

# WFG National Title Insurance Company

On Best Practices, SOC 2 and Self Certification:  
What's the Difference, Anyway?



Since the CFPB issued its April, 2012 edict that mortgage lenders will be held accountable for the actions of their “service providers,” settlement services firms have scrambled to differentiate themselves as trustworthy. This has ushered in a wave of buzz words and jargon intended to prove to lenders that each provider is more trustworthy than the rest. From “SOC 2, Type 2,” to “best practices,” it seems almost every agent, closer, vendor manager and escrow firm has been certified, verified, sealed, audited and proven trustworthy.

Take a closer look, however. Not all certifications are the same.

## SOC 2, Type 2 Certification:

### What is a SOC Certification?

To be technical, this is actually The American Institute of Certified Public Accountants’ (AICPA) Service Organization Control (SOC) certification. In the title and settlement space, we tend to see SOC 2 reports, either Type 1 or Type 2 (more on that later). You’ll usually see the designations shortened around the industry as “SOC 2, Type 2” or “SOC 2, Type 1.” In essence, a SOC report provides a CPA’s verification that the audited company meets certain criteria. With regard to the title industry, lenders are concerned with safeguarding fiduciary funds and the protection of their customers’ data while in the hands of their service providers. Of course, how those criteria are verified and for how long require some explanation.

As taken from [www.aicpa.com...](http://www.aicpa.com...)



### **“Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality or Privacy**

*These reports are intended to meet the needs of a broad range of users that need to understand internal control at a service organization as it relates to security, availability, processing integrity, confidentiality and privacy. These reports are performed using the AICPA Guide: Reporting on Controls at a Service Organizations Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy and are intended for use by stakeholders (e.g., customers, regulators, business partners, suppliers, directors) of the service organization that have a thorough understanding of the service organization and its internal controls. These reports can form an important part of stakeholders’:*

- Oversight of the organization
- Vendor management program
- Internal corporate governance and risk management processes
- Regulatory oversight
- Similar to a SOC 1® engagement there are two types of reports: Type 2, report on management’s description of a service organization’s system and the suitability of the design and operating effectiveness of controls; and Type 1, report on management’s description of a service organization’s system and the suitability of the design of controls. These reports may be restricted in use.”

From time to time, you may also hear or see mention of “SSAE-16.” This is not yet another type of certification or audit, but rather, the AICPA rule governing how a CPA firm is to go about issuing a SOC 1 report. SOC 1 reports essentially come from and follow the rules set forth in the SSAE-16. Suffice it to say that a SSAE16 report and a SOC1 report are synonymous.

## What's the difference between a SOC 1 and SOC 2 report?

For a very detailed (and technical) description, you'll want to check out the AICPA website: <http://www.aicpa.org/InterestAreas/FRC/AssuranceAdvisoryServices/Pages/ServiceOrganization'sManagement.aspx>

However, for our purposes here, a SOC 1 report covers only internal controls over financial reporting. A SOC 2 report entails an audit of a firm's controls over security, availability, processing integrity confidentiality, and privacy. Because the CFPB has declared a specific interest in protecting the non-public information of the consumer (by way of the Graham-Leach-Bliley Act—see more below), the SOC 2 is generally the most appropriate certification for any “service provider.” (Title technology, agency, etc.).

You may also occasionally come across a SOC 3 product. WFG partner HA&W advises that the SOC 3 doesn't really carry any additional credibility beyond a SOC 2, Type 2 certification. In essence, it's a marketing tool.



## What's the deal with Type 1 or Type 2?

A SOC 1 or A SOC 2 certification can come in two forms. Again, the AICPA describes it best:

*“Similar to a SOC 1 report there are two types of reports: A type 2 reports on management's description of a service organization's system and the suitability of the design and operating effectiveness of controls; and a type 1 report on management's description of a service organization's system and the suitability of the design of controls. Use of these reports is generally restricted.”*

<http://www.aicpa.org/InterestAreas/FRC/AssuranceAdvisoryServices/Pages/ServiceOrganization'sManagement.aspx>

Thus, in layman's terms, a Type 1 report essentially confirms that if the firm being certified has accurately described its controls, it meets the standards for SOC 2 (or SOC 1) certification at a **specific point in time**. In other words, the auditor makes no promises about whether or not those controls are effective or even exist before or after that point in time. A Type 2 report, on the other hand, goes on to evaluate the “operating effectiveness” of those controls as well. Thus, the Type 2 certification means that the agency has been tested and is certified for a **specific period of time**. This means, of course, that a SOC II, Type 2 audit must be performed periodically to keep it “current.” But it carries the substantial credibility of being sustainable.

## So what does this mean for you?

Increasingly, mortgage lenders will be seeking verification that their service providers (including settlement services partners) are adequately protecting the sensitive information and data of the lender's customers. A good guide for what that data, often referred to as “Non-Public Information (NPI),” entails is provided by U.S. Congress through the Gramm-Leach-Bliley Act (GLB Act or GLBA), also known as the Financial Modernization Act of 1999.

In more practical terms, a SOC 2, Type 2 report and designation is the cream of the crop in the title and settlement services industry, especially when it comes to standards of detailed examination of suitability of design and testing the operating effectiveness of controls to meet criteria for security, availability and processing integrity. Most professionals consider it to mean that the designee has strong controls in, among other things, the integrity of processing of and protection of confidential data in its network and systems.



So what does it entail? Although the process, cost and time frame may vary slightly in places, plan for the following:

- **Cost.** Reports can run from \$15,000 and up. Don't take our word for it—by all means, check with an independent CPA such as [HA&W](#). However, before you dismiss the thought of that expenditure, compare that cost with the cost of permanently losing business from lenders who increasingly seek higher forms of certification from their service providers.
- **Time.** Prepare to get to know your independent CPA. You will likely be required to submit quite a bit of paperwork; reveal quite a bit about how your organization operates and to entertain one or several site visits from your CPA auditor. It's a process of weeks or months.

Your WFG Agency Representative can likely give you a more detailed idea of how the process works as well as providing a good feel for how important having the SOC 2 certification might be in the eyes of your lending clients. To make a long story short, a SOC 2, Type 2 certification isn't just handed out or applied for on the back of a postcard. It's the gold standard, and it takes a bit of work. Then again, you get what you pay for...



Keep in mind that a SOC 2, Type 2 (or any SOC) certification is not required by law (not the CFPB, not under RESPA, not by any state authorities at time of this posting). Period. It may be suggested, recommended or even required by a mortgage lender with whom you wish to do business, but it is not a legal requirement. That said, it may, under appropriate circumstances, be a potential differentiator for your business. Not sure? Check with your WFG Agency Representative, who will be happy to discuss with you.

## ALTA Best Practices Certification:

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Some service providers—particularly agencies or settlement services providers—have gone the route of having an independent third party (such as a specialized compliance firm that works with title providers or an accounting practice) certify that the firm being audited is “Best Practices Compliant.”

The American Land Title Association (ALTA) Best Practices were developed in 2013 to assist lenders in satisfying their responsibility to manage third party vendors. The practices are recommended (not required by law or by ALTA of its members) as a means to best protect sensitive data and information of your lender customers.

You can see the requirements of the Best Practices here.  
<https://www.alta.org/bestpractices/start.cfm>

First and foremost, keep in mind that being ALTA Best Practices certified is not the same thing as being certified under SOC standards. Currently, very few Best Practices certifications are done under the Association of Independent Certified Public Accountants (AICPA) standards—which include requirements that the CPA firm be independent of the title agency and require that the standard of the certification is solely the ALTA Best Practices template. When done under a consulting standard (which is often the case, and less stringent), the CPA firm need not be independent of the agent and can pick and choose which elements of ALTA's Best Practices will be applied during the audit.



Also, keep in mind that a firm can even choose to “self-certify” that it is ALTA Best Practices compliant, or have an independent third party make that certification. To complicate matters a bit more, some CPA firms are able to provide an audit the positive result of which can be a combination of ALTA Best Practices certification and SOC 2, Type 2 certification. Generally, however, getting your ALTA certification isn't quite as rigorous (or expensive) as getting a SOC 2, Type 2 certification.

Needless to say, “self-certification” probably carries the least credibility with a potential lender client. A credible third party's certification (CPA firm or other firm which specializes in Best Practices) likely carries more merit. And in the vast majority of cases, a genuine SOC 2, Type 2 certification is likely to carry the most credibility.

### Attestation versus Consulting: What's the difference?

HA&W, part of WFG's partner network, reminds us that there's a big, big difference between CPA Attestation and CPA Consulting when it comes to ALTA Best Practices.

If your Best Practices certification comes through a CPA attestation report, it's as good as an audited or reviewed financial statement report. The CPA must be independent of the title agent, and draws conclusions about the reliability of a title agent's claims that he/she are in compliance. The only standard used is ALTA's Best Practices.

If your Best Practices reporting is based upon a CPA consulting report, the credibility is not as strong. It's the equivalent of an unaudited financial statement. The CPA need not be independent of the agent for this, and the parameters of the report are determined solely by the agent and the CPA. The standard could be some, all...or none...of ALTA's Best Practices criteria.

Finally, be aware that some agencies will claim to have both a SOC 2 and ALTA Best Practices certification. This is possible. Some agencies prefer that these be done simultaneously. Others prefer two separate processes. Talk with your preferred CPA auditor or WFG representative about what might be best for your agency.

Again, remember that none of the certifications discussed above are required by law. Rather, they are measures designed to help mortgage lenders gauge their risk with regard to the security potential third party providers can offer for the lenders' private consumer data.



**Still confused? Don't worry. Your WFG Agency Representative would be delighted to walk you through your options.**