In this regulatory landscape, your doc prep provider should be upping its game.

GOING BEYOND DOCUMENTS

By Kathleen Mantych

Throughout the history of the mortgage industry, documents have been a vital part of the lending process. Borrowers do, after all, sign on the dotted line to make their home-owning dreams a reality. As documents have evolved – perhaps you could say become more complicated – their accuracy has become increasingly critical. Document preparation technology has needed to advance as well in order to make sure your documents stay compliant as they make their way from estimates to the closing table, without taking time away from closing more loans.

The roll out of RESPA through 2009 and 2010 was the most recent impetus of mortgage document reform. Lenders hummed and hauled on the sliver of hope that the changes might be revoked, until it was a mad rush to reach compliance before the January 1 deadline. And surprisingly, the sun came up on January 2. There were pain points and glitches and expensive mistakes, but for the most part, the industry has adjusted. Unfortunately, lenders did not have a second of reprieve from the churning wheels of regulation and we are all bracing ourselves for a mountain of changes that make RESPA look like an anthill.

The Dodd-Frank Wall Street Reform and Protection Act of 2010 goes far beyond documents to touch all parts of the lender's business. How do you communicate with your borrower? How do you verify income? How do you sell your loans? The guidance can be found in its pages. Mortgage lending institutions will be subject to a level of federal oversight never before seen, leaving no room for error as the Consumer Financial Protection Bureau (CFPB) assumes its watchdog position.

The ultimate goal of the Dodd-Frank changes, as it was with RESPA, is to provide financial institutions with a clear set of rules of how consumers are to be treated and, in part, educated about their financial activities. Although the ideal destination is a mortgage industry that better serves its borrowers and is protected from a future downturn, the road to get there will be a rough one as lenders adjust almost all areas of their business.

And documents will certainly offer up their share of potholes.

One guaranteed document change that Dodd-Frank will bring is the consolidation of the RESPA and Truth in Lending (TIL) disclosures. This will be a monumental adjustment for lenders. So much so that at the recent American Bankers Association Real Estate Lending Conference, Ron Alba, vice president of mortgage finance at ABA, expressed that it will be 10 years or more before lenders are comfortable with the disclosure.

Depending on the type of loan, state of origination and other factors, the number of pages involved in the lending process can vary greatly, but we will use a sample Florida conventional loan: 131 pages. Multiply that by hundreds of loans that could be originated by a mid-sized lender in a month and think about the volume of content that must be accurate, up-to-date, and in compliance every time.

> "In the end, a **document preparation** provider should take the burden of compliance away from the lender."

Once you have made it over the hump of federal regulations, state laws must be addressed as well. For instance, did you know that recording certain documents in Utah, such as a deed of trust or a deed of conveyance, might require the inclusion of the word "RESPA" in at least 16 point font on the front page of the document? Or that in North Carolina, the state's fee thresholds trump those of RESPA and lenders must separately itemize third-party charges and retain such itemizations within the loan file? State laws are especially burdensome for those lenders operating nationally that must be in constant compliance with the rules and regulations in every area in which they do business. With a steady stream of changes coming down the pipe that affect how each document is created, it is nearly impossible for a lender to manage document compliance.

Lenders that manage doc prep in-house are becoming a rare breed. By outsourcing, lenders remove the burden of the continual research, as well as the proactive adjustments to staffing, technology and processes required to make smooth transitions through changing laws. But even when you are outsourcing, care must be taken to select the best provider and technology for your specific needs.

There is no question that the proper technology is the only way to cope with ever-changing regulations that affect document packages. In outsourcing your doc prep, there are certain characteristics your provider, and its technology, should have.

The first is the ability to provide real-time updates. As discussed above, regulatory changes are coming down quickly, and not always with a lot of notice. As a lender, you must know that the documents you pass along to your borrower are 100 percent in line with the latest rules. Selecting a provider whose technology enables real-time updates to be made to documents will present invaluable benefits. In order for true real-time changes to occur, document creation should take place in an ASP environment where they are developed on-demand per loan package, not based on templates. In addition, an ASP environment allows for the content to be usable immediately when it reaches the lender, alleviating the need to spend more time on mapping or further adjustments by the institution.

Regulations do not come around on a pre-determined schedule and neither should your document updates. With today's fast-paced changes, it is risky to rely on compliance updates that are physically stored on a disk and distributed only on the provider's schedule. Updates should be dropped into the documents as they occur. If, for instance, Utah decided to change its "RESPA" font size to at least 20 point, the documents you receive should have that change incorporated the same day, not two weeks later when your LOS receives software updates from the doc prep company.

But here is where your document provider must be able to give you more than just technology. In order to have these changes implemented in real time, they must be aware of and knowledgeable about rule changes before they are enacted. This requires a significant degree of regulatory expertise on staff at the doc prep provider, such as mortgage banking attorneys and customer support staff with the knowledge to monitor the compliance landscape. With an internal team of attorneys, documents are not created based on a template, but are dynamically created down to the character, enabling quick and cost-effective corrections or customizations. It also takes the onus of accuracy off of the lender as the provider guarantees correctness and compliance. Any mistakes, and resulting legal consequences are the responsibility of the doc prep company.

The second characteristic is automation. Your doc prep system should take the compliance burden completely out of your hands. Once borrower data is entered into the LOS, it should take one click from the LOS platform with no additional user intervention to order documents. Compliance audits, such as state and federal high cost tests, fee thresholds, initial vs. final APR and higher priced mortgage testing should be built into the process and not require data entry into separate systems. With each time loan data has to be entered into a different system, the chance of a mis-typed number or other mistake is increased which could lead to incorrect results and redundant document creation. Not to mention the unnecessary time spent on data re-entry.

The term automation has been buzzing around the industry as the solution to time- consuming compliance issues, and it is in fact a large part of the equation. If the lender is able to have processes completed behind the scenes by its various vendors, significant time can be shaved off loan turnaround. The ultimate goal is to get document packages back to the borrower faster and the way to best leverage automation to achieve this is through integrations.

The third characteristic is the ability to tightly integrate with any LOS. A lender should never be forced to use a doc prep provider based on its LOS' existing integrations. True lights out integrations provide significant benefits and the chosen doc prep company's technology should have the flexibility to forge this relationship with any LOS. This allows for data to be automatically imported and exported between the lender and the document preparation provider and their two systems, alleviating duplicate data entry, as well as the potential errors that can result from it. As stated above, it also facilitates one-click ordering of document packages, without having to leave the LOS.

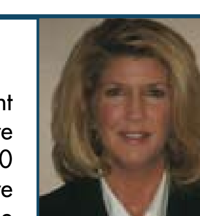
Otherwise, a lender takes the loan information from its LOS and re-enters it into a doc prep platform. Once the data is received by the doc prep company, it is sent to a third-party to create the content for the documents. In states that require attorney review of mortgage documents, that material must be passed through yet another party before finally being delivered to the borrower. A seamless gateway between the LOS and doc prep system allows document packages to be created within a matter of minutes, potentially shaving days from total turnaround time. Loan closers are under intense pressure to keep production going and having to wait four hours to get a document package back is not acceptable. Cutting the time down to one or two minutes is the only way to keep their workflow moving.

The ability to complete e-notes and electronically deliver documents rounds out our list of desired characteristics in a doc prep provider. As borrowers become more tech savvy and demand faster turnaround times, electronic document delivery takes center stage. Once a document package is created and vetted for accuracy, delivery should be as simple as the click of a button. Once the borrower receives the documents in their in-box, the platform should have e-signing capability that is in line with all investor formats. But again, flexibility is a priority. The lender also needs the option of creating traditional paper-based mortgages with some borrowers, while processing e-mortgages for those that prefer it. An effective doc prep system supports both options for the lender.

There is also a certain amount of education involved in compliant document preparation. A lender needs more than software installation. The provider should proactively make compliance updates available, as well as advice and guidance on how to adjust operations. And the guidance should go beyond document content - a lender needs the ability to contact the provider for questions on any compliance issue. To gauge how much compliance support your provider will be offering, determine how active they are in outside educational efforts, such as speaking participation in Mortgage Banking Association (MBA) conferences and addressing other industry groups.

In the end, a document preparation provider should take the burden of compliance away from the lender. Each person in a lending organization is already wearing multiple hats, but they should only be spending considerable time in those that promote increased volume and growth for the company. ❖

About The Author



Kathleen Mantych is the senior director of marketing for MRG Document Technologies, a provider of mortgage document preparation software and compliance technology to lenders nationwide. With more than 20 years experience in the mortgage industry, Mantych has held executive sales, product and alliance management positions with several mortgage technology providers. Dallas-based MRG is a document practice group within a law firm putting the company in the unique position of its document content being created and tested by an in-house team of compliance attorneys. MRG owns its own legal content as well as its own calculation engines, ensuring accuracy for its lender customers.