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Leverage 3rd Party Vendors To Grow Mortgage Loans, Handle Compliance

By Joseph Camerieri and Mark Chatfield

Members are turning to their credit unions in growing numbers for mortgages. In fact, the mortgage business at credit unions soared in 2012. With this growth comes another level in regulatory compliance.

One way to effectively manage regulatory requirements and gain expertise in mortgage originations is to develop a relationship with an experienced third-party service provider. Credit union management must remember that even with outsourcing there can be compliance risks in the mortgage process, which makes selecting the right partner crucial.

Let's examine some facts that have set the stage for this exciting scenario. For the first time in history, credit unions were on track to surpass $100 billion in mortgage loan originations (MLO) last year, according to the American Credit Union Mortgage Association (ACUMA). As housing construction began to slowly improve, and mortgage rates remained low, more members originated new loans or refinanced their existing mortgage at credit unions.

Credit unions surpassed $100 billion in mortgage loan originations for the first time in 2012.

Credit union membership grew, with a nearly 2.1 million increase in membership from June 2011 to June 2012, double the average growth for similar periods in the past decade. Credit union members are now taking more advantage of the services their credit unions offer, including mortgage loan origination, because of the low-cost, high-touch service that credit unions are well-known for offering.

What The Trends Mean

These trends give credit unions the opportunity to more fully develop an attractive revenue stream from mortgage loans and benefit in creating new cross-sell opportunities with their members. The mortgage is a cornerstone product that can be a gateway to a number of other financial products and services.

Today's consumers expect their financial institution, whether it be a credit union or a bank, to have expertise in all aspects of the mortgage process just as they do with deposit and share accounts. As with all financial services, managing compliance is paramount.

While credit unions have effectively managed the regulatory requirements of their other financial services, mortgage lending is now a more complex process than it ever has been, in part due to an increasingly complex regulatory environment. One example is the SAFE Mortgage Licensing Act of 2008, implemented to protect consumers and reduce fraud, calling on licensees to meet requirements ranging from pre-licensure education to criminal background checks. Staying abreast of all the updated and constantly changing regulations is an arduous task for anyone in the mortgage lending business.

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What To Look For

If a credit union determines that outsourcing is a viable alternative, what should it look for in an outsource partner and what are the regulatory implications?

1. **Domestic-Based.** While there are a number of onshore/offshore providers, most domestic providers can provide a higher level of mortgage and regulatory expertise. A domestic partner can understand the intricacies, policies and regulations of the mortgage industry more completely. There are also inherent risks associated with data security and third-party oversight for providers offshore, which a credit union does not have to address with onshore-only providers.
2. **Robust Technology.** In the last few years, compliance and technology changes have caused costs to escalate. Credit unions should seek a provider with proprietary technology that offers the latest in compliance updates and tracking as well as transparency into the mortgage origination process.
3. **Compliant and Licensed.** The mortgage origination world has changed in the last few years with licensing and SAFE Act compliance becoming key in choosing the best mortgage services partner. It is critical for credit unions to choose a compliant firm and one that has experience with regulatory expectations and audits.
4. **Experienced.** Partner with a provider that has demonstrated, deep experience in both the mortgage business and in providing outsourcing services; a provider that employs a "fee for services" business model is ideal for credit unions. Things such as price, products and value propositions need to remain in the control of the credit union.

With the right partner, credit unions can have a winning scenario—being able to offer mortgages to their members, tapping mortgage lending expertise and meeting compliance requirements. These four key components allow them to better serve their members while growing their business.

Additionally, now that members have another tie to their credit union, they will be less likely to take their business to another financial institution. Members will appreciate that their credit union has shown it understands their needs and strives to meet them in a compliant manner.

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