

TACKLING Compliance

QUESTSOFT'S LEONARD RYAN DETAILS ALL YOU NEED TO KNOW ABOUT COMPLIANCE BASED ON HIS 20-PLUS YEARS OF MORTGAGE EXPERIENCE.

Crunch time is here. A slew of new rules are going into effect next month. As a result, we decided to profile a compliance expert this month. Leonard Ryan has been head of QuestSoft, a leading compliance vendor, and active in the mortgage space for some time now. As a company, QuestSoft has over 20 years of experience in the design of software exclusively for the mortgage industry. The company has provided compliance-quality geocoding services for over 10 years. It touts 8 years of direct origination, funding and mortgage banking experience, and 16 years of direct compliance risk management assistance to institutions large and small. The company's mission is to provide technically superior products at reasonable costs to customers. QuestSoft achieves this by automating everything possible in its products and operations, as well as working with interface partners — other software developers — to make their applications more efficient. Leonard talked to us about his career and how lenders can keep up with the new compliance rigors.

Executive Interview



Q: Explain how you first got in the mortgage industry.

LEONARD RYAN: I started working for a mortgage company as a loan officer when interest rates were at 10%-14% trending down to 9.95%. I eventually became VP of the company. As far as my tech background with mortgages, when PC's became popular, I looked for software for our mortgage company. After installing our new software on a Friday, I had an eight-page letter detailing many deficiencies the following Monday. About a month later I was asked if I would be that company's product manager. The programmer and I redesigned the product in four months with a lot of very late nights and weekends. I then helped sell the product and grow the LOS platform from 50 to 970 customers in the four years that I was with them.

Q: How has the industry changed over the years?

LEONARD RYAN: Mortgages and computers both went through a full circle of evolution from centralized, distributed and back again now to the cloud. In mortgages, you had strong central underwriting, then distributed, then no real underwriting, and now we have returned to a centralized model due to compliance, reporting and analytic concerns.

Q: This year QuestSoft coined the term all-in-one or end-to-end compliance. What does that mean exactly?

LEONARD RYAN: I have always had strong concerns about the inefficiencies of the mortgage market. There are so many vendors and points of data, which creates constant inaccuracies and data integrity issues. So, almost a decade ago I set out to create a platform that would concentrate on compliance and data integrity issues. The result is our Compliance EAGLE product where today you order 14 major services, do a prefunding check on tens of thousands of pages of regulations, check government websites for exclusionary and NMLS verifications,

get flood, fraud, fee verification, all in the same thirty seconds, all with the same password and all with the same set of data. Add a few seconds and the 4506-T transcript can be cross referenced vs. the borrower disclosed income. This way if a data issue arises, it is quickly corrected and then instantly re-checked to see if there were any other compliance issues created. It's easy to see how valuable a service like this can be to help prevent expensive fines from being levied by regulators for data quality issues.

Q: QuestSoft has entered into several strategic partnerships this year. Describe your relationship with CIC and the other e-signing vendors? How is that going?

LEONARD RYAN: There are a number of excellent e-sign vendors on the market, but most are 100% cloud-based. We wanted that capability, but we didn't want to have a situation where when the third party was down, our services would be down. CIC offered a solution that allowed us to have a tighter integration with the technology, more flexibility and more control of the security environment on our servers. The e-signatures and vendor association is interesting because so much of it is controlled by document vendors due to initial disclosures. It

just seems logical from a consistency standpoint to use the signing technology that the borrower becomes familiar with for everything. So that is why we also embarked on approving as many legitimate providers as we could that met BOTH the IRS and SSA audit requirements.

Q: QuestSoft has also aligned more closely with various LOS solutions such as Calyx Software. What's the significance of that partnership and are more similar alliances coming?

LEONARD RYAN: QuestSoft has 19 years of experience with the management team at Calyx and in the past year with so many new regulations, Calyx recognized that we were each independently duplicating a lot of functionality. Because of our concentration in the compliance sector and more overall features, Calyx felt it would benefit their customers to provide our upgraded features as their standard offering. They also get our support team that works directly with regulators and examiners on compliance issues every day.

Thus far it looks as if it will pay off for everyone. Calyx is receiving a substantial boost to their reporting compliance while freeing up some programming resources. Customers have features that help them submit



their data much faster with far more validation checks. And QuestSoft builds our client base.

Regarding additional partnerships, I don't have an ego when it comes to our name on a product as long as it brings clear benefits to the end user. That said, I'm sure we will have many more partnerships, but probably not private label-focused. There are only three or four companies out there with the client base to justify the private label investment.

Q: Earlier this year QuestSoft launched the Compliance RELIEF application. Explain the industry significance of that tool and its reception so far?

LEONARD RYAN: Compliance RELIEF is designed to be able to expand the number of reporting regulations we can service and also to accommodate larger institutions than we have served in the past. Compliance reporting has been complicated over the past five years by the CFPB, federal regulators, states and even investors requiring more than just traditional HMDA data. The problems arise with a lack of commonality in fields and enumerations.

With our HMDA RELIEF product, we found ourselves appending features to accommodate these formats. However, with Compliance RELIEF, each regulation is its own module and has its own data entry areas and set of data validation checks. The modules can be activated individually depending on the requirements of the lender. Compliance RELIEF also is being designed to accommodate 5 million records and multiple subsidiaries at a time so it will be able to serve very large financial institutions in addition to our current client base.

The reception for Compliance RELIEF was very positive at our recent compliance conference. We showed off a series of new time saving features we have now added due to the database enhancements. Additionally, the product has integrated mapping and more analytics, both of which were well received. We have about 40 new implementations contractually in the queue after the first of the year with

Industry Predictions

Leonard Ryan thinks:

- 1. There will be fewer lenders (maybe 6,500 down from the current 7,200).**
- 2. There will be more emphasis on compliance.**
- 3. It'll be a difficult real estate lending market in the first half of the year as lenders adapt to the nuances of the January 10 regulations and the more restrictive investor overlays in place until then.**

expectations that we should have 250-300 institutions added or upgraded to the platform by the end of next year.

Q: QuestSoft does an annual survey where you ask about LOS market share. What do you expect to see in next year's survey? Any LOS trends that you think my readers should be aware of?

LEONARD RYAN: The past three years have seen substantial increases in the number of lenders seeking new Loan Origination Systems. This increase went from around 12% several years ago to almost 18% last year. I would not expect the percentage to be so high this year and would guess it might fall back to the 10-12% range.

I believe the same Dodd-Frank rules that accelerated the desire to switch to updated platforms will also begin to restrict the desire to change systems un-

less there are compliance issues. Once compliance concerns are properly addressed by LOS vendors, I think it will be very difficult for lenders to want to take chances with their operations. By mid-2014, after we see the systems that have survived the January 10 regulations, you might see market share numbers begin to become more locked in.

Q: QuestSoft also surveys lenders about their top compliance concerns. What can you tell us about what we might see in that survey next year?

LEONARD RYAN: Obviously, the January 10 changes including ATR/QM will probably still be a very high concern on March 1 when we conduct the survey. RESPA/GFE has re-emerged, HMDA changes might be announced and there are still only about 60% of regulations in Dodd-Frank that have been finalized. So we feel that there will be plenty to consider. At the same time, I think state regulations and NMLS concerns are diminishing, but time will tell.

Q: Lastly, is the new compliance burden hindering or furthering industry innovation?

LEONARD RYAN: There is little doubt that the current compliance burden is hindering innovation. While it has been a benefit to my company financially, we are constantly on the phone working with LOS and document companies about compliance issues. In addition, most new product updates from LOS vendors concentrate about three-quarters of their features on compliance upgrades, leaving room only for bug fixes, not new innovation. ❖

INSIDER PROFILE

Leonard Ryan is founder and president Laguna Hills, Calif.-based QuestSoft Corp., a top provider of mortgage compliance software and services for lenders for the last 17 years. Ryan oversees day-to-day operations for the company including, but not limited to, business and software development, strategic partnerships, sales and pricing. Prior to founding QuestSoft, he was senior vice president of MixStar, Inc., where he helped design and launch a Lender/Broker communication network in partnership with America Online.

