Future Trends

Problem Solving and Decision Making

Finding solutions with creative and critical thinking in a post CFPB mortgage lending world.

By Roger Gudobba

The end of the year is always a good time to step back and reflect. Think to yourself: What were your goals at the beginning of the year? What were your organization's challenges? Were you able to meet and resolve those challenges? Were there new challenges that surfaced during the year? How did you respond to those challenges? Typically, at year-end, we grade ourselves in a number of areas to assess our overall outcome and set our goals for the coming year.

What is your biggest challenge ahead for this year? The upcoming regulatory changes are probably at the top of the list. Most of us view that as the biggest ***problem*** facing the lenders

"We cannot solve our problems with the **same level of thinking that created them**," said Albert Einstein.

and technology vendors going forward. In fact, the new guidance out of the CFPB does seem onerous. The agency supervision and examination manual was updated in order to incorporate:

- new examination procedures released since the issuance of the manual in October 2011 (covering mortgage origination; short-term, small-dollar lending; SAFE Act; and consumer reporting);
- the June 21, 2012, Interagency Guidance on Mortgage Servicing Practices Concerning Military Homeowners with Permanent Change of Station Orders; and
- technical corrections and formatting changes.

In doing this, the agency laid out seven modules by which they will test your mortgage origination business. Module 1 is Company Business Model; Module 2 is Advertising and Marketing; Module 3 is Loan Disclosures and Terms; Module 4 is Underwriting, Appraisals, and Originator Compensation; Module 5 is Closing; Module 6 is Fair Lending; and Module 7 is Privacy.

The objectives of the origination examinations include:

1. To assess the quality of a supervised entity's compliance management systems in its mortgage origination business.
2. To identify acts or practices that materially increase the risk of violations of federal consumer financial law, and associated harm to consumers, in connection with mortgage origination.
3. To gather facts that help determine whether a supervised entity engages in acts or practices that are likely to violate federal consumer financial law in connection with mortgage origination.
4. To determine, in accordance with CFPB internal consultation requirements, whether a violation of a federal consumer financial law has occurred and whether further supervisory or enforcement actions are appropriate.

And don't think for a second that the CFPB is just interested in mortgage origination, servicing is important to them, as well. Servicing oversight is broken down into three sectors that all have modules of their own that the CFPB will be looking at. For routine servicing, Module 1 is Servicing Transfers, Loan Ownership Transfers, and Escrow Disclosures; Module 2 is Payment Processing and Account Maintenance; Module 3 is Customer Inquiries and Complaints;

Module 4 is Maintenance of Escrow Accounts and Insurance Products; Module 5 is Credit Reporting; Module 6 is Information Sharing and Privacy Default Servicing; Module 7 is Collections and Accounts in Bankruptcy; Module is 8 Loss Mitigation; and Module 9 is Foreclosures.

The objectives of the servicing examinations include:

"If I had an hour to solve a problem I'd spend **55 minutes** thinking about the problem and **5 minutes** thinking about solutions," said Albert Einstein.

1. To assess the quality of the regulated entity's compliance risk management systems, including internal controls and policies and procedures, for preventing violations of federal consumer financial law in its mortgage servicing business.
2. To identify acts or practices that materially increase the risk of violations of federal consumer financial law in connection with mortgage servicing.
3. To gather facts that help determine whether a regulated entity engages in acts or practices that are likely to violate federal consumer financial law in connection with mortgage servicing.
4. To determine, in consultation with Headquarters, whether a violation of a federal consumer financial law has occurred and whether further supervisory or enforcement actions are appropriate.

A lot of people in the mortgage industry today view the working of the CFPB as a major problem. However, let's put that into perspective and really look at what the word "problem" really means. Problem is defined by Merriam-Webster's as: A difficulty in understanding or accepting; something that is difficult to deal with; an intricate unsettled question; a feeling of not liking or wanting to do something; a source of perplexity, distress, or vexation. The opposite of a problem would be a correct solution. The goal here is to determine the solution to coping with the regulatory changes. That certainly sums up the general atmosphere in the mortgage industry.

Dodd-Frank and the CFPB present many challenges across the whole mortgage process. It impacts the Lender's product line, requires changes to the loan process, potentially introducing some unexpected consequences. It necessitates significant changes to the Quality Control process. It will influence not only the current environment but the future developments as well.

How and where do you begin to address these new requirements? The first step is to examine your problem solving and decision making processes. Let's start by reviewing a typical plan.

Problem definition: This is often an area where organizations struggle. Defining and identifying the problem forces you to think about what you are actually trying to solve. Determine who, what, where, or when are impacted by this problem. This is not a one person task, but rather something for the whole organization to engage in since it probably will have a bearing on a number of areas. It is important that everyone has the same understanding and you have a consensus going forward.

Potential solutions: Malcolm Forbes once said, "It's so much easier to suggest solutions when you don't know too much about the problem." As a result, it may be easier to break the problem down into subtasks. It is important to think about all the alternatives. List the pros and cons for each. Evaluate the solutions by reviewing the consequences. At this point, do not pre-judge any potential solutions.

Select the best: Now that you have a potential solution or solutions; you must have a set of criteria for selection. How realistic is this solution or solutions? Select the best. You now need to define how you will implement that plan.

Next steps: Execute the plan. Monitor the progress. Reflect while it's fresh.

Basic problem solving and decision making skills are needed every day in the workplace. These situations can range from the simple to the complex. In the case of the CFPB, there may be a natural tendency to wait for the final specifications. However, in my view, that is very short-sighted. Why do I say that? First, those specifications will always be changing as both sides work towards the best resolution. You don't want to be left holding the bag and scrambling to comply, do you? Second, it will have a long-term benefit if you start prototyping a solution. Why? Thinking long-term and prototyping now will enable you to gain a deeper understanding of the overall impact to your organization. Too often we hope for the easy fix. I hate to be the bearer of bad news, but there is no easy fix, so you better get started on your compliance strategy today. ❖

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