Today, a heavily burdened regulatory environment has emerged, with more changes on the horizon that will impact lenders’ profitability, but there is a clear path to ensure success.
Today, the typical loan cost has increased, making the relevance of technology exponentially important.

But the fact remains: ensuring complete accuracy, despite the ever-changing regulatory landscape, is a critical priority.

To maintain regulatory compliance, small and mid-sized lenders should strongly consider partnering with an experienced team, whose core competency is staying informed of regulatory changes. In addition, automation at every point in the process is key. Lenders should invest in an automated loan origination system that offers complete functionality from point of sale to closing and delivery of loans to the secondary market.

To achieve this, institutions should look for mortgage loan software built with the latest web application technology to enable lenders to process mortgages anywhere and anytime. Such technology should enable business-level controls for all processing decisions and effectively accommodate full compliance with regulatory requirements.

When selecting a partner, institutions should look for a provider dedicated to delivering regulatory consulting to guide them through risk evaluations and comprehensive loan data analyses. An ideal partner should have a thoughtfully designed and customized compliance/risk advisory service, utilizing contracted subject matter experts dedicated to all things compliance.

SAVING COSTS THROUGH AUTOMATION AND OUTSOURCING

Compliance costs will undoubtedly continue to grow due to regulatory pressures. In addition, the cost of complying with other federal laws will also likely continue to rise as regulators increasingly scrutinize institutions’ lending practices in an attempt to avoid issues that led to widespread institution failures.

According to Jeanne Capachin, a senior consultant at Graber Associates, in the most recent “Bankers as Buyers” report, “Engineering regulatory compliance and transparency into corporate, trade and transaction, customer servicing, and reporting will be top priorities for North American banks and investment services firms.” Capachin further advised that institutions will need to leverage compliance-aware data management strategies that incorporate the needs of risk, finance and legal/regulatory operating units at both line-of-business and oversight levels to try to manage compliance costs.

Take, for instance, the cost to originate a typical loan, which increased slightly in 2012 to $5,163 (previously stated). This amount includes the total loan production expenses – commissions, compensation, occupancy and equipment, and other production expenses and corporate allocations.

By automating the process, lending institutions are able to shave off approximately $200-$300 per loan, according to our findings. That is a potential annual industry cost savings of nearly $905 million, based on the number of 2012 home sales cited by the United States Census Bureau.

STREAMLINING PROCESSES TO IMPROVE PROFITABILITY

In addition to cost savings and improved quality, automating compliance and originations streamlines the process to enable smaller lenders to support increased loan volumes. By ultimately outsourcing the operations side of the business to a team of experts, lenders can better focus on the core of their business – getting loans through the door.
A case in point: Henderson, Ky.-based The Bank Mortgage Network (TBMN), a division of $130 million-asset Bank Trust Financial Corp., formerly The Bank of Henderson, Inc., originates loans for a network of ten community banks throughout Kentucky. In the years following the mortgage crisis, TBMN—like many institutions—found it challenging to grow its business. To ensure it met regulatory guidelines, the lender was forced to dedicate internal resources to compliance tasks, which meant fewer resources available to originate loans.

Tom Hughes, president of TBMN, explained in a recent interview that to employ all the people needed to perform compliance checks, it would take about six people to produce a single loan. That translates to six salaries, plus benefits and vacations, he added.

To improve operations, reduce costs and free up resources to focus on its core business, TBMN partnered with ISGN to implement an outsourced workflow by leveraging technology and a dedicated, outsourced team of experts. Mortgage applications are now processed and loans are underwritten and closed like cars on an assembly line, Hughes explained in the interview.

Now, a diverse team of mortgage processing experts work around the clock to check applications each night, significantly speeding the process and reducing costs. With outsourcing, the lender is paying by the loan—a significant improvement, according to Hughes.

TBMN is now closing loans within 15 days, and because the lender can better focus on bringing in applications, it has rapidly grown since its initial implementation in 2012. TBMN expects to continue to grow throughout 2013.

REMAINING FOCUSED ON CORE COMPETENCIES KEY TO SUCCESS

Many lenders simply cannot afford the increased headcount but are burdened with increasing regulatory requirements. In response, these institutions must think strategically about their operations. Institutions must determine what their core competencies are and outsource their other business components. In doing so, lenders and servicers will be better equipped for success.

ABOUT THE AUTHOR
Lisa Weaver, CMB, senior vice president of Mortgage Solutions for ISGN Lisa Weaver brings more than 25 years of industry experience to the ISGN team. As senior vice president of Mortgage Solutions, Weaver is responsible for working with ISGN’s sales and solutions architecture on customer deals, as well as expanding the company’s product offerings. Weaver is a Certified Mortgage Banker with a rich understanding of mortgage origination, servicing and capital markets.