Your Voice

Technology adoption in Compliance

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By Pramod Karachur

Lenders and servicers have used technology to gain the competitive advantage, attract tech-savvy millennials and enjoy efficiency in their loan origination and servicing activities. When it comes to compliance, however, lenders and servicers have come up short in successfully adopting technology.

After Dodd Frank Act in 2010, the rules have changed and the Consumer Financial Protection Bureau (CFPB) has played an important role in enforcing the compliance on the lenders and servicers. Other regulatory bodies such as Office of the Comptroller of the Currency (OCC), Federal Reserve (Fed) etc., have also enforced additional requirements. We have all seen what the result is when there is a failure to meet these regulatory requirements: For example, in May 2014 Bank of America was required to pay $30 million to improve its compliance practices thanks to findings by the OCC.

A report by CFPB published just last month (June 2016) stresses that lenders and servicers are not effectively investing in technology. And the whole purpose of having this high level of compliance is not helping the borrowers instead it can lead to greater risks. While leaders and servicers should be maximizing technology to aid in compliance efforts, they are only using the basic applications, such as spreadsheets, to manage compliance. Yes, I have actually had people tell me they use and are happy with their run of the mill spreadsheets. Using these applications might solve work for the short term but for the long term, this approach will present more challenges than gains. The mindset of using basic applications until there is an issue or until an agency cites you is misguided and financially risky; however, this is the pervasive thinking in many companies.

Why are companies reluctant to make changes? In short, money. This might save a few dollars in the beginning but when a problem arises or a complaint is lodged, it could cost them a substantial amount in fines. Lenders and servicers who have deep pockets would be able to afford the hefty fines but other companies might find it hard to pay, which can force them to go out of business. This can be avoided by embracing advanced technology in compliance efforts.

When companies do make the decision to invest in technology, management should consider whether to invest in building new technology from scratch or finding an application that can be used as a Software as a Service (SaaS). One thing companies should keep in mind is that building technology from scratch could take a couple of years, couple of millions of dollars and a dedicated software development team. Working with a provider that already has a viable system developed or one that can be customized or can be implemented in less than a month for far less may be a much wiser choice. When it comes to a decision like this, it becomes pretty obvious what route most companies will take. I'm thinking the SaaS.

The report from CFPB, which clearly highlights the agency's dissatisfaction of the lack of technology adoption, should be a clear indicator or a warning to those companies who have not yet maximized the use of technology in every aspect of their business. In my opinion, this report as a strong warning shot from the CFPB and one that should not be overlooked. Lenders and servicers today need to set a budget and take heed before it is too late. ❖

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