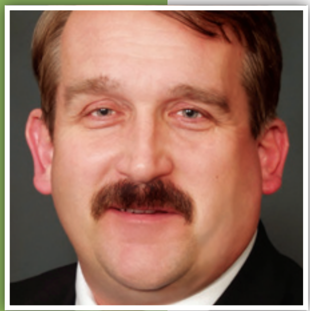

Recovery Tips

Good Compliance Requires Good Data

Accurate, centralized pre-funding data will result in more confident investors, reduced audit times and more efficient responses by your staff.

By Leonard Ryan

We are all familiar with the phrase "System of Record." This phrase is naturally applied to loan origination systems. However, in today's digital lending world, that is often not the case. A lender can have many systems of record, depending on the vendors they rely upon for different processes. The problem? Examiners expect to electronically access these systems and quickly find clarity and data consistency. So where do you start?

The digital age has warranted **complete electronic access** to all of your data, and this **includes investors and regulators**.

The digital age has warranted complete electronic access to all of your data, and this includes investors and regulators. Between DU, LP, LEF, HMDA/Fair Lending or other file formats, we are now in an age of loan record level compliance. The ancient practice (five years ago) of error tolerance built into loan pools is long gone, replaced by complete single loan analysis with zero error tolerance and full adherence to investor guidelines and compliance regulations.

No matter how much you insist on impeccable data integrity, most likely you are reporting some inaccurate data to your investors or regulators. For example, if you are using a third party document program, is the APR from the loan documents reported to regulators, or does your loan origination system store its own calculations which are reported? When the document company's APR is disclosed, it becomes the system of record for APR, Rate Spread and MDIA. Additionally, under the newly released QM rule, this small difference could trigger noncompliance in cases when the APR is close to triggering the high cost rules.

Here are my recommendations:

1. **Processes Must Insist on One-Time Data Entry and Calculation Points**
   Errors occur most often when the same data must be entered manually several times (for example, being required by a vendor to manually enter data on a website to order a flood, fraud or other verification checks). An examiner that sees data fields listed on one document or system, and then sees them differently on another system, is likely to widen their sampling of your audit (and your bill.) Select vendors based on integration and elimination of duplicate data entry.
2. **Third Party Verification**
   It is common in the industry for multiple components of a loan document to meet for the first time upon merging for the final report. An outside source, whether a law firm or an automated system, can identify mistakes well before a deadline. A required independent validation of the loan would dismiss buybacks and extended

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audits, thus saving money from unforeseen mistakes that a separate set of eyes or a technology platform could have detected.

3. **Consolidate Vendors**
   Compliance issues require that you use vendors that have strong integrations. Select vendors that address multiple services using the same tightly integrated data so you can reduce the likelihood of "system of record" issues and manual entry.
4. **Pre-Funding Correction is Essential**
   In accordance with today's regulations, it is not possible to make post-funding corrections to compliance and disclosure issues. Insist on data being verified by third parties for accuracy and compliance BEFORE you are financially liable for these errors.

Accurate, centralized pre-funding data will result in more confident investors, reduced audit times and more efficient responses by your staff to requests – dramatically reducing your overall cost of compliance. ❖

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