Process Improvement

There Is Help

With the regulatory burden increasing, more and more lenders are running scared. I'm here to say it doesn't have to be that way.

By Tony Garritano

I know that times are tough. Things are getting harder. But are you going to quit? This may sound like an intervention, and I guess in a lot of ways it is. Complying with new regulation doesn't have to be hard if you have the right technology partners.

If you think about it, the loan origination system (LOS), as the system of record, should be just as stressed as lenders are, but instead these LOS vendors are working tirelessly to ensure that their lender clients are in compliance. Teresa Blake, Practice Director, Lending Solutions, at Wipro Gallagher Solutions, which provides end-to-end lending solutions to financial institutions, is fully aware of the pressure that lenders are feeling these days.

"The biggest challenge that I see our lender clients facing is that they are trying to manage all of the compliance and regulatory change, while also wanting to do all of the innovative, strategic work that might really change or propel their business," Blake points out. "When I look at the amount of hours involved in any one of these regulatory projects, and then you stack up on top of that all the stuff that lenders want to be doing, I think it's just a continued challenge for lenders to prioritize what comes first."

"In my view, the biggest challenge that lenders face is automation," noted Steve Wiser, CEO and founder of Specialized Business Software (SBS), a provider of custom software solutions for insurance, mortgage and financial services companies. "Here's what I mean: You really have to automate these rules, otherwise it's going to be impossible to maintain compliance if everything is done manually. You need to make sure that the rules are in place, that the borrowers are being treated consistently across the board, and that you have audit trails that are keeping track of the fact that all the rules are being followed. Beyond that, if you don't have that infrastructure in place, you're going to have a lot more pain. If you have the infrastructure in place, the next thing is to make sure you can modify it easy enough that you can comply with the different rules as they come."

To this end, SBS has implemented a four-step discovery process to enable Property and Casualty agencies and carriers to use customized software to boost profitability and eliminate errors and redundancy. SBS' discovery process focuses on producing a strategic plan that reduces the time it takes to develop the software, implement the system and train employees in its use, while keeping insurers and agencies involved and in control of the development process.

Any time technology can come into play to reduce errors, it's going to save lenders money and keep them compliant. At the same time, Alice Sorenson, Chief Investment Officer of LRES, a national provider of commercial and residential valuations and asset management for the mortgage, banking, credit union and real estate industries, notes that "the biggest challenge coming from the new regulatory burden is that not only do lenders have to understand and be prepared, and have the systems and audit trails, but they have to be able to generate a profit, as well. How do you do all of this and still generate a profit? It's very cost intensive and it's expensive. It's going to take some very unique thinking to be able to adapt to all these regulations and still maintain margins that make sense to keep lenders in the business."

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But there is hope. Sorenson advises that, "there are a lot of things a lender can do to contend with what we're up against in regards to compliance. The first and most important thing, I think, is to recognize how important it is to maintain compliance, and at the same time, to understand that these new rules are here to stay.

"The best solution I see for this situation is for lenders to put together a compliance team headed by a legitimate compliance officer. That involves a lot of infrastructure, it involves a lot of cost and a lot of companies aren't able to handle that. If they can't take on that cost, than the next best solution would be to outsource that function. Regardless of what path the lender chooses, they want to make sure that they get the specialist, the experts, the people most knowledgeable in the area of regulatory compliance because this is here to stay. It's not going away and it's creating a huge arena of risk that needs to be managed," concludes Sorenson.

And compliance can take a variety of forms. Joe Ludlow, VP of Advantage Systems, a provider of accounting and financial management tools for the mortgage industry, says, "From our perspective, a big part of compliance is compensation. What I'm really talking about is commissions for loan officers. As we have already seen, the CFPB is coming down pretty hard on firms that are not compensating loan officers according to Dodd-Frank. It's very important that you be able to survive a compliance audit with regard to compensation. It's very hard to do that if your system for compensating loan officers is inadequate — spreadsheets just aren't going to cut it.

"You need a system, or a procedure, that allows an auditor to review compensation over time, perhaps even looking at a whole year's worth of compensation for a loan officer, and at the same time, make sure that what your system produces matches up to what you actually paid them," Ludlow continued. "As you know, Dodd-Frank really changed the way we pay loan officers and that's a big part of how loans end up getting priced."

Advantage Systems' Commission Calculation Module assists lenders with simplifying adherence to pending loan officer compensation rules. The Commission Calculation Module of the Accounting for Mortgage Bankers (AMB) accounting system enables lenders to automate the calculation of commissions and bonuses in both retail and wholesale environments. This is especially important as lenders adjust to interpretations of the Federal Reserve Board's loan officer compensation guidelines. Through the tool, lenders have the flexibility to define how these amounts are calculated based on their own business rules.

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The point is that vendors are just as aware of the new rules as lenders are and they are getting ready themselves. "We actually started working on building requirements for all of the regulatory change before the rules are even final," said Blake. "We really try to dissect the rules, and interpret the intent while we wait for the final ruling. We are always in the process of writing requirements and starting development work so that as the rules are finalized, we leverage our change control processes to bring any new or refined elements live. Also, we socialize with our lender partners before the rules are even final or given a time line."

Wiser agrees that vendors have to be proactive in order to ensure the success of their lender clients. "Our lender clients are coming to us with the upcoming rules that they want to adhere to and a lot of them actually have different methods of approaching them, but our goal is to make sure that the software is ready to go," he added.

The bottom line, according to Wiser is, "The one thing that we know for sure is that new rules come out every year, rules are changed every year, and you need to make sure that your system is working with you to handle these changes." ❖

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