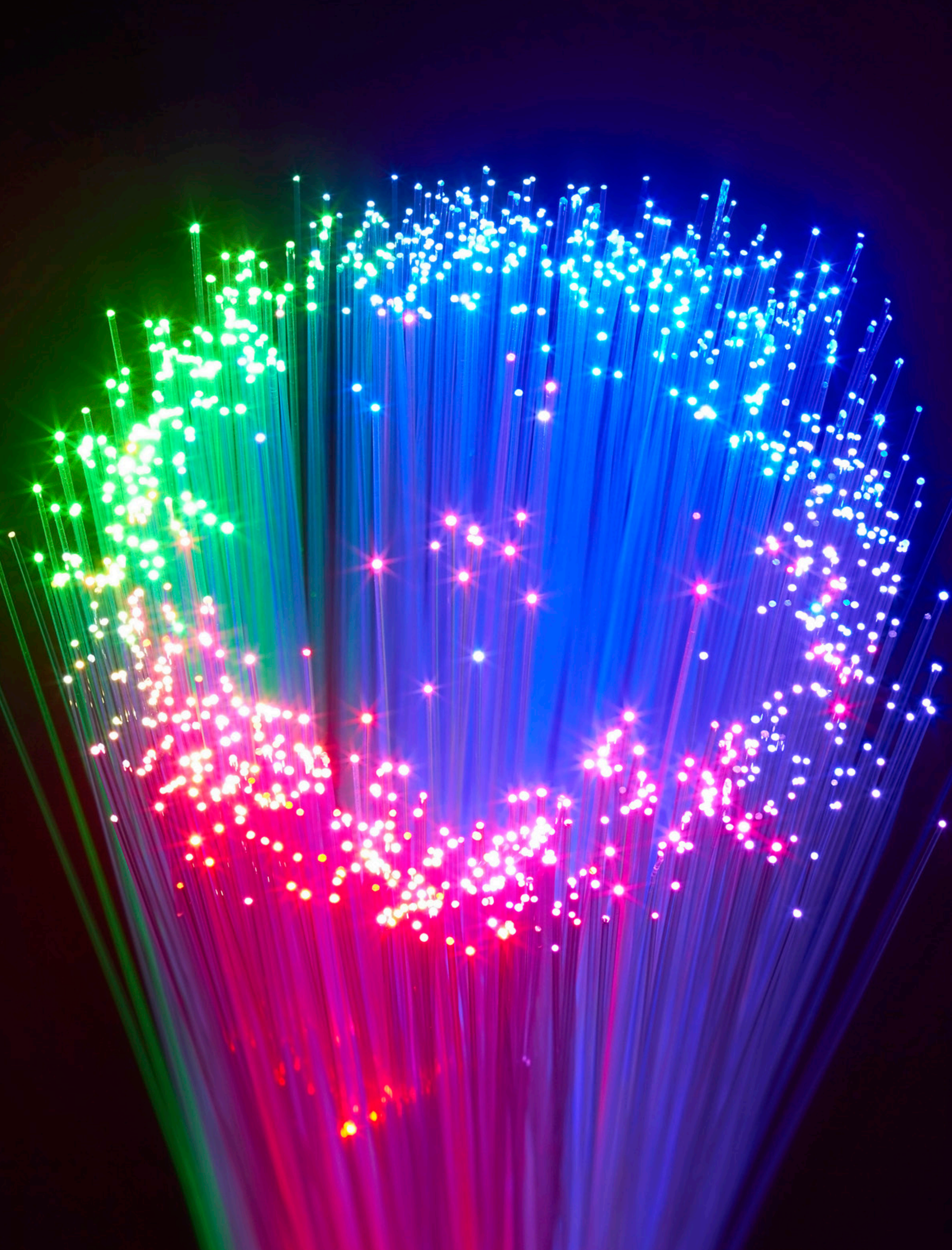
TRID Data Portals and Pathways

As Transaction Costs Continue to Increase from Origination to Closing, Technology Provides Answers to Needed Efficiency and Accuracy

Surveys show that the Consumer Financial Protection Bureau's (CFPB) TILA-RESPA Integrated Disclosure (TRID) rule has resulted in more homebuyers reviewing their mortgage documents before closing. That's great—more informed consumers lead to a stronger market. But with new regulations—especially ones that are 1,888-pages—come additional costs to comply and conduct business. However, from originating a loan to closing the transaction, it's clear that there's more expense involved in getting an order through the pipeline. >>

By Jeremy Yohe



According to the Mortgage Bankers Association's Quarterly Mortgage Bankers Performance Report, profits were $825 per loan during the first quarter of 2016. This compares to $1,447 per loan in the first quarter of 2015.

"Origination costs in the first quarter are elevated compared to quarters with similar production volume within the past few years," said MBA Vice President of Industry Analysis Marina Walsh.

Because of skyrocketing regulatory costs of doing business, many banks are deciding to leave the residential market. Earlier this year, BankUnited stopped writing residential loans for just this reason.

"We can't make money in the business," BankUnited CEO John Kanas said during the company's earnings call in January. "We realized that this was the lowest-margin, most volatile business we had and decided that we should exit."

Analysts say this movement is natural.

"The fact is that the cost of capital and compliance has convinced many bankers that making home loans to American families is not worth the risk," Chris Whalen, a bank analyst with Kroll Bond Rating Agency, said in a speech.

The cost to close an order continued on a similar track as loan origination costs during the second quarter of 2016. According to First American Financial's latest Real Estate Sentiment Index, title agents report an average increase of $184 per transaction in the second quarter. Agents note that the increases are not necessarily due to the TRID rule itself, but a result of the varied approaches to implementation taken by lenders. The survey showed that the increase in cost varied by geography. Title agents in New Mexico indicated the highest increase, at $313 per order, while title agents in Indiana indicated the lowest increase at $58 per transaction, according to First American.

"Change is difficult, and the implementation of the new Know-Before-You-Owe processes and forms was a challenge for title agents as well as lenders, requiring significant investments in new technology and time," said Mark Fleming, chief economist at First American.

TRID has forced lenders to rethink processes and turn to technology to originate loans more efficiently, according to Mike Vitali, senior vice president and chief compliance officer for LoanLogics. A challenge under TRID is that lenders need to be able to handle communications with various closing agents for any changes at the closing table so that an accurate final Closing Disclosure may be provided for the closing.

"Technology makes it possible for lenders to build in safeguards to help eliminate the possibility of closing loans with recurring defects and regulatory risks," Vitali said. "The proper application and use of advanced technology will go a long way toward the manufacture of quality, compliant loans that will perform as expected and be saleable in the secondary markets. If a defect is missed, there is a very good possibility that many of the loans in the lender's pipeline may suffer from the same defect."

On the flip side, title and settlement agents typically conduct business with several lenders. This can be daunting. Leslie Wyatt, director of industry relations for SoftPro, said that while a lender may select one system to exchange data, settlement agents must adapt to each lenders' preference.

"It's up to the settlement agent to find out what delivery method each lender uses," Wyatt added. "Each portal has different requirements on how data is uploaded or manually entered. And then you need to know how to register and how you will receive orders."

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Rise of the Portals

Bank of America, which already discontinued the use of email, fax and other document delivery methods, requires the use of RealEC Technologies' Closing Insight technology for all loan applications and for settlement agents to receive orders. All documents, data and information must be exchanged through Closing Insight. Additionally, all settlement fee data must be uploaded to Closing Insight either through the settlement agent's software or through RealEC's Exchange, which is available on the web. After uploading fees, Exchange will generate codes for initial fees (406) and subsequent fee updates (433).

Bank of America expects fees to be uploaded into Closing Insight using the appropriate Exchange event codes no later than the next general business day unless otherwise contracted with Bank of America. Uploading a fee sheet or a mock-up of a Closing Disclosure as a PDF document does not circumvent the requirement to use of Closing Insight, Bank of America said in communication to its settlement agents.

In addition, agents should notify Bank of America via Closing Insight of any fee variances or changes that are identified post-closing. The lender will review the request and reply via Closing Insight and issue a revised Closing Disclosure if necessary. Settlement agents must notify Bank of America immediately when a signing will not take place as scheduled. Similarly, Bank of America will notify the agent via Closing Insight when a signing date is rescheduled.

Meanwhile, Wells Fargo informed settlement agents in its June 2 newsletter that the use of Closing Insight was expected to increase. The company reported that updated training materials, tools and support are now available at *www.closinginsightresourcecenter.com*.

According to Wells Fargo, "As updated training is delivered across the country, you will begin to receive a transaction-level '222' message via Closing Insight letting you know that your Wells Fargo closer is ready for you to provide fee and closing information needed for our borrower CD preparation."

"We appreciate your support and partnership as we continue to move forward to make Closing Insight the standard for interaction with Wells Fargo closers to exchange fees, status and other information needed for the borrower CD and closing preparation," Wells Fargo wrote in its settlement agent newsletter.

Data Drivers

Two key items are driving the need for lenders to have access to digital data. First, the CFPB's rulemaking related to the Home Mortgage Disclosure Act (HMDA) goes into effect in 2018. The new regulations require most lenders to report certain information about mortgage applications and loans in efforts to create transparency in the mortgage lending process. The HMDA rule adds some new required data points including information about the property securing the loan and features of the loan, such as total loan costs or total points and fees, origination charges, discount points, lender credits, interest rate, prepayment penalty term, loan term, introductory rate period and non-amortizing features. All the data will need to be submitted through a web-based portal.

"The electronic exchange of data is critical," said Ben Harpenau, senior vice president and business controls manager for Bank of America. "We will continue to drive the adoption and usage of Closing Insight more than we are today because we need to get accurate data. There's little tolerance for inaccuracies. The CFPB is a data-driven organization and lenders are starting to think about additional data that will need to be delivered."

Harpenau compared the use of portals with the initial rollout of the Transportation Security Administration (TSA) in 2001. At first, travelers needed to arrive at the airport four hours before a flight. Over time, airports became more secure and the process became more efficient. Now, there's TSA PreCheck and travelers can show up an hour before a flight.

"Much like the TSA, adoption of portals is an evolving process," he added. "We will continue to see other lenders using some type of portal or direct integration. The desire to rekey data from a PDF is not there. With integrated technology you have logic that can catch some errors so you have much higher data integrity on the back-end."

The second force spurring the need for electronic data is the development of the Uniform Closing Dataset (UCD) by the government-sponsored entities (GSE). Fannie Mae and Freddie Mac will require delivery of the

UCD in the third quarter of 2017 for all loans acquired by the GSEs.

The UCD is a common industry dataset that allows information on the Closing Disclosure to be communicated electronically. Fannie Mae and Freddie Mac have developed the UCD at the direction of the Federal Housing Finance Agency as part of the Uniform Mortgage Data Program (UMDP), an ongoing initiative to enhance loan quality and consistency through uniform loan data standards for the single-family loans the GSEs purchases.

"We can't just buy any loans," said Lisa Mitiguy, product development manager of single-family strategic initiatives for Fannie Mae. "They must fit certain parameters, and we have seller guides. We must be particular in what we buy. This means we require a lot of data. Title and settlement agents sit in a critical part of the process because lenders need to provide this data electronically to the GSEs."

She added that data speeds the ability to do all the checks and calculations at each point in the process. "When you're sitting at the table and waiting to get a clear to close, the lender has a better ability to give approval if they have data," Mitiguy said.

"Lenders don't want to be in the business of rekeying information to send to the GSEs. They want to be able to pass it along electronically, which is the GSE requirement. Lenders are trying to examine their processes and asking how they will provide data in a consumable way. So, this will be passed down the chain," Mitiguy added.

Seller credits are one example of why the GSEs need data. Mitiguy said there are guidelines that limit interested party contributions. Seller credit falls into this area, and the UCD will help with data calculations. If a settlement company prepares the seller Closing Disclosure, the same seller credit should appear on the buyer's Closing Disclosure prepared by the lender.

"If data is digital, we can do these checks much faster," Mitiguy explained.

The most important thing to note about the UCD is that the dataset will be a required format for all loans acquired by the GSEs beginning in the third quarter of 2017. This is not something title and settlement agents are going to be able to ignore if they want to continue doing business with lenders that sell their loans to the GSEs.

"To prepare for UCD collection, title and settlement agents will want to talk with their lenders to learn how they plan to collect the UCD," SoftPro's Wyatt said. "Agents will want to also ask their title production software providers if their system has the ability to produce the standard data format. Many title production systems already have this ability."

Bumps in the Road

It's no secret that the use of portals has caused frustration in the title and settlement agent community, but the need for electronic data won't subside.

According to Brooks Yeager, executive vice president and chief strategy officer at RamQuest, "The use of portals has moved from a nicety to a necessity and, while the initial transition has caused some frustration, this is only temporary. The need for electronic data is on the rise and once agents become acquainted with sending fee information digitally through a portal or direct integration—rather than sending a fax or email—not only will it get easier, but they'll also realize some true efficiencies and cost savings in their process."

Yeager encourages title agents to find out what platform their lenders use because "not all portals work the same so it is important to be communicating with your lender to find out how their process should work and what they require from agents."

"You need to ask questions to find out from your lender everything that is involved with communicating and collaborating through their portal," he continued. "Are there costs? What training is offered/needed? Is your software fully integrated or do you need to use the lender's website?"

Wyatt added that communication is vital because a title agent doesn't want to find out down the road that a lender is sending orders through a particular platform and learn that their system isn't compatible. She added that title and settlement agents must understand the fee structure when using a portal or a direct integration. Some companies have a per-file charge or charge a routing fee. For others it doesn't matter how times data is inputted or exported, while some charge for every click.

"One company may look like it's charging you less, but if you update data on a form many times it may end up costing more," Wyatt said. "You could also get walloped with a fee if you don't meet a certain volume level."

The Hunt for Efficiency

To overcome the challenges created by TRID, lenders and settlement agents need to rethink their methods of communication and adopt a more streamlined, consistent method that enables real-time electronic collaboration and supports compliance, according to Nancy Alley, vice president of strategic planning for Simplifile. If information is being communicated via multiple channels, it's impossible to know how information is going to be communicated at any given time. Alley provided an example of a lender expecting a phone call from the settlement agent regarding an updated fee. If the agent sends an email instead, the lender may not be checking his or her inbox for that information, thus creating a delay that could affect the closing.

"Using email or phone for communicating also prevents both sides from working with real-time data," she said. "What may have been true on Thursday afternoon at 4 p.m. when the information was initially communicated may not be true by Friday morning at 10 a.m. when the information is received. Not only does this create additional complexity, but it also opens the door for additional errors and wasted effort."

Traditional ways of sharing information pre-TRID are insufficient to ensure compliance, inefficient to keep costs down and ineffective to protect non-public personal information. While implementation of digital collaborative approaches has been slower for purchase orders, adoption of portals or direct integration with a lender's loan origination system has been much higher in the managed provider space, especially for refinances.

"You may have an agent that initiates a loan with Wells Fargo in January and closes the loan in January with Closing Insight, but they may not get another order until June," said Gerardo Caceres, senior vice president of Client Delivery and Regulatory Strategy for RealEC Technologies, a division of Black Knight Financial Services. "The key is that agents need to get familiar with the system. Once they've used it a few times, they will get comfortable with it and have a more efficient experience."

Caceres says registration issues with Closing Insight have been enhanced and RealEC has made it easier to speak with the right people to get questions resolved.

"The new process is a shift in how data and fees are exchanged," Caceres said. "We'll never get away from talking with each other, but portals help productivity in spades."

Improved efficiency is what attracted Shawn Murphy to integrating ValuAmerica's platform to Closing Insight.

"The integration creates an efficient and secure electronic method of communicating with any lender using Closing Insight while producing the Closing Disclosure," said Murphy, executive vice president of ValuAmerica. "By using the closing collaboration data transfer, the analytics, change tracking and systemic documentation will help keep all parties informed and in sync on a real-time basis."

There will be a continued learning curve as businesses in the lending and settlement space move from a manual process to full integration between software systems or portal usage. The ultimate goal is for data to be exchanged efficiently and consistently to help lenders comply with various requirements.

"We are coming to the end of what seems like a marathon of new regulations," Harpenau said. "The title and settlement space has been great in this partnership. Once the market stabilizes, it will be more fluid." ■

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