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$ 6.99 US PER ISSUE

NATIONAL MORTGAGE PROFESSIONAL MAGAZINE

JUNE 2015 | VOLUME 7, ISSUE 6

nmp

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COMPLIANCE TODAY

"Big banks have started to realize that the cost of compliance is indeed affecting them. By the end of last year, Citigroup estimated having more than 30,000 compliance officers."

Licensing the Right Technology Can Combat Compliance Costs

By Pramod Karachur

With stricter regulations for all types of lenders, from small community banks to large national banks, the industry has had to adjust to escalating compliance expenses. This has significantly affected mortgage operations with increased quality control (QC) and staff salaries. In fact, according to Thomson Reuters' "Cost of Compliance 2015," a survey of nearly 600 compliance professionals from financial services firms, two-thirds of the firms were expecting skilled staff to be more expensive in 2015. The rising expense of compliance has in turn affected mortgage operations greatly by rising staff expenditures. As it has in other areas of the industry, technology can help alleviate some of the steep costs that come with becoming and remaining compliant.

Reduce compliance expenses:

The shock of the increased cost of compliance might be for the short term, until lenders figure out how they can effectively cut, eliminate or absorb the cost. Most of these lenders are looking at technology to help in that effort. When implemented correctly, technology can:

- Update compliance requirements with less effort;
- Provide online training to all compliance staff; and
- Provide management updates on progress.

There is a duality in the cost of compliance that often leaves lenders struggling. While consumers are protected, the added compliance-related costs and possible additional fines ultimately set companies on edge. To top this mix, the rules that have been set are constantly evolving; meaning the lender must make changes to their procedures according to the new rules. Once new rules are implemented, staff members must be efficiently trained, taking away time from daily tasks and ultimately costing the banks money.

Maintaining compliance through technology can be expensive as systems need constant support. The Thomson Reuters survey goes on further to say that more than one-third of firms spend at least an entire day every week tracking and analyzing regulatory change. The infrastructure needed to maintain the compliance application is not inexpensive. If it was hosted through a cloud environment to cut costs, additional security monitoring places a burden on the banks, leading to yet another expense.

Alternatively, licensing a compliance technology product from a vendor is an option. The support and infrastructure cost would be less and banks would have to work with the application provider for any changes or updates to be implemented into the application. The risk is if the company takes too long to provide an update, it could result in fines for the lender, which in turn, defeats the purpose of using a third-party. Companies must vet the vendor, as well as the technology to ensure their needs are met.

In 2013, the Consumer Financial Protection Bureau (CFPB) interviewed seven institutions that reported technology costs made up 10 to 43 percent of the total compliance budgets of both internal and licensed vendors. According to the agency, compliance expenses can substantially be reduced because vendors are able to spread the technology investment over multiple banks. So instead of one lender bearing the entire amount of compliance technology, through licensing they can enjoy lower costs and the infrastructure that meets the required security standards.

Why so costly?

One of the driving forces behind all of the compliance changes and costs is the CFPB, which has become one of the most powerful agencies governing the mortgage industry. The CFPB has stirred mixed emotions in the mortgage industry. While the agency seeks to protect consumers by eliminating a wide range of abusive practices by unscrupulous people, it has significantly changed the way some processes are approached and completed. The CFPB strongly encourages using technology to improve an institution's processes and compliance efforts. According to the CFPB's Financial Protection Bureau Strategic Plan, the CFPB embraces new technology, as it continuously improves the overall efficiency of processes. As a result, consumers are provided with a positive experience.

Other government agencies, such as the Federal Reserve Board (FRB) and the Federal Deposit Insurance Corporation (FDIC), are setting regulatory rules similar to the CFPB, ultimately adding more burdens to lenders. Regardless of an institutions size, more rules mean a more costly effort to become and remain compliant.

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WS052-0615

COMPLIANCE TODAY

Big banks have started to realize that the cost of compliance is indeed affecting them. By the end of last year, Citigroup estimated having more than 30,000 compliance officers. From a small or community bank perspective, having to invest in this level of compliance efforts would have a much more significant effect on their bottom line. A study done by the Minneapolis Fed found banks with less than $50 million assets would need a staff of nine full-time employees while a bank of $500 million to $1 billion would need a staff of 155 to maintain these efforts. Thomson Reuters' survey also cites that the major reason for the expected increase in the cost of senior compliance professionals for the full population was the demand for skilled staff and knowledge (82 percent).

To recover the additional costs, some banks are modifying their fee structure and bank fees. Bankrate expects the fee to go up by 25 percent year-over-year, thus pushing the compliance expense onto consumers. There are other ways consumers are paying as well, whether they have a mortgage or not. Free checking was offered by 76 percent of the banks in 2009 and in 2012, only 39 percent was offered. This number will continue to decrease. The minimum balance for free checking has also risen to more than $700 in order to side step fees. Consumers who are living paycheck to paycheck may find this balance very difficult to maintain. Loan originations are also seeing an increase in costs. According to the Mortgage Bankers Association's (MBA) Quarterly Mortgage Bankers Performance Report, the net amount to originate a loan, including all production operating expenses and commissions, is $5,238 per loan, an increase from $5,038. Lender fees can include document preparation, underwriting and origination.

A bright future

As compliance costs continue to rise with no clear end in sight, banks are looking for efficient ways to reduce their sting. While there may not be one strictly defined way to decrease this, banks have options such as technology, trained staff or a combination of both. By considering the options and their needs, banks can create a customized plan that works to their advantage.

The right technology can greatly decrease worries of remaining compliant, as well as provide an easy way to ease the minds of lenders. At the same time, well-trained staff members can keep up with the ever-changing regulations, as technology can be at times difficult to tweak. Regardless of the option that banks may choose, multiple options must be tried to ultimately reduce costs and headaches that may come with remaining compliant.

Pramod Karachur is project manager with Columbia, Md.-based IndiSoft. In his six years at IndiSoft, Karachur has implemented various grant programs, worked with multiple servicers such as Wells Fargo and Bank of America as well as thousands of non-profit and for-profit counseling agencies. He can be reached by e-mail at pramod.karachur@indisoft.us.

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