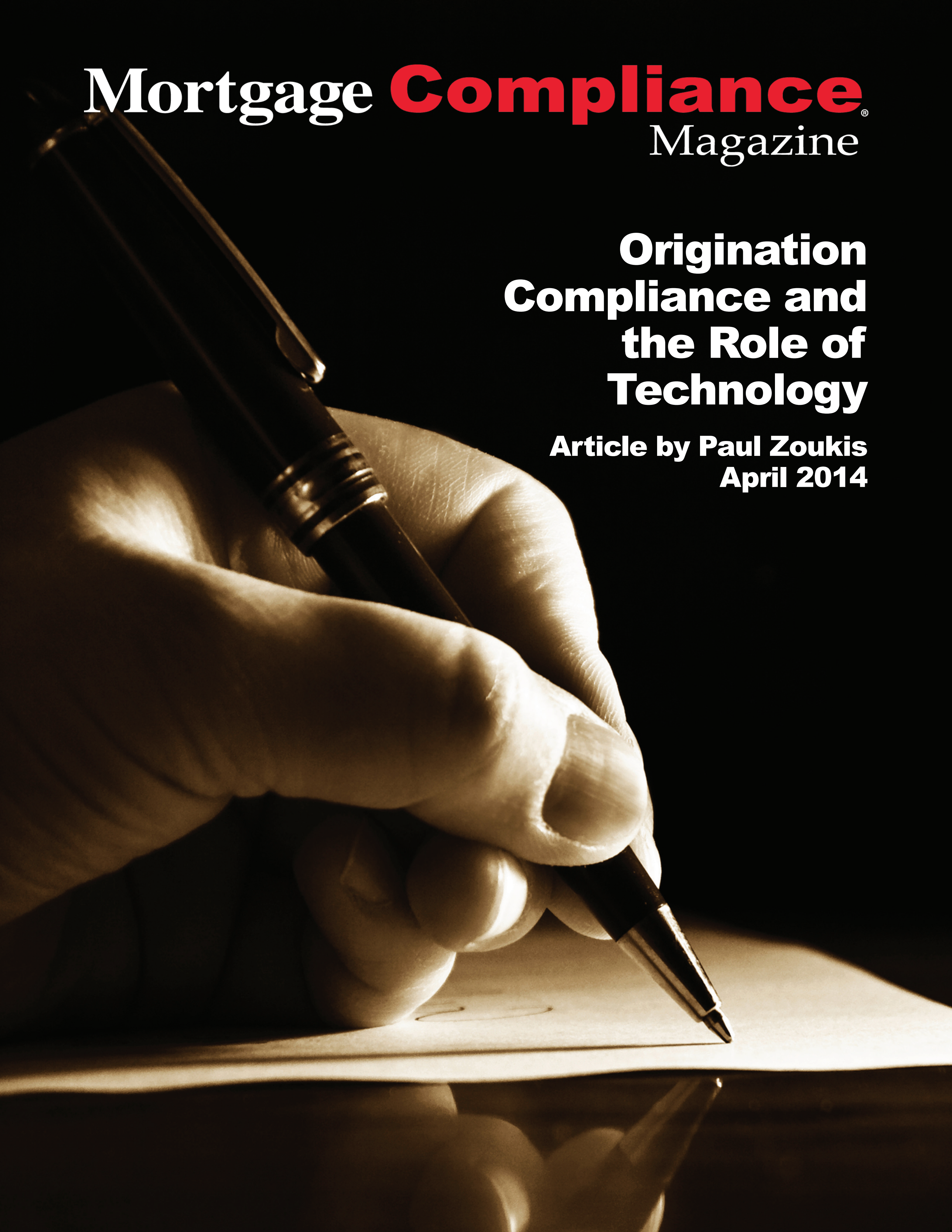
Mortgage Compliance® Magazine



Origination Compliance and the Role of Technology

Article by Paul Zoukis
April 2014

ORIGINATION COMPLIANCE AND THE ROLE OF TECHNOLOGY

BY PAUL ZOUKIS

Paul Zoukis

Can compliance be sexy? Strange as it may sound, it's really not such an odd question when you consider where we currently find ourselves in the industry's new regulatory era. Before the mortgage crisis, origination was where all of the glitz and glamour was found, and where most of the resource investment occurred. Servicing? An afterthought, as was compliance for the most part. People paid their mortgages on time and if you got through the HUD and GSE oversight hurdles, life was fairly simple from a compliance standpoint. But today, we're in an entirely new age, and while income and profits are still driven by originations, compliance is the new priority. You can't survive without it, and this means big changes in the way you look at originations.

While income and profits are still driven by originations, compliance is the new priority. You can't survive without it, and this means big changes in the way you look at originations.

But again, can compliance actually be appealing……or something to look forward to?

If this were a 12-step program, the first step would be to realize that the old loan officer-centric paradigm has gone the way of the VHS tape: it still exists, but it is no longer a workable option. Since Dodd-Frank came on the scene, virtually everything the mortgage loan officer (MLO) says or represents can get the lender into trouble and therefore must be compliant. Rogue MLOs, regardless of how prolific they are as producers, are no longer desirable and can't be allowed to control transactions simply because their messaging directly affects the company's viability. Cultural change at the MLO level is not only inevitable; it is fast upon us as a result of the regulatory environment. Mortgage lenders of all varieties now must be squarely in the driver's seat when it comes to standardizing origination message content and documenting how it is delivered to consumers.

Picture for a moment, how things functioned prior to 2010 in order to appreciate the magnitude of change.

Flyers, rate sheets, emails, newsletters, postcards, open house special financing offers (and every other product of a MLO's imagination and laser printer) were produced and circulating virtually unchecked in markets throughout the country. Efforts to standardize messaging and prevent loan officer freelancing were exercises in operational frustration, which, if pursued with vigor, led to high producers to resign and go where there was more freedom to run their business. Production managers lived this experience routinely and for volume reasons, seldom exerted influence to change the behavior.

Compliance and QC professionals lived the experience too, but in a different way. Early on, there were audit hits to be considered when defects and origination complaints were found in post-closing QC reviews, but the pain was dissipated broadly over portfolios of performing loans. When portfolios no longer performed reliably, the magnifying glass focused on loan quality and compliance as acute pain points, with repurchase demands a daily occurrence for many lenders. After a while, the origination side simply had to stop calling the shots. Even in companies that focused early on loan quality and compliance, it was often too late to prevent failure of the business from loan buybacks and regulatory exposure. For lenders that remained, hiring of compliance and QC professionals increased over new loan origination hires by a three-to-one margin, and today continues to outpace MLO acquisition due to the array of new laws affecting the industry.

Not to mention Dodd-Frank's impact, including the enactment of QM rules and other CFPB requirements, has yet to be fully realized. The Act's 5,320 pages has produced somewhere between 300-400 new regulations among federal, state and local authorities over the last several years, and there are potentially a thousand more that could be created. This is indeed a steep regulatory "hill" to climb, but adapting to this new environment is critical to the success of mortgage firms today.

The new normal is that it's a compliance world… and we're all living in it. So, is it possible to go beyond merely tolerating this environment – and actually improve efficiency, productivity, MLO retention and profits, all while reducing compliance risk?

Compliance is attractive – and much better yet, a necessary business proposition.

A profitable business model requires that origination and compliance departments coexist effectively. It is a three-legged stool that stands the longest, and compliance has joined with origination and servicing to create a sound lending industry structure for the long term. What knits them all together, particularly the historically contentious duo of MLO and compliance officer? The answer is in technology, and its solution involves a few more steps in the paradigm shift.

One of those additional steps includes the concept that if you do it right, the loan officers can be completely satisfied – actually thrilled – with their marketing tools without ruffling a feather in the compliance department; and perhaps – even thrilling the compliance team as well. As a corollary, you can have mandatory, compliant marketing processes that motivate the salespeople with plenty of "carrots" without requiring the "stick."

The best way to institutionalize cultural change is to provide unquestionable value embedded in a mandatory process, delivered by elegant, intuitive technology. Providing loan officers with an array of fully automated corporate marketing campaigns – far better than anything they could create on their own – that support their activities from lead capture to post-closing ensures 100% adoption. Empowering them to selectively apply easy-to-use sales tools capable of saving time and driving conversion rates ensures 100% adoption. Making the entire process compliant but non-intrusive ensures 100% adoption. No sticks are necessary with all the carrots involved; instead technology, combined with great content, can offer readily observable value brought to the MLOs' daily process that saves time and increases sales.

Simply put, the day of decentralized sales and marketing is over. The new reality is here – centrally controlled, non-intrusive, compliance-ensuring technology which produces an experience that excites MLO's and delights their clients and referral partners – all while reducing risk. With its arrival, compliance and origination need no longer be at odds, and in fact can operate as they should – as components each needed by the other to be successful. This holistic approach keeps companies in front of regulatory issues and creates marketing programs that prevent compliance errors before they happen, rather than detecting and trying to correct them after violations have occurred. Financial institutions can create, adopt and enforce comprehensive advertising and sales communications programs that satisfy regulators and keeps business flowing – all while attracting and retaining origination talent by improving results and financial rewards.

Accomplishing these goals requires the latest generation of integrated customer relationship management technology that has the capability to both enhance and more effectively manage all marketing and sales channels. Many of today's leading mortgage lenders have already recognized the enormous benefit of implementing these new powerful and flexible production platforms and are enjoying the strategic advantage gained from being an "early adopter."

And the benefit of adoption goes far beyond the reduction of regulatory compliance risk. As the Harvard Business Review (HBR) observed a few years ago, "On average, sales and marketing costs average from 15-30% of total corporate costs. So the effort to automate for more sales efficiency is absolutely essential." Indeed, these costs can be materially reduced by the elimination of redundant steps and inefficient processes. The impact on revenue was equally significant, as HBR continued, "In cases reviewed, sales increases due to advanced CRM technology have ranged from 10% to 30%." The investment community also recognizes the impact of these new solutions on investment risk, and is more willing to provide capital and higher valuations to those lenders that can demonstrate superior regulatory compliance controls.

Making compliance interesting and attractive to all key stakeholders within the organization resides in how it is presented, the value proposition of effective compliance management and in the presentation to non-compliance staff. Compliance training efforts that stifle your MLO's with lengthy review cycles, and compliance systems that yield unappealing and ineffective marketing collateral will only place marketing and sales efforts at odds with the compliance goals of the organization. Effective compliance systems that support the broader sales needs for an organization is vital in a contracting market. This will inevitably include MLO-friendly solutions that rapidly produce world-class, fully automated marketing campaigns and impressive sales presentations that will attractive consumers and referral partners alike. MCM

Paul Zoukis is the CEO of Vantage Production, the leading provider of compliance-centric CRM solutions for the mortgage industry. He can be reached at pzoukis@vantageproduction.com.