achieve this, the people at Douglas C. Zahm, P.A. have taken many steps along a well-defined roadmap designed specifically for their needs. This approach, while developed for Douglas C. Zahm, P.A., is a well-thought out and time-tested methodology that is applicable to most foreclosure firms.

Advanture Group is a boutique Management and Technology Consulting company that has been involved in providing transformational solutions to many companies across numerous verticals, including Foreclosure Law Firms. Advanture and Douglas C. Zahm, P.A., as partners, have reviewed their actions very carefully and developed a transformational model. This article shares that model and their findings with the foreclosure law community.

Findings

Upon review of our collective experiences, we have uncovered some important lessons that have formed the basis of our model. These findings include:

1. While default law firms essentially practice law, a significant portion of their work is spent operating the business process of “Foreclosure”.
2. Defining, Streamlining, Automating and Optimizing the process(es) are critical to achieving efficient, profitable and error-free operations.
3. There is NOT one single silver bullet.
4. Robust infrastructure, carefully chosen and well-configured case management software and a well-honed change management process are all critical for success.
5. Trained people, a well structured organization and strong leadership are important.
6. While the compliance regime can be bothersome, it indicates an imperfect process that needs fixing. The goal is not to simply be compliant, but to develop well-streamlined operations that produce high file quality and profitability which are essential for business continuity.

It is evident from our findings that this problem should be approached in a systematic fashion. To achieve the much needed Process Optimization, the firms should strive to have:

- Robust Infrastructure (Information systems, voice and data communications)
- Appropriate and well-configured Case Management Software
- A well-designed document handling process
- Stable quality control and change management processes
- Trained personnel, good organization and proactive leadership

Each of these elements is needed to achieve an optimized balance between systems, people and processes, which in turn is needed to create a business system that produces quality products (Files) and profitability.

Advanture and Douglas C. Zahm, P.A. have developed a transformation model (**Zahm Advanture Transformation Model Architecture**) to evaluate the fundamentals of each component and develop a sustainable solution that focuses on improving quality and profitability while meeting compliance requirements. We will hereafter refer to this Model as ZATMA (*illustrated in Figure 2*).



Figure 2

As represented in the model, a well-balanced network of people, process and systems should be created to achieve quality and compliance and to reduce costs. Each component of this network should be optimized. The realization of close interconnectivity of these components is critical for developing an appropriate solution roadmap. The goals are to have well-defined, streamlined processes, optimized systems and a highly effective overall organization. The ZATMA model thus offers a well thought out, holistic approach and roadmap that is customized for each law firm. The roadmap is implemented incrementally to achieve the end goals at an effective, yet

palatable pace. The two important phases of this ZATMA model, namely the “planning and design” and “implementation” phases, are described in detail below.

Planning and Design:

If careful thought and planning does not precede the action plan, firms will most likely end up in a continuous “fixing” mode and will not resolve the underlying issues. They will end up spending significant amounts of money without making progress on their journey towards their goals. The purpose of the “Planning and Design” phase is to develop solution recommendations that can help to strategically transform the firm from its current state to its desired goal state. A major part of this phase involves clearly determining the firm’s current state. This requires a review of the firm’s people, processes, systems, and compliance adherence.

The planning phase should include the four parts as listed below:

1. Define Context: Identify the current state of existing systems, processes, and personnel and the context driving the business, including business goals, affordability and time frames
2. Ascertain the present state: Define the deficiencies and areas for improvement with the current environment
3. Assessment: Identify gaps between the current state and desired goal state
4. Solution and Options: Provide recommendations and solution options that include costs, risks, and benefits along with a roadmap for solution implementation

The planning methodology is illustrated in *Figure 3*:

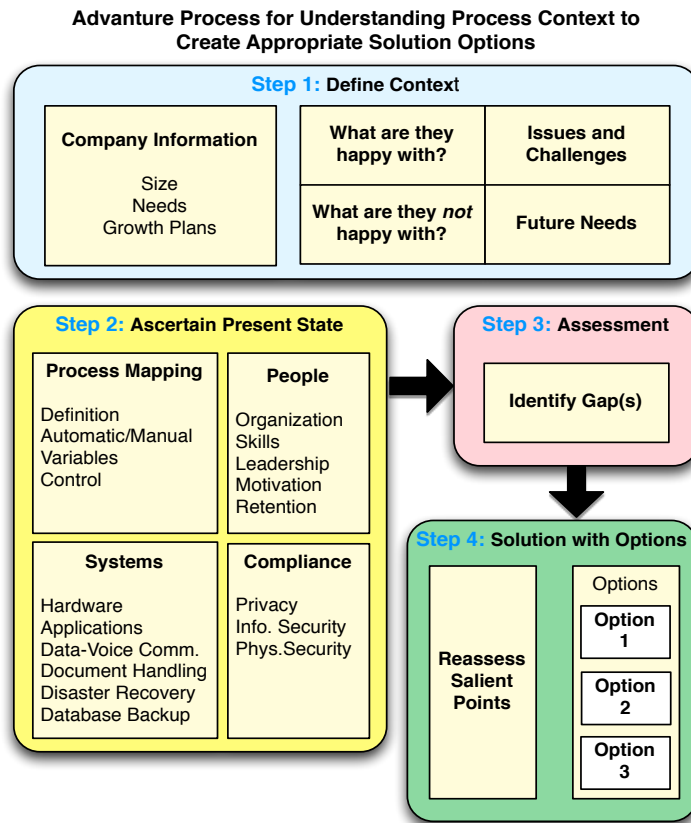


Figure 3

The comprehensive review is a critical phase that precedes developing a solution roadmap. This review includes the current state of all aspects of the firm (processes, organization, people and leadership, systems and compliance), as illustrated in *Figure 4*:

Comprehensive Review

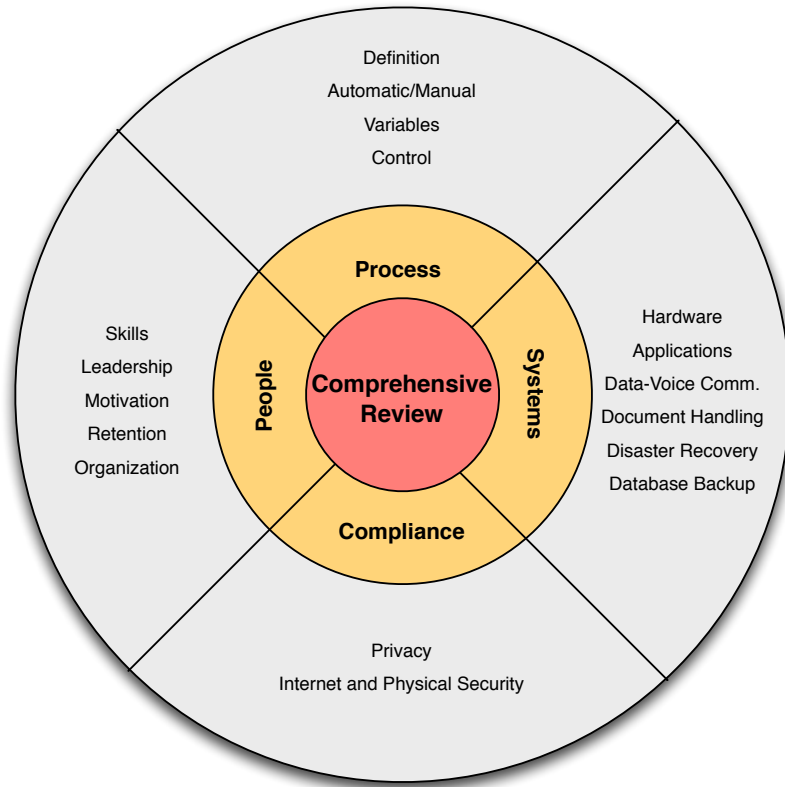


Figure 4

Implementing Process and Foundation:

The activities of defining, streamlining and optimizing the process, while strengthening the foundation (namely the systems and people) are closely interlinked. Details of these are illustrated in *Figure 5* below:

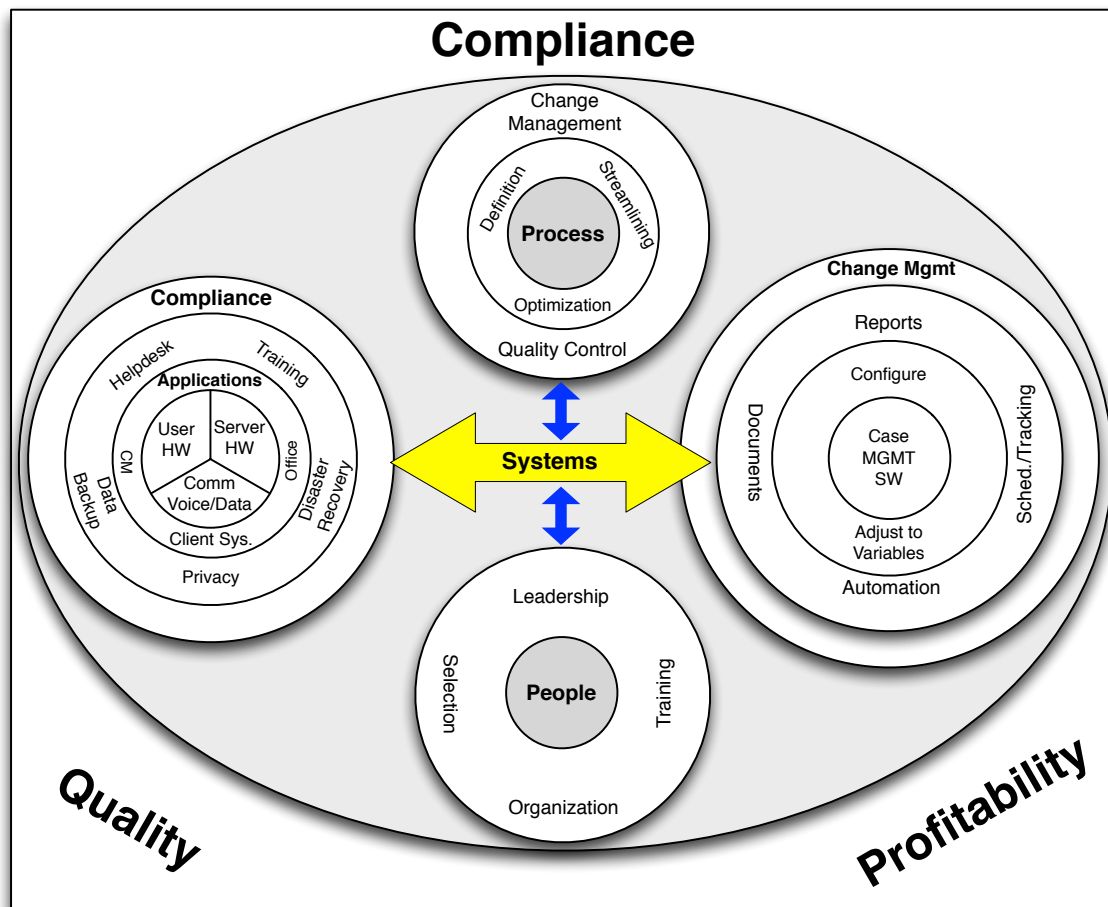


Figure 5

While there are many details as to what needs to be done, a few of the critical items include:

1. Defining and base lining the standard process and identifying variations due to different factors such as geography and the case type (mediation, bankruptcy, litigation, etc.) This activity helps to clearly identify repetitive steps as well as variations from file to file.

2. Choosing appropriate case management software and performing configuration and integration per the defined processes and vendor applications. Many firms have existing software that they have been using. A critical decision point is to determine if that software can be effectively modified to meet the firm's changing needs or if a new software solution should be purchased and deployed.
3. Developing and implementing change management procedures for the processes, as well as the software. Once the process and software are brought to a good starting point, an effective change management system should be put in place to ensure that processes and software stay in alignment with the evolving changes. If attention is not paid to this, it is very likely that software and processes will fall out of sync with each other and result in errors and reduced performance.
4. Developing and implementing a quality control process to ensure consistent high quality output throughout the process. QC process is not merely the inspection of files. It actually provides for maintaining the ability to consistently yield the required quality of each file. This is achieved through time tested statistical methods that are based on the philosophy that quality is "built in and not inspected".
5. Defining and streamlining the organization to effectively operate the foreclosure process and the associated change management and quality control processes. This involves training personnel as needed and providing proactive leadership.
6. As part of optimizing the process, identify any step that could be easily (and more cost effectively) outsourced to function specific vendors and performed in a quality and compliant fashion. While this may be a challenging cultural issue, outsourcing may be an area where well-organized firms can achieve maximum efficiency.

7. The skills of the people and organization should be evaluated thoroughly to make sure that the organization is structured and staffed in a way to get the maximum value out of the optimized systems and processes.

As these steps are implemented, the firms will have a strong foundation consisting of streamlined processes and systems and a well-honed organization. The result will be a profitable business system that yields consistently high quality results and meets compliance requirements.

Conclusion:

Most law firms already have a kernel of systems, processes and people that can process foreclosure files. However, to meet the increasing quantity, quality and compliance demands in a profitable manner, this kernel needs a makeover. The extent of the makeover varies from firm to firm and is determined by the firm's current state of systems, people and processes, increase in business and demands from servicers. Thorough planning and implementation of holistic, self-sustaining solutions are needed to create a well-oiled machine. The use of technology and modern business methodologies that are well proven in other verticals will make this effort much easier.

By implementing this program diligently across the firm, Douglas C. Zahm, P.A. now has a strong organization, well defined processes, extremely effective IT systems and Case Management software. They are able to achieve very high file quality and meet stringent compliance standards. This also provided much needed focus and time for the partners, other attorneys and department leaders to practice law, coach and mentor staff members.

We believe that our ZATMA model is a proven approach to addressing this critical undertaking and should be considered an industry standard for law firm transformation. We welcome the opportunity to share our experience with the other members of the default community.

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