Plan for the Long and Winding Road Ahead
Banks and brokerages must recognize and embrace change to thrive

For years, mortgage brokers and bankers have been using a number of tried-and-true forms when originating a loan and disclosing information to their clients. In accordance with the Real Estate Settlement and Procedures Act (RESPA) and the Truth in Lending Act (TILA), originators across the country are familiar with RESPA’s good-faith estimate and HUD-1 forms, as well as all required TILA disclosures.

As of August 2015, however, the HUD-1 form, good-faith estimate and the so-called “early” TILA disclosure will become obsolete in the origination process as a result of recently released guidelines from the Consumer Financial Protection Bureau (CFPB). Although this coming change is noteworthy in itself, it underlines a broad necessity of the mortgage industry: If your company hopes to navigate upcoming twists and turns, it must be flexible and open to change.

As required by the CFPB, originators soon will be tasked with using two new disclosure forms with their customers. These new forms — the Loan Estimate and the Closing Disclosure — incorporate some of the old disclosures’ information in a new fashion, although they also provide the consumer with more disclosure information to encourage a better understanding of the mortgage product in question.

Thanks to this and other upcoming changes, the industry is facing a major shift from the old way of originating a mortgage to the new way of closing these deals. What does this mean for mortgage brokers, originators and lenders? It means that your processes and systems soon will be broken if your company isn’t pliant and open to change.

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Streamlining

Business transformation can eat up time and money unless your organization is adequately prepared to evolve. Understanding why it’s necessary to change and devising a plan for that change are good initial steps toward success. The mortgage industry should understand and identify the upside to making changes as opposed to lamenting the ins and outs of rules and regulations. What’s done is done, and now it’s time for your organization to act.

The upcoming implementation of the integrated disclosure rule is just one industry shift that illustrates a larger need. Namely, that mortgage companies must focus on two key areas of their business models:

1. Their evaluation of processes and determination of necessary changes; and
2. Their system functionality review and implementation to ensure adequate compliance.

This is an excellent time to streamline the way that you conduct business. The many shifts in rules and regulations bring about some important questions that companies must ask themselves. What should be done first? How will business be conducted in the future? And perhaps most important: How can a company streamline its processes and still turn a profit?

Broadly speaking, when it comes to implementing changes, communication among your organization and third-party providers is critical because changes should happen with all of the entities involved in your business. Organizations should take the opportunity to review their current business processes and determine where those processes must change to address new guidelines and regulations.

In this process, include all identified gaps in your service providers’ systems as well as your own. This information can be used to create a roadmap that shows your organization its overall transformation needs. It also will give you a better idea of the time frame that’s needed to conduct this transformation. Whether you’re getting up-to-speed with the new disclosure forms or adjusting to any one of the industry’s upcoming regulations, planning now and conducting your analysis are critical steps if you hope to thrive in today’s industry.

Automation

In considering how companies can streamline certain processes, originators should consider whether or not there are functions that can be cost-effectively automated. An area in which the industry can streamline, for instance, is how information is provided to and from the lender to the settlement company and loan-origination system (LOS).

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This does not mean passing PDF files from one person to the next, however. Rather, today’s industry provides a golden opportunity to automate your entire origination process, allowing information to go between different partners who then can review that information, make changes and provide approvals when necessary. This can allow each involved organization to own the necessary information and functionality within the process while providing a more streamlined way of communicating and managing a loan’s lifecycle.

In short, industry partners must cooperate in their use of workflow tools that can integrate easily with each partner’s system. If the industry does move toward further automation of its workflows, it’s critical that all involved parties use the same data. This means using the same terms, definitions and enumerated values to ensure a more accurate process through the use of data standards.

Even today, many mortgage companies submit loan-file PDFs with either system-generated information or handwritten notes to and from their settlement companies. In these cases, all final estimates and closing information are then hand-keyed into an LOS system. Obviously, this is an inefficient process—one that automation measures can improve. Data standards from the Mortgage Industry Standards Maintenance Organization (MISMO) often help in this regard, and these are now becoming more prolific in the industry. Many mortgage companies are already using MISMO standards to exchange data between their industry partners, as it’s simply more efficient to use the same terms, definitions and enumerated values in transferring data.

It’s not that MISMO is the silver bullet to fix all of the industry’s problems with the issuing of new regulations, but organizations that use MISMO are often less likely to have issues in loan processing than companies that must conduct extensive data transformations. The advantages offered by these standards are one example of the benefits that using workflow and data standards can provide. These advantages in process flexibility, origination streamlining and data transferability can help give the industry a single voice and ensure that audit trails are conducted, which in turn will help the industry tremendously when the CFPB begins compliance reviews.

Overall, the industry is facing a major shift from how business was once done. Taking the opportunity to make strategic changes in a tactical way to meet pertinent regulations will provide your company with the ability to automate and streamline origination functions. Initiating the use of data standards is key in these regards, as reducing the potential for post-closing adjustments and increasing the speed of closings can lead to increased profitability for all.