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Mortgage Compliance Puts New Focus On Vendor Customer Support

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By Mark Mackey

At the beginning of this year, our company predicted that 2013 would be the "Year of Docs," and our prediction has proven correct. With the Consumer Financial Protection Bureau's initial disclosure changes looming, docs are now top-of-mind for most lending organizations. While docs are typically seen as the purview of origination, there are significant implications for the secondary market in this area as well.

The role of docs has significantly changed in the past decade. What was once viewed as a commodity has now become a differentiator in terms of compliance. This is because so much of what constitutes compliance - and how one defends against charges of non-compliance - is tied up in loan documentation.

Furthermore, the data contained within these docs is evidence of the quality and, ultimately, the salability of the underlying loan. As such, even small errors in docs can have significant consequences for secondary investors.

For example, in the third quarter, Wells Fargo began notifying lenders about improper disclosures from Federal Housing Administration (FHA) mortgage insurance premium changes stemming from Mortgagee Letter 2013-04. The letter, which was issued by the U.S. Department of Housing and Urban Development (HUD) on Jan. 31, addressed the FHA's policy changes regarding cancellation of the annual mortgage increase premium and increasing the annual mortgage insurance premiums (MIP). As part of this change, FHA Streamline refinances were exempted from the proposed rate increase but not the duration.

To determine the rate and the duration, the lender must use two different dates. The rate is calculated based on the first endorsement date, and the duration is based on the date the FHA case number was issued. The complexity alone demonstrates the ease with which lender shops can run into trouble with these kinds of changes.

The difference between, say, 120 months and 132 months is quite significant, and FHA in particular is quite fastidious when it comes to its regulations and guidelines being followed to a tee. Furthermore, a mistake regarding MIP is one of the most expensive a mortgage lender can make.

The example cited above was a real-life problem that our customer service team handled for a client. In this case, the issue was solved by the simple application of expertise. Mortgage lenders are now operating in a dynamic environment where compliance and regulation are changing factors related to loan calculations, often on the fly. It is now even more important for mortgage vendors to keep an ear to the ground and know when they hear of a problem that is more widespread than just to a single lender's workflow.

In fact, this trait is emblematic of customer service-driven organizations - the desire to go beyond the scope of their product or service and solve problems for clients. Customer service organizations make it their business to possess enough industry intelligence to be able to A) discern the difference between one-off issues and more endemic process concerns and B) figure out solutions for their clients, regardless of whether it's a product or service issue.

Whom you do business with matters. Wells Fargo, for example, issues its lenders a list of document preparation vendors that have been approved by Wells for electronic document delivery because it has recognized that the execution of certain tasks by lenders will most likely be entrusted to third parties. If Wells is going to go to the trouble of thoroughly vetting those lenders with whom they choose to do business, it makes sense that Wells would also have a vested interest in the vendors with whom its lenders choose to do business.

A lender's internal workflow and processes need to be right, but it is equally as important for a lender's third-party vendors to have their internal workflow and processes correct as well. The adage goes, you are the company you keep, and that is more true in the mortgage industry than it's ever been. As 2014 approaches, now is the time to evaluate your vendors and ask yourself, "What has my vendor done for me lately?"

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