



Mortgage Compliance
Magazine

**Using Technology
to Control the Cost
of Compliance**

**Article by Greg Holmes
April 2015**



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The old saying, "No man is an island," has never been truer than it is in today's mortgage industry. New Consumer Financial Protection Bureau (CFPB) regulations designed to protect the interests of both consumers and lenders, require verification of more borrower information than in the past – and, in many cases, verifications must be performed by third-party vendors.

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A 29% MEDIAN INCREASE IN COMPLIANCE COSTS

According to Fannie Mae's October 2014 Third Quarter Mortgage Lender Sentiment Survey* of senior mortgage officials, 72% of respondents said they paid more for compliance in 2014 than they did in 2013. Interestingly, the breakdown

of that figure shows that midsized lenders have taken the hardest hit: 84% of midsized lenders have seen higher compliance costs, compared to 73% of larger lenders and 62% of smaller lenders. The median increase in compliance spending was 29%.

With costs up for the majority of lenders, the goal, then, is to figure out how to meet compliance requirements in the most cost-effective manner possible. In most cases, a two-part solution will likely be most effective: first, outsource some of the most labor-intensive tasks and, second, stop doing manual verifications, and instead, take advantage of the latest technology to perform electronic verifications.

FASTER, CHEAPER, MORE RELIABLE VERIFICATIONS

Technology is changing the mortgage industry. Employment, income, deposits, assets, tax return info, and more can now be instantly verified using the latest ▶

electronic verification technology. Undisclosed debt can even be monitored in real-time throughout the quiet period.

Lenders are finding that using third-party vendors that offer advanced technology and larger staffs can provide economies of scale that result in verifications being completed faster and at less cost than if the lenders did the work themselves. In fact, many lenders have discovered that the technology offered by third-party vendors not only takes tedious verification work off their desks, but they get answers so quickly and the data is so reliable, they are able to make better-informed lending decisions.

The requirement that third-party vendors must be used for some types of information verification also helps to prevent fraud and minimize errors and risk. Because some types of verifications are provided directly to the lender, the opportunity for borrower fraud is often virtually eliminated. As a result, lenders may also reduce their risk of buybacks – and all the unwelcome costs associated with them.

THE COST OF VETTING THIRD-PARTY PARTNERS

New regulations recommend that lenders thoroughly vet each third-party vendor they use. Unfortunately, vetting can be expensive. Because regulatory guidelines for vetting third-party verification providers run the gamut from "very specific" to "somewhat vague," many lenders are unsure of the level of due diligence they should undertake (including whether to perform site visitations) when scrutinizing each new vendor.

Many lenders are now taking an extremely thorough approach to be safe – and are finding time and money quickly add up when they must vet multiple third-party companies. Then, once all the evaluations are complete and they've entered into relationships with various vendors, they must continue to monitor the process at each vendor to manage risk and ensure all are regularly updating procedures to remain in compliance. More vendors naturally take up more of the lender's time and money.

REDUCE YOUR COSTS THROUGH CONSOLIDATION

The fastest way to lower the cost of compliance is to consolidate – reduce the number of third-party vendors you use to just a few. Even better, use just one or two. Partner with third-party vendors that make use of the latest technology and can deliver most or all the verification tools you need in one place.

Consider all the ways using just one or two vendors will save time and money: you only have to go through one or two vetting processes; you only have to manage and monitor a couple of third-party providers; you only have to pay a couple of invoices each month; you only have to remember one or two sets of login credentials and go to one or two sites to order all the verifications you need. On top of all of this, by using just a couple of vendors, you will more than likely be eligible for discounts on products as a direct result of volume purchases and/or bundling. Using fewer third-party vendors can deliver savings from one end to the other.

VETTING YOUR THIRD-PARTY PARTNERS

There are many things to consider when vetting a potential third-party vendor. You should confirm how long the company has been in business, and check its financials and organizational set-up. You'll also want to make sure it has a steady compliance record, and understands and is able to comply with new regulations.

You'll need to review the vendor's policies, procedures, and internal controls and training materials to ensure it appropriately trains and manages its employees. You'll also want to confirm that employees receive background checks; are FCRA certified; and are required to sign nondisclosure, confidentiality, acceptable use, and/or code of ethics agreements.

Be sure to check that the vendor has data security systems in place for protecting privacy and information. Find out if system back-ups are performed. Do they annually review security policies and procedures? Do they meet ISO requirements?

Find out whether they have a disaster recovery plan. What will be their response to a major power outage – especially a prolonged one – or a tornado, fire, earthquake or other disaster? Are they prepared for quick recovery in case of a man-made issue like sabotage, burglary, computer virus, or employee walkout?

The thought of spending the time and money to do such a thorough analysis (including a site visit) for multiple third-party vendors can be daunting. It's much less overwhelming to make a site visit and perform a thorough vetting process when you are only doing one or two, when you know that these are your "go-to" third-party partners.

OUTSOURCING BRINGS TECHNOLOGY'S BENEFITS HOME

Fannie Mae's Third Quarter Mortgage Lender Sentiment Survey* provided another interesting finding: Post-Closing, QC Review, and Servicing were most commonly reported as being outsourced due to new regulations and associated costs. Across the country, lenders are already experiencing what we are saying – outsourcing to reliable, third-party vendors that utilize the latest verification technology can help control the cost of compliance.

By working together and using technology to quickly complete tasks that used to be labor-intensive, we can ensure new regulations do what they're supposed to – protect consumers and lenders from mortgage defaults – without breaking the bank. That's good for all of us. 

[*fanniemae.com/portal/research-and-analysis/mortgage-lender-survey-101514.html](http://fanniemae.com/portal/research-and-analysis/mortgage-lender-survey-101514.html)

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