Process Improvement

Industry Hot Topics

Let's take a look at some pressing problems and solutions facing mortgage lenders today.

By Tony Garritano

I usually discuss a given topic that's in the news or top of mind for me each month, but this month I want to switch it up a bit. Why just talk about one topic when there are so many topics to tackle.

For example, regulatory risk is a chief concern today in terms of both compliance and the increasing cost of compliance cutting into profit margins. So, what one or two compliance issues that are most important today? Are there other compliance risks that lenders should be aware of or preparing for?

"As a marketing company, we see a lot of concerns. There is defragmentation in mortgage marketing," said Mary Beth Doyle, co-founder of LoyaltyExpress. "CFPB is coming down hard on what can be said, it's getting heavily controlled. However, it is difficult for organizations to get streamlined so they are compliant."

LoyaltyExpress is a one of the nation's largest providers of marketing automation and cloud-based CRM solutions for mortgage companies and banks. The company's solutions enable lenders to automate marketing campaigns and easily manage customer, partner and recruiting data, while streamlining marketing activities, such as email, direct mail, print and gift fulfillment. This integrated approach enhances compliance by eliminating the need to share sensitive customer data with multiple vendors while ensuring that loan officers only use preapproved marketing materials that comply with regulatory guidelines.

"When we talk about the cost of compliance, there has been a psychology to recruit the a-team and let them go at it," noted Doyle. "So, it's a cultural change when the CFPB now places constrains. Having the controls in the system to keep communication automated and consistent is critical."

Marketing isn't the only sector to be impacted by skyrocketing regulation, the appraisal sector has been impacted, as well. "The regulations and compliance issues around appraising have skyrocketed," said Jeffrey J. Bradford, founder and CEO of Bradford Technologies, Inc. "For example, the term 'desirable' can't be used by an appraiser anymore because that's subjective. There is a reliance on data and being factual. The fear of being sued or having to buyback a loan is amazing and it's causing a lot of money to go toward appraising."

Bradford Technologies is an innovator of valuation tools and solutions for residential appraisers. The company pioneered computer-aided appraising, was the first to incorporate statistical support in both mainstream and alternative valuation products, and currently provides one of the most adopted technologies for residential appraisers. AppraisalWorld, the company's online appraiser community with over 20,000 members provides services focused on building trust and reliability in the appraisal industry.

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The answer to maintaining compliance is consistency and accuracy, according to Ann D. Fulmer, a senior industry advisor for FormFree Holdings. "We hear a lot that loan officers are resistant to technological change that would protect the lender, but limit them. Another consideration down the road, to the extent that LOs are loosey-goosy, you open yourself up to fair lending issues. You have to defend yourself and your decision-making when you approved that loan.

"So, ask yourself: Are your decision-making processes consistent? Just because you can show that what you did was an industry standard, that doesn't mean that you can't be sued. The biggest risk to the industry is the lack of clarity around the new CFPB rules. Until the CFPB gets clear about what it expects and how they are going to enforce those rules, it's paralyzing."

"From a TPO standpoint, the paranoia ratchets up because you have to know who you're doing business with," added Gregory J. Schroeder, president of Comergence Compliance Monitoring, LLC. "If you are a small- to medium-sized lender you are in a crosshair because what do you do? You have to ensure compliance without destroying your profit margin. The CFPB has not targeted the smaller lenders yet, but it is coming."

Comergence Compliance Monitoring, LLC, is a SaaS provider of vendor management solutions, currently focused on third-party originator and appraiser risk. Comergence provides lenders and appraisal management companies with tools that review and continually monitor registered mortgage loan originators and appraisers.

In the midst of all this change it's important to assess and re-assess how you as a lender are handling this change. "Lenders are trying to do everything at once," said Fulmer. "The CFPB was intended to protect consumers, but they are actually hurting consumers because there's a lot of confusion."

Doyle added that "there are state guidelines as well as federal guidelines to deal with. So, there's a lot of interpretation to be done for sure. There's such panic and intensity around compliance. You need to have a full audit trail to at least prove that you are trying to comply. And of course the consumer is hurt because these organizations are so paralyzed by how to interpret the new rules."

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Compliance aside, another hot topic is appealing to Millennials to both enter the mortgage industry as workers and homebuyers alike. "I have a daughter that is a Millennial, shared Bradford. "She wants to work for an employer that is having a social impact. They care about the climate, the world and the environment. There used be 2,000 appraiser trainees, now we only see a few hundred. You now have to have a college degree and many hours of experience to be an appraiser, which makes it economically unfeasible for people to get into the appraisal industry."

In addition to Millennials turning their back on becoming an appraiser or loan officer, they're also increasingly turning their back to homebuying, as well. So, how should the industry behave to get this group of people to want to buy a home?

"The challenge is really providing a program to help these young people get into a home given that they are already carrying so much debt in the form of student loans," answered Doyle.

"I don't think you can entice these guys to buy a home," pointed out Bradford. "They want to be mobile and live in the trendiest places. If you could refinance their student loans it might entice them to do other loans with you."

As we can all see, lenders are facing a number of challenges, but there's one area that gets less attention than it should: oversight of third-party relationships and vendor management. "Recent regulations driven by Dodd-Frank have made managing these relationships even more critical," reported Schroeder. "Lenders aren't just being held legally accountable for their own actions, but for the actions of all the third parties with whom they do business. That includes not just third-party originators but other parties as well, including appraisers and software providers. We're also seeing that originators are facing demands for more information and documentation each time they decide to apply to a new wholesaler.

"In addition, lenders that allow borrowers to shop for third-party settlement services have legal responsibility under the CFPB's new regs in case those providers do harm," continued Schroeder. "It's clear that mortgage lenders must have an effective process in place for managing their service providers. But how do you keep track of what your vendors are doing in a cost-effective manner while staying focused on your own business? It can be an overwhelming task."

So, how does the lender stay ahead of all of these issue? Many see the answer in artificial intelligence and smart technology. Let me leave you with this thought: Technology will never replace a human, but if programmed well, it can standardize the process and increase accuracy and efficiency all at the same time. ❖

Tony Garritano is Chairman and Founder of PROGRESS in Lending. As a speaker Tony has worked hard to inform executives about how technology should be a tool used to further business objectives. For over 10 years he has worked as a journalist, researcher and speaker. He can be reached via e-mail at tony@progressinlending.com.