Choosing Your Mortgage Platform

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Published in July Wisconsin Bankers Magazine

Inlanta Mortgage

Ever since the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act on July 21st, 2010, financial institutions across the country have been struggling to comply with a myriad of new regulations. Whether it is the Ability to Repay and Qualified Mortgage Rule or the upcoming TILA-RESPA Integrated Disclosure Rule, small to mid-sized banks specifically are hard-pressed to remain compliant while also struggling to maintain profitable mortgage operations. In the background, the Consumer Financial Protection Bureau lies in wait with significant civil and criminal penalties for financial institutions and their officers for any infractions surrounding these new rules.

In order to meet the needs of depositors, it is important for banks and credit unions to continue to provide a wide breadth of mortgage programs. Deposit institutions must address the needs of the first-time homebuyer, the affluent client who is looking to purchase a second home in the state of Florida, and the United State Marine that just returned home from serving his country and wants to utilize his veteran's benefits. To meet these needs, banks and credit unions need a mortgage platform. From a high-level overview, there are three main ways of building the mortgage platform:

1. ***Create and build a comprehensive mortgage platform;***
2. ***A complete third-party outsource of the majority of mortgage processes; or,***
3. ***Operate as a hybrid of the first two. Outsource some products and processes while retaining others.***

Building a complete and comprehensive mortgage platform has become a very expensive endeavor with costs increasing by an estimated $500-$900 per loan due to Dodd Frank compliance requirements. The hiring of experienced and efficient processors, underwriters, closers, and loan originators creates significant overhead and requires strong oversight by a compliance department. This is the proverbial "rock and a hard place". Banks and credit unions need to serve their depositors or they will look elsewhere for their banking needs. Financial institutions that select to build their own mortgage platform must be prepared for the increased risk that is now a common factor for those operating within the mortgage industry.

On the complete opposite side of the spectrum, a small to mid-sized bank could completely outsource their mortgage operation to a correspondent lender or operate under a mortgage loan origination services contract. Under these arrangements, the processing, underwriting and closing can be handled by a third-party—greatly reducing overhead. In addition, the bank can select a lender that offers a wide array of mortgage programs including VA mortgages. The downside of a third-party origination agreement can be the financial institution's lack of control of the mortgage processes or potential lack of responsiveness on the part of the third-party lender. A thorough evaluation of correspondent lenders and other third-party origination platforms must be undertaken to ensure the right partnership is selected.

The "hybrid" option is somewhere in between creating your own platform and outsourcing all mortgage operations beyond origination. For example, many banks have made the decision to process and underwrite the portfolio and conventional products while outsourcing the processing and underwriting of the government and jumbo products. This allows the bank to operate within a space that they feel they have expertise, while still providing an expanded mortgage product line for their depositors.

In today's regulatory environment, it is important to maximize fee income while minimizing compliance risk and maintaining a cost-effective expense structure. Since the mortgage origination landscape is constantly changing, it is vital to examine the risk – reward structure of your current platform while remaining open to new concepts and programs being developed in the market.