REDUCING COSTS & IMPROVING COMPLIANCE

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BY LIONEL URBAN

2014 was another extremely challenging year for the mortgage industry. Lenders found themselves in an environment that required them to be competitive and compliant, as well as efficient and profitable. In consequence, while the pressure to produce remains constant, the cost to originate continues to skyrocket, requiring lenders to maintain compliance while trying to contain costs.

The mortgage industry has been overwhelmed with a flood of new rules and regulations while dealing with unpredictable origination volumes. This combination has put intense pressure on mortgage lenders to update compliance processes while producing new business volume. Violations can carry severe financial penalties or possible civil actions. Responsibility now falls squarely on the lenders' shoulders. With the scope of regulation now reaching into all aspects of mortgage operations the days are long gone when a small to mid-sized mortgage lender can go it alone or with outdated technology. In this lending environment, this is simply too risky.ad the opposite of their desired effecteading to longer disposition cycles and lower selling prices.

Increased compliance scrutiny and pain of non-compliance has been a multi-year trend that has continued to a point of exhausting lenders and the trend will likely continue. Lenders have made the easy corrections to their environment and now need to assess more thoughtful ways to meet the increased demands.

At the same time, as lenders are feeling greater scrutiny from CFPB and other agencies – at both the federal and state level, they are also experiencing increased demands on their IT infrastructure (security, cyber threats, hardware requirements etc.) and heightened competition with the need to produce sustainable results. So, not only must they ensure compliance throughout the origination process, they must also ensure their IT demands are met without an increase to their budgets.

These trends are getting worse and while many lenders may have made the simple process changes they must now take a more proactive approach to finding better resolutions if they plan to survive in the future.

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Higher Costs Originating Loans

To meet these ever growing challenges, lenders' overhead has increased significantly to support back-office compliance, which is driving up origination expenses to the point that lenders current practices are too expensive.

That's on top of the record low production profit of $150 per loan the industry has experienced in 2014 according to Mortgage Bankers Association (MBA) data.

MBA chief economist Michael Fratantoni stated that "The losses are not a result of lenders aggressively pricing mortgages in order to make up for lower volume. Rather, it is due to higher expenses, especially because lenders have had to add back office staff to deal with new compliance requirements put in place after the mortgage crisis."

These market conditions are putting intense pressure on all lenders, but especially small to mid-sized lenders trying to keep pace with their larger counterparts. With back office costs sky rocketing small and mid-sized lenders must find a way to contain these costs if they want to remain competitive and survive.

So What is the Answer?

Can small and mid-sized lenders continue to compete, or are the larger lenders going to continue to throw resources and bodies at the challenges to gain more and more market share? The answer is clear, if small and mid-sized lenders continue to do business as usual and are constantly reacting to changing market conditions with outdated technology, they will not survive.

The good news is there is a way for these lenders to compliantly compete and be able to contain the rising costs to originate.

Automation: The Great Equalizer

Small and mid-sized lenders need to realize that the right technology and automation can be the great equalizer. That sounds great but how can lenders benefit from automation while also containing their IT costs and infrastructure?

Advanced fully hosted mortgage Software as a Service (SaaS) allows lenders to reduce ownership and costly upgrades, simplify and accelerate system implementation, enjoy worry-free security, and benefit from a centralized data repository. For most lenders, technology ownership is a fixed cost for a resource that rarely reaches its expected return on investment. Further, loan origination systems are notorious for slow implementation and are subject to numerous annual upgrades that can be either expensive, time consuming, or both, to deploy. As a result, the right SaaS solution has become a prime candidate for outsourcing, especially for growing lenders.

Not only is it important for lenders to understand the benefits of a SaaS model but more importantly they need to realize that there are big differences in SaaS options currently available. That includes lenders who are currently using an outdated SaaS system and are struggling to maintain compliance and contain costs. Understanding these differences will allow lenders to more proactively address the deeper industry issues burdening them today and providing the framework to easily adapt to ever changing market conditions.

Mortgage lenders should consider the following when assessing a SaaS LOS:

Does the vendor provide a "test drive" environment that allows access to the platform to validate that it will work for those lenders' specific needs?

Lenders need to **strategically partner** with a technology provider that can handle these compliance mandates.

The key, especially for small to mid-sized lenders, is in an out-of-the-box solution with lending best practices already built into the solution versus a system that requires significant configuration and support by the lender just to originate a loan. The out-of-the-box solution minimizes the time needed for implementation and eases the burden for the lender to proactively address today's most challenging market conditions.

Does the vendor have a transparent and collaborative culture that performs as the lenders IT partner?

How is support provided? Does the lender have a designated contact? Is there an SLA in place for bugs or support tickets? What is the cost for follow-up with support tickets? Does the vendor have a product road map that makes sense and does the lender have the ability to collaborate on future functionality, system design and development priorities? Is the customer a big fish in a little pond or a small fish in a big pond? There is much less predictability in the self-serving environment of a public company.

Is the system based on the right technical infrastructure for stability and data access?

What is the vendor's track record of uptime interruptions? Has the provider had costly outages in the past? Does the database run on MS SQL? Does the vendor's system run on archaic Flat files vs. a truly Relational Database? How robust is the network/ data center?

Does the vendor support third party vendors in a best of breed model or promote internal inferior products?

Does the system support the industries best vendors with high levels of feature functionality with seamless integration? Does the LOS provider charge vendors with high "click fees that results in the lender paying for higher charges? How much effort is needed to configure the system for the lenders' specific requirements?

Does the system require complex coding to support lender needs or is the administration simple to apply?

Are tables auto updated for the lender when applicable? Does the lender need an extensive IT staff to support the system on an ongoing basis?

Is the solution competitively priced?

Vendor pricing varies significantly in implementation fees and transaction fees. It is critical to understand all fees on an on-going basis to truly contain costs.

In addition to meeting the IT infrastructure demands, small and mid-sized lenders must address the ever growing burden of compliance. Lenders of this size simply do not have the resources to constantly monitor, proactively address compliance changes, and interpret how these changes will impact their organization. Remember, it is not just the rising costs to comply, but also the significant ramifications for non compliance that lenders must be able to handle

Therefore, lenders need to strategically partner with a technology provider that can handle these compliance mandates. The provider must have a compliance focus, one that proactively monitors the changing compliance landscape, follows best practice compliance standards, and streamlines application data security. The solution should provide lenders with the ability to ensure that compliance policies and procedures are adhered to while efficiently completing the lending process.

In today's highly competitive marketplace just having a SaaS lending solution with compliance is no longer enough. It takes the right provider to be able to deliver a cost effective, highly compliant solution with the right IT footprint for small and mid-sized lenders to succeed.

If small and mid-sized lenders are going to remain competitive and survive in these market conditions they need a vendor who can change direction on a dime and provide them the insight, IT infrastructure, and strict compliance needed. Small and mid-sized lenders can compete and succeed in today's challenging mortgage environment. It comes down to partnering with the right provider to deliver the most advanced SaaS solutions that address compliance and contain IT costs. The time to explore all your lending solution options is now. ❖

About the Author

Lionel Urban serves as CEO, founding partner and chairman of the board for PCLender, LLC; in this role, he is responsible for the overall strategic direction and the vision behind the technology development of the company. Prior founding PCLender, LLC, Lionel was a co-founder and CEO of Navigator Lending Solutions, Inc. a fulfilment services company.