Technological Considerations for Leading in the New Mortgage Marketplace
In this series, we have tried to shed light on the new priorities banking executives will have to face in the highly regulated environment in which they will compete in 2014 and beyond. In the first paper, we examined the competing pressures that are driving both opportunity and risk in financial services today. The second paper focused on process considerations that institutions are considering in response to these pressures. In this final paper of the series, we will look at some of the technological changes that leading lenders will make in 2014 in order to lead in the new mortgage marketplace.

Banking executives realize that success will require investment, especially in technologies that can help them meet the demands of investors, regulators and consumers. Where to make that investment isn’t quite as clear. One thing we do know is that manual loan production, servicing, and compliance processes alone will not allow lenders to keep pace with the increased demands that have sprung from the new rules and those yet to come.

In a recent white paper by Accenture, entitled “Lean, Mean Mortgage Machine,” our colleague Henry Santos, managing director of Accenture Credit Services, wrote, “…in many ways, the mortgage industry still operates as it did decades ago. Lenders rely heavily on manual processes, ad hoc and non-standardized work routines, subjective decision-making, and other outdated operating methods.”

Sustainable compliance with CFPB consumer protection mandates is simply too complex to manage, absent robust information technology. If anyone is still clinging to the notion that pre-bubble manual production, servicing, and control systems can keep up with the post-bubble regulatory environment, they should consider this: In a recent article in National Mortgage News, one banking executive cited 921 compliance changes since the 2008 housing market crash. That number will only rise as the full-impact of DFA and CFPB’s rulemaking become clear.

Mortgage lenders will do well to build automated systems designed to aid in the accomplishment of three key objectives in this new mortgage environment: to achieve very high levels of customer satisfaction, transparency, and regulatory compliance.

Technology for Customer Satisfaction Management

As a metric, customer satisfaction works quite well as a measure of how well a firm’s workers, business models, and systems perform in the eyes of actual buyers of its goods and services. In general, satisfied clients lead to higher levels of success for the firm, as they tend to share their positive experiences with the firm with others who might bring it business. Because other firms are actively competing for this new business, consumers stand to be the winners as service levels rise and prices fall.

While this model works well for most consumer goods and services like auto repair, it breaks down when the product purchased becomes very complicated. Borrowers are not likely to rush out and brag about their new loan if they’re not sure it was actually the best or cheapest financial instrument that would meet their needs. And so banks have spent little if any time on technology for measuring customer satisfaction or, more accurately, consumer satisfaction.

For lenders, the secondary market investor is the customer and the consumer is a work input required to complete a closed loan for sale to the bank's customer. It should come as no surprise that the bank considered a consumer “satisfied” if the loan closed, certainly after the first loan payment was made. In the aftermath of the financial crash, Congress saw things differently.

In today’s regulatory environment, using technology to identify and correct factors that create dissatisfied customers is a compliance imperative. Success comes from knowing when a consumer is dissatisfied and taking action before a complaint is filed with the regulator. The CFPB has made it exceedingly easy and risk-free for the anonymous bank customer to file such a complaint. Lenders have found identifying dissatisfied customers before they file a complaint to be much more difficult.

As we discussed in both previous papers in this series, the CFPB obliges aggrieved financial services consumers by reviewing complaints in search of patterns and trends suggested by the data. If an institution earns enough complaints to get the bureau’s attention, the regulator may investigate. In a growing number of cases, the CFPB has launched what it terms targeted reviews focused on the operations of financial institutions that receive high numbers of complaints.

But even one complaint against an institution should get the attention of someone working within that institution. In the second paper in this series we wrote about creating processes that would allow the institution to monitor the complaints the CFPB receives about them. Dealing with the complaints that point to a systemic problem within the bank before it spawns additional complaints is the low-hanging fruit.

Successful lenders will go beyond this by creating their own complaint systems in an effort to head off and successfully deal with consumer complaints before they ever get to the CFPB’s public database. Direct feedback from dissatisfied customers presents a goldmine of improvement opportunities, if the mortgage lender is inclined to mine it.

Lenders that have already embarked on the journey to their own complaint management systems have learned a number of lessons. Chief among these is that any system to collect consumer complaints must be automated and easy for consumers to use on their own. Routing complaints to live call centers is costly. At a time when new rules are bound to create confusion among borrowers, increasing the number of calls, it can be prohibitively expensive. Human resources are better spent analyzing complaints, investigating those that result from systemic problems within the institution and seeking out negative trends or signs of weakness in the bank’s operation.

Like any other form of data, consumer complaints should be addressed with statistical methods. If the technology employed to gather the complaints is sophisticated enough to anticipate problem areas within the bank and ask questions that guide both consumers and their problems into buckets, complaints will be easy to prioritize and action plans can be written in advance and applied to problems of varying significance. If this is accomplished, the outliers become more interesting and are revealed as either consumers that cannot be managed or heralds of problems the institutions had not previously anticipated.

A key element of such systems is one that assures the consumer that their complaint has been received, that they have been heard. In an age when even your smart phone can respond to your voice, consumers expect any system deployed by the lender to give them confirmation that they have succeeded in getting your attention. For some percentage of aggrieved consumers, a little attention is all they expect in return for their complaint. For most who take the time to file a complaint, the problem they highlight is likely more serious and one the bank must take seriously. Again, analytics can be used to sift through the complaints, assign priority and even determine what action the bank should take.

A great deal of evidence suggests that if lenders provide consumer-facing technology to the borrowers they serve, those borrowers will use it and if it’s available online, consumers will consume it. At least that’s one key research finding from Accenture’s Banking 2020 Thought Leadership Series. When asked where they bought or signed up for banking products during the last year, 21% of consumers surveyed said they found their auto loan online (up from 11% in 2012), 24% went online for a personal loan (up from 8% the previous year) and 25% went online for their mortgage loan, up from 15% in 2012. When seeking out a home equity loan in 2013, 30% of respondents said they found their product online, up from only 6% the previous year. If more lenders put complaint management technology in front of online consumers, they would get the feedback they seek.
Customer satisfaction levels are easy to gauge when you have complaints to measure by, but leading lenders will find it more satisfying to be proactive in their search for consumer input. Online, email, and telephone surveys are valuable tools for measuring and improving customer satisfaction. Well-written surveys ask prescient questions at numerous points along the transaction continuum and not just at the end of the process or when the borrower identifies a problem. There are many automated survey tools available that are relatively easy to use.

Software for surveying customer satisfaction is readily available today. Small firms may find off-the-shelf survey software programs sufficient to meet their needs. Additionally, there are numerous online survey providers to choose from. For small organizations, building an in-house technology solution is probably unnecessary.

It is also possible that mid-sized financial institutions might find independent software providers sufficient for their customer satisfaction surveying needs. However, large and very large lenders may have to build their own platform, for a variety of reasons, including capacity issues, data security and alignment to enterprise wide technical standards.

Proactive consumer surveys can be used to help lenders assess customer satisfaction, but they must be handled carefully. Effective consumer surveys will require the support of well-trained survey facilitators, operating according to strict content and approval guidelines. Anytime a company asks for information from a consumer, it must carefully consider, in advance, consumer privacy, record keeping, and anti-discrimination. Surveys should be carefully constructed so as to uncover information meaningful to the company without leading the consumer or frustrating them with what they conceive to be additional paperwork or red tape.

Operating in an environment where their most important federal regulator has made clear the importance of customer satisfaction, banks have little choice but to invest in the technologies required to measure their success in this area. Failure to do so will make the CFPB the institution’s de facto judge of customer satisfaction, which carries with it significant risk.

Technology for Increased Transparency

When lawmakers sat down to create new legislation to prevent the kind of damage the nation experienced during the financial crash, hundreds of pages of federal law were passed by Congress in the sure knowledge that the rules required to implement the new law would take years to write and implement. Further, they knew that enforcing the new rules would require a reporting structure that approached complete transparency between the industry and the government.

Since then, Fannie Mae and Freddie Mac, the largest secondary market investors in the industry and both still under government conservatorship, have moved forward on aggressive data standardization initiatives. The Uniform Mortgage Data Program is not a direct result of the CFPB’s efforts, but the GSEs have made it clear that their efforts fall into line with the bureau’s requirements. The end result will be more data traveling from the industry to the government, a window, if you will, into the operations of every financial services company.

But the data that goes into the deals Fannie Mae and Freddie Mac invest in is only a fraction of the information the CFPB will ultimately demand of the industry. In order to demonstrate compliance, the industry has been asked to create, maintain, and deliver if audited, complete records of nearly every action their institutions perform on behalf of consumers.

Few would argue with the statement that the bureau is on a near insatiable quest for transparency. Little wonder, given that Section 1021 of the Dodd-Frank Act spells out specifically that the purpose of the CFPB is to ensure that consumer financial markets are “fair, transparent, and competitive.”

CFPB Director Richard Cordray has pointed out that, "Transparency in our operations keeps us accountable to the American public as we strive to serve all consumers." It is fair to say the bureau expects the same from mortgage lenders and their third party service providers.

A quick scan of CFPB examination modules (see sidebar) suggests there is little chance a mortgage lender operating in a manual environment could hope to provide CFPB examiners sufficient information to enable a requisite understanding of the regulated entity’s practices and operations.

5. See DFA Section 1021. PURPOSE, OBJECTIVES, AND FUNCTIONS.
Pundits have been warning industry players for years now that the cost of non-compliance will be high. We’re finally beginning to see enough data to do the actual math.

The CFPB collected civil penalties from eleven financial service providers in 2013, totaling $49.5 million for violations of federal consumer protection statutes. In the same time period, the bureau handled 144,000 consumer complaints. Each of these figures exceed results in 2012, when the bureau collected $32.0 million from two defendants along with logging 74,000 consumer complaints. We can expect these figures to rise dramatically, as the backlog of consumer protection rules and regulations yet to be written wanes and CFPB resources are re-allocated to investigative and enforcement roles. The costs are high, indeed, and getting higher.

CFPB targeted audits have already identified institutions that lack an effective compliance management system, failed to implement an enterprise-wide compliance system, and in some cases failed to adopt or follow comprehensive internal policies and procedures. Mortgage executives must view such failures as completely unacceptable. Their Boards of Directors must see this gap in the same way. It should give every corporate officer pause and reason to consider the benefits of automating as many CFPB compliance related efforts as possible.

Now, more than ever, mortgage executives must invest human resources into fine-tuning paper-based compliance documentation (see sidebar for audit area starting points). At the same time, they must invest technology resources to convert these policies and procedures into automated systems that can both ensure compliance across the organization and provide the audit trail that will prove compliance in the event of an audit.

In the past, compliance technology, if automation was employed at all, was relegated to the post-close quality assurance department, those professionals tasked with making certain the documents in the closing package where stacked correctly for the investor, among other things. A quick electronic scan of the document package was done and, if no red flags for fraud or missing documentation came up, the deal was cleared to make its way on to the investor. In many cases, the loan itself had already been funded by the time the QA/QC team received the file.

Today’s compliance software is employed at every step along the way from pre-application all the way to the closing table and then into the post-close quality assurance department. Increasingly, this software comes tightly integrated or as an additional feature of the lender’s loan origination system (LOS). This makes sense as the LOS is the lender’s database of record and any software employed to check the validity of data and to record the actions taken in the construction of the mortgage must be seamlessly integrated into this system.

Modern LOS software is already offering many of these compliance features, as well as those for transparency and even complaint management. These systems offer benefits similar to those provided by the transaction management systems more commonly found in software use by large title insurance companies. These systems are often web-based platforms designed to work in conjunction with the LOS. They automate transaction-level functions such as customer communications, document management, and status updates, and can even facilitate mundane tasks like setting appointments as well as placing and tracking the status of reports (flood, appraisal, credit, and title) obtained through third party service providers. A notable feature in most commercial systems is self-service functionality that enables buyers, sellers, Realtors, and others involved in the transaction to log into the system for the purpose of checking statuses, sending or receiving documents, setting or checking closing dates, etc.

Integrated, multi-functional platforms are typically the realm of large nationwide mortgage lenders and third party service providers. Such programs are expensive and require dedicated teams of IT professionals to develop, maintain, upgrade, and troubleshoot. Integration issues often arise during implementation. While these systems make sense for larger lenders as they offer ownership control and directed customization, they tend to be out of the price range of most mortgage providers. This leads us to speculate that lower-cost solutions will enter the market in 2014 that allow mid-tier lenders to meet the high demands placed on their institutions for customer satisfaction, transparency and regulatory compliance. Lenders that cannot implement technologies to ensure that their goals in these areas are met will need to seek out partners that can meet them on their behalf. Fortunately, there are such firms operating in the industry today with existing relationships that demonstrate their ability to meet these goals for the lenders they partner with.

Best practices for technology adoption.

Whether a financial institution builds, buys or forms an outsourcing arrangement to get the technologies it needs to meet the new market’s requirements, internal adoption will be the next hurdle the bank encounters. Technology adoption in financial services has long been a significant challenge for these firms and years of study by top performers have yielded a set of best practices for internal adoption of new hardware and software.

1. Make sure the new initiative comes from the top. As with all successful new company initiatives, leadership must be involved from the beginning and remain involved as the initiative is rolled out. Failure to make it clear that management is driving the new program will weaken the initiative and hamper the efforts of the managers performing the actual implementation. Make sure it comes from the top.

2. Tell them why the change is necessary. Many companies adopt a “We Say So” rationale when launching new programs. Professionals often want to know why a new program is important and once this is explained they are more likely to get behind it. This should be delivered as part of the training that all employees receive on the new technology.

3. Roll it out more than once. Studies have shown that a single rollout of a new technology, even if it is orchestrated flawlessly, will have limited impact on the organization. Some people need to hear the message more than once to accept its importance. The most successful companies roll out the program through a series of events and make sure that all employees hear the message multiple times.

4. Make it a metric and measure it. What gets measured gets done, as the old adage goes. Make sure that all managers are trained to know exactly what is expected of their reports and that they report back with information about adoption.

5. Reward those that adopt; punish those that don’t. When it comes to mission-critical software — and everything we've written about in this paper should be considered such — adoption becomes critical as well. Make sure that those employees that embrace the new tools are rewarded for doing so and any that do not are sanctioned.
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