Attaining Compliance

Despite Limited Resources

By Sharon Matthews

Are resource constraints forcing lenders to make short-term decisions that actually hinder long-term value?

Over the last several months, refinancing activity has once again surged to the highest levels and even originations are now finally showing some signs of growth. In the midst of this active market, loan officers also have to keep up with a growing number of new regulations that are forcing process change. Unfortunately, pull-through rates aren't keeping pace. The average time to close has lengthened from 30 to 45 days, and in many cases much longer. Some of this is simply because of the heavy workload. Loan teams today are fighting to keep up with record volumes.

Another reason, though, is new regulations are increasing the number and type of disclosures required, forcing lenders to modify processes and systems while trying not to skip a beat. First, there was RESPA that regulated the time to disclose and the allowable variances in loan fees. Now, the CFPB's integration of HUD and TIL will likely place further burdens on a lender to ensure borrowers are informed and fees are controlled. Looking ahead, the CFPB is discussing the possibility of adding automated valuation models used in appraisals to the list of required consumer disclosures. Banks are doing everything they can to keep up with these changes because the repercussions of regulatory non-compliance are costly and damaging to a lender's reputation.

IS TECHNOLOGY REALLY THE ANSWER?

Many banks have reasonably looked at technology as a way to stay on top of these new compliance requirements, manage costs, and create a better user experience. For example, creating loan documents electronically, and then being able to distribute them to all parties in an electronic fashion addresses the compliance need, while also being faster and less expensive to execute. Even with compliance as a driving force however, we're still not seeing significant changes industry-wide.

Last year, we wrote about some of the best practices lenders could use to improve the success rate with electronic document delivery, both within their internal teams and with consumers. A year later, we see incremental improvement but the journey is far from over. In fact, if you look at the state of eMortgage – researched by us as well as others – that evolving destination point is still a ways off.

Nonetheless, the value of using technology to manage loan documents and data continues to be compelling and quantifiable. Certainly, eliminating paper costs and compliance penalties result in direct savings. Our analysis also indicates that if a consumer accepts the initial disclosures electronically, there is a 70 percent to 80 percent probability she will continue to interact with the lender in an electronic fashion all the way through closing. This improves pull-through, speeds time to close, and creates a competitive advantage in the market. We estimate, based on client experience, that every day shaved from the loan pipeline can save from $25 to $110 per loan, depending on the average loan value. With today's loan volumes, this equates to substantial savings very quickly. Figures like these have to make you wonder – why aren't more banks rushing to deploy eDelivery services for their mortgage documents in a comprehensive fashion?

Not surprisingly, it comes down to resources and prioritization. Because external market and regulatory forces are putting such a strain on banking resources, lenders usually implement technology or deploy eDelivery services one document or process at a time, usually where the need or risk is the greatest. Maybe it's initial disclosures. Or appraisals. Or an adverse action letter. Further down the process it might be the closing documents or the HUD statement. Regardless, lenders frequently attack what they feel to be the most relevant problem at the moment, document by document, because they feel these measures can quickly address the area causing the greatest bottleneck or triggering the highest non-compliance risk. In addition, this piecemeal approach presumably makes it easier for internal IT resources to provide the necessary integration support. IT scarcity is a significant hurdle as they usually have multiple projects demanding their time and attention.

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A MORE MANAGEABLE ISSUE

What lenders may not fully realize: It's possible to implement eDelivery services in a simple and pragmatic fashion without internal IT integration support. In so doing, lenders can realize the cost savings, work load, quality, and compliance benefits enabled by technology, without investing a significant amount of time or resources. As an example, eLynx eDelivery services can be installed and appear as a network printer. Loan officers, processors, underwriters, or closers prepare the documents they normally do, and simply print them to the eDelivery printer. The workflow doesn't change so there's no retraining required or disruptions caused by new technology. And delivering documents to consumers electronically saves days in the loan cycle, and ensures that compliance deadlines are met.

Because eDelivery services appear as a printer, there's little to no work for the internal IT team. In this scenario documents will go out electronically. Of course, it's usually better to fully integrate into your LOS with bi-directional data, so that returned documents and status messages are automatically updated within the LOS. But if you can't secure sufficient internal IT support immediately, and yet you have compliance holding fast to a strict deadline, implementing eDelivery services in this simple fashion may be a very pragmatic solution.

Another way to achieve near-term needs with minimal outlay is to select a flexible technology solution that can start with a single document, but can also expand quickly and easily as you enable eDelivery across more of the lending processing lifecycle. Today's regulatory climate might change if we have a new administration in 2013, but the need for business flexibility will most certainly not. Being able to start small and expand later is a valuable option. As proof, we need only look at the LOS market or the document preparation market where interest is shifting to SaaS-based vendors. When it comes to eDelivery, look for that same flexibility and expandability. Don't just solve today's compliance needs. Put yourself in a position to handle the next business or compliance risk as well.

A final point worth considering is whether the lengthy, multi-step nature of the mortgage lending process itself may also lead to the "one-document-at-a-time" approach. Banking processes and systems are still rather siloed. As a result, it's easy to compartmentalize needs and look for point solutions to handle each area. What banks may not realize – and, frankly, what we vendors may need to better communicate – is that comprehensive solutions exist that can support the entire mortgage lending process flow.

THE REAL FIRST STEP: A SCALABLE, LONG-TERM SOLUTION

Covering the entire mortgage process flow is the key to unlocking the full business value of eDelivery services. Our data shows that today's consumers prefer the speed and convenience offered by electronic delivery and receipt of mortgage documents. Beginning with an application and following through to disclosures and closing packages, consumers will stay electronic all the way through if you start that way out of the gate. Having to switch from electronic to paper and back is where the value starts to erode.

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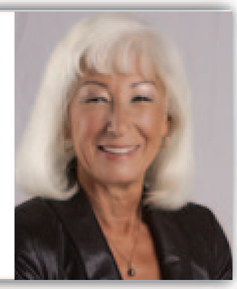
From a practical standpoint, we understand that most banks will convert to electronic in phases. Whether you use compliance mandates as the catalyst, or you have the foresight to get ahead of that curve, using a SaaS-based solution for eDelivery gives you the flexibility to set a pace appropriate to your organization. Also, you can minimize the amount of IT support needed by using a common delivery platform that can handle all stages of the mortgage process from application to post-closing and reselling. For complete risk mitigation, that platform should also incorporate a fallback capability for those instances when an eDelivery is not achievable, recognizing and handling the printing and mailing of necessary documents within compliance timeframes.

Finally, don't assume that your internal IT's schedule is a showstopper. There are ways to deploy some technology solutions immediately without IT assistance. This allows you to meet pressing needs today and begin realizing the benefits of eDelivery services. As you have time and resources, you can then go back later to more fully integrate your solutions. Ultimately, it's critical for banks to understand that simple, incremental changes like those discussed can drastically reduce risk, empower teams to do more with less, and improve the data quality and consistency of loans. These are essential steps that enable today's financial industry to move forward and stay on track in an environment with ever-changing rules and priorities. ❖

About The Author

As President and CEO, Sharon Matthews oversees the overall operations of the company and is responsible for the growth of eLynx's market leadership position providing data-driven document distribution, collaboration, and connectivity services for the financial services, mortgage banking, and real estate industries. Matthews came to eLynx with more than 25 years of senior executive experience.



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