

# STRATMOR PeerViews

## TILA-RESPA Readiness Survey



APRIL 2015

**STRATMOR | GROUP**  
STRATEGIC MORTGAGE BANKING CONSULTANTS

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# Background

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- The TILA-RESPA Readiness survey was the first survey issued under STRATMOR's new **PeerViews** program
- **PeerViews** is a fast turnaround small-survey program that gives senior mortgage executives a unique way to obtain specific qualitative mortgage industry information about:
  - What senior executives at other companies think about issues and significant new industry developments.
  - What actions they are considering, planning or have taken.
- **PeerViews** TILA-RESPA Readiness survey was launched on March 11 and remained open until April 7, 2015.
  - Invitations sent to 1,251 individuals representing 725 unique lenders.
  - Responses received from 111 unique lenders (a 15% response rate)

# Summary of Key Findings

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## General TRID Readiness Status

- As of the end of March, while most lenders appear to be on track to meet the August 1<sup>st</sup> TRID deadlines, many requirements have not even been considered by an alarmingly high proportion of lenders (see below).

Decision/Activity	% of Lenders That Haven't Decided or Considered
Who will generate and send out the Closing Disclosure?	13.5%
When will the Closing Disclosure be issued?	26.1%
Handling of Post Closing review	26.4%
Scripting of LOs and fulfillment personal	41.8%
Preparation of initial Loan Estimate (Wholesalers)	23.3%
Post Closing repair procedures	34.5%

# Summary of Key Findings

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## System Update Status

- As of the end of March, 81% of lenders surveyed reported that TRID system updates would be available from their Loan Origination System vendor on or before June 30th.
  - However, 10 lenders (9% of all lenders responding) reported receiving no indication of availability; 7 of these lenders were clients of the top 2 LOS vendors identified based on vendor counts.

## Loan Estimates

- About 83% of lenders will issue Loan Estimates via originators/LO assistants (40.5%) or through a disclosure team (42.3%).
  - For 18% of these lenders, their stated go-forward practice will be a change from current practice.

# Summary of Key Findings

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## Closing/Post Closing

- 80% of lenders will send out the Closing Disclosure themselves with the assistance of their Settlement Agents.
- Roughly 80% of lenders will issue the Closing Disclosure after final approval but either before (31.5%) or after (38.7%) clear-to-close.
- More than 25% of all lenders have not yet considered how they plan to handle Post Closing reviews aimed at identifying and repairing closing disclosure errors.
- About 37% of lenders plan either limited or significant reductions in the number of settlement agents from which borrowers can choose.
- Across all lender types, 34.5% have not yet considered Post Closing repair procedures.

# Summary of Key Findings

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## Scripting

- Across independent and bank lenders, roughly 45% have not yet even considered plans for scripting sales and fulfillment personnel.
  - These results suggest that scripting could be a significant problem area

## Implementation

- 42.3% of lenders appear to be relying on central oversight of teams organized by department and staffed by people working part-time away from other duties for TRID implementation.
  - STRATMOR judges this a risky approach to TRID implementation because accountability is blurred and day-to-day responsibilities of part-time staff tends to push out development tasks.

# Summary of Key Findings

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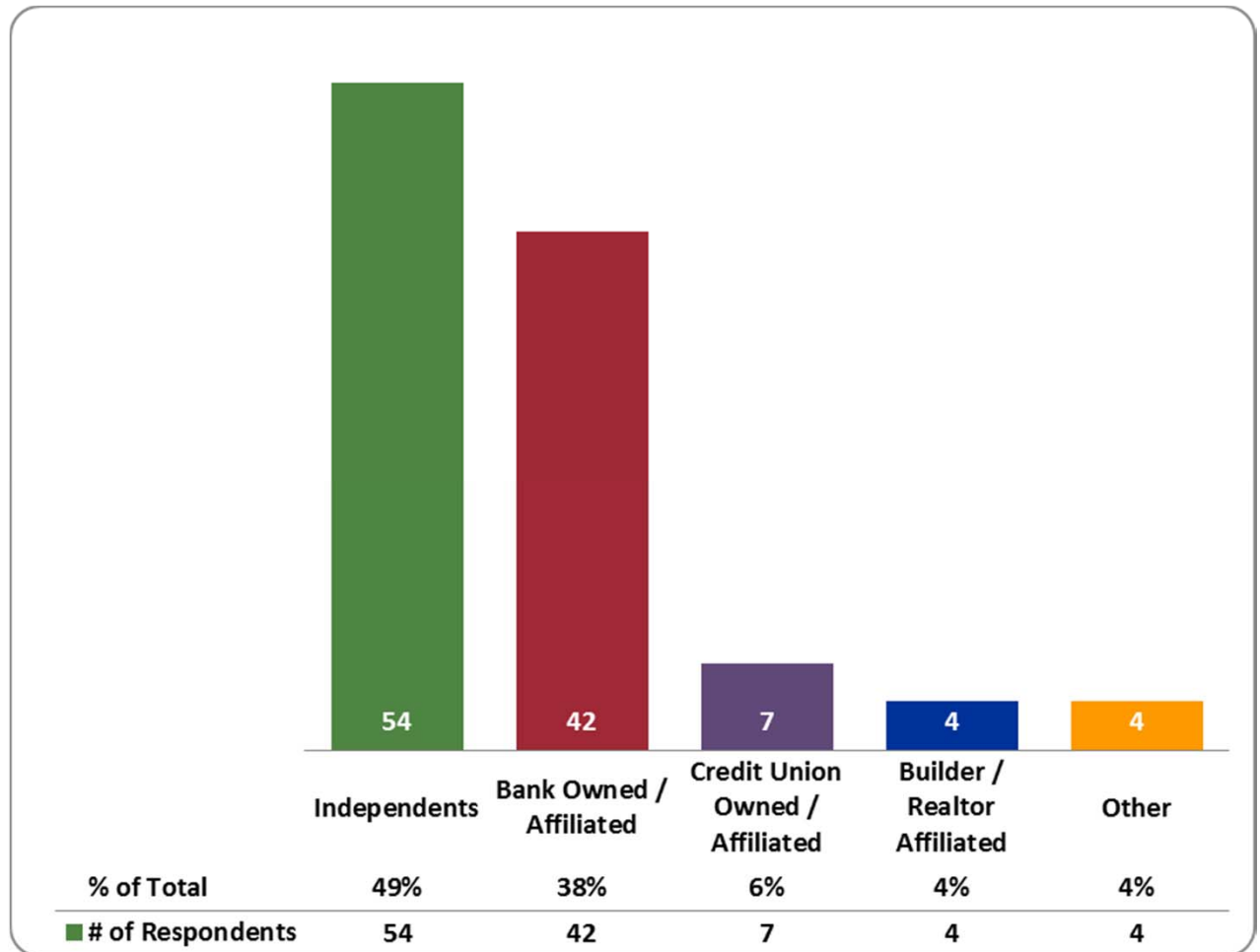
## Cost Impact of TRID Requirements

- The average additional cost for TRID compliance estimated by the 52 lenders that provided an estimate was \$159.62 per loan.
  - This estimate was roughly the same across lender types except for credit unions, for which the average additional cost estimate was \$83.33 per loan.



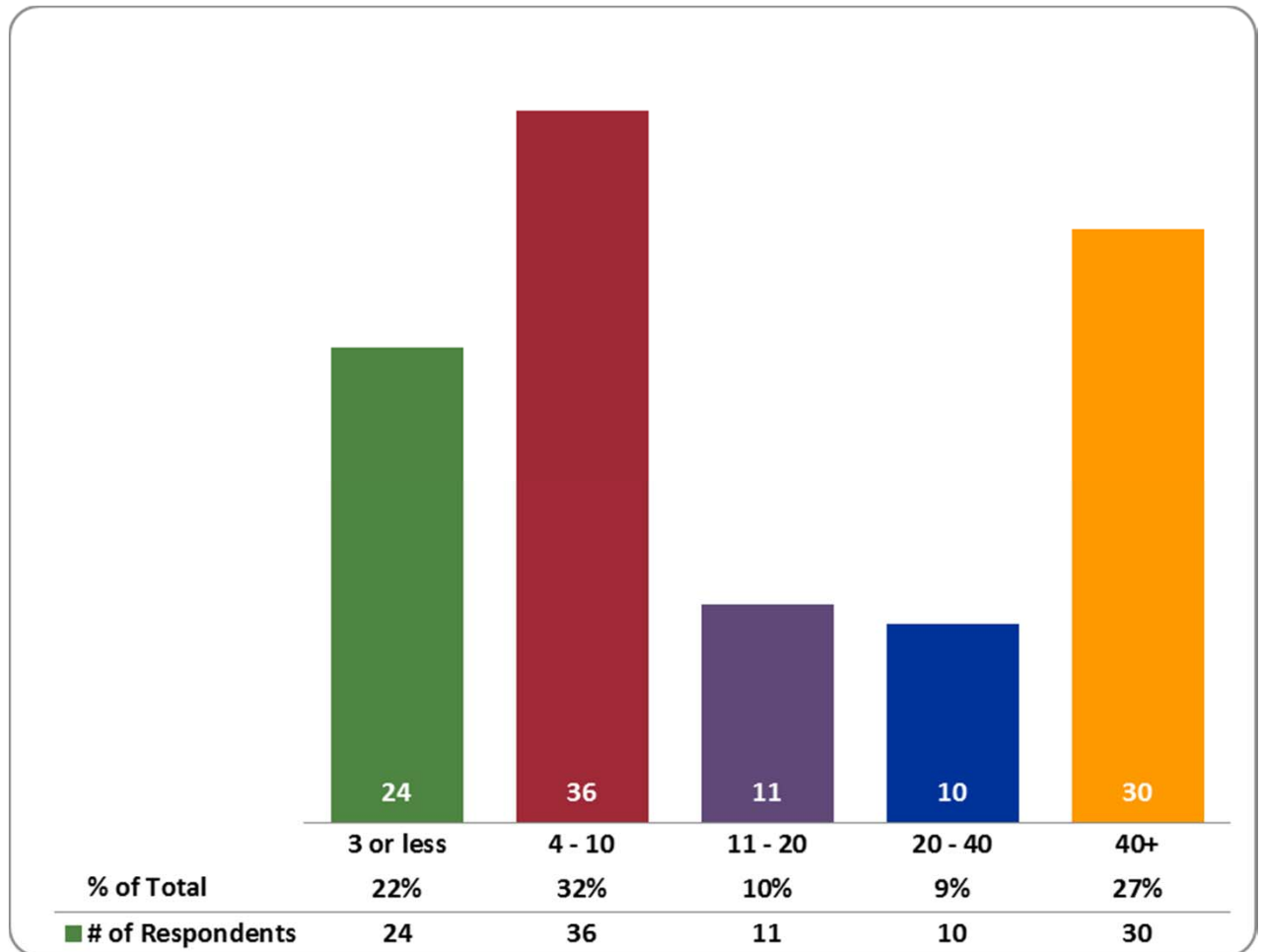
- 111 lenders, representing about 15% of all lenders solicited, responded to the survey.
- Almost 90% of these respondents were either bank owned or affiliated (38%) or independent mortgage bankers (49%).

## How would you describe the ownership of the company?



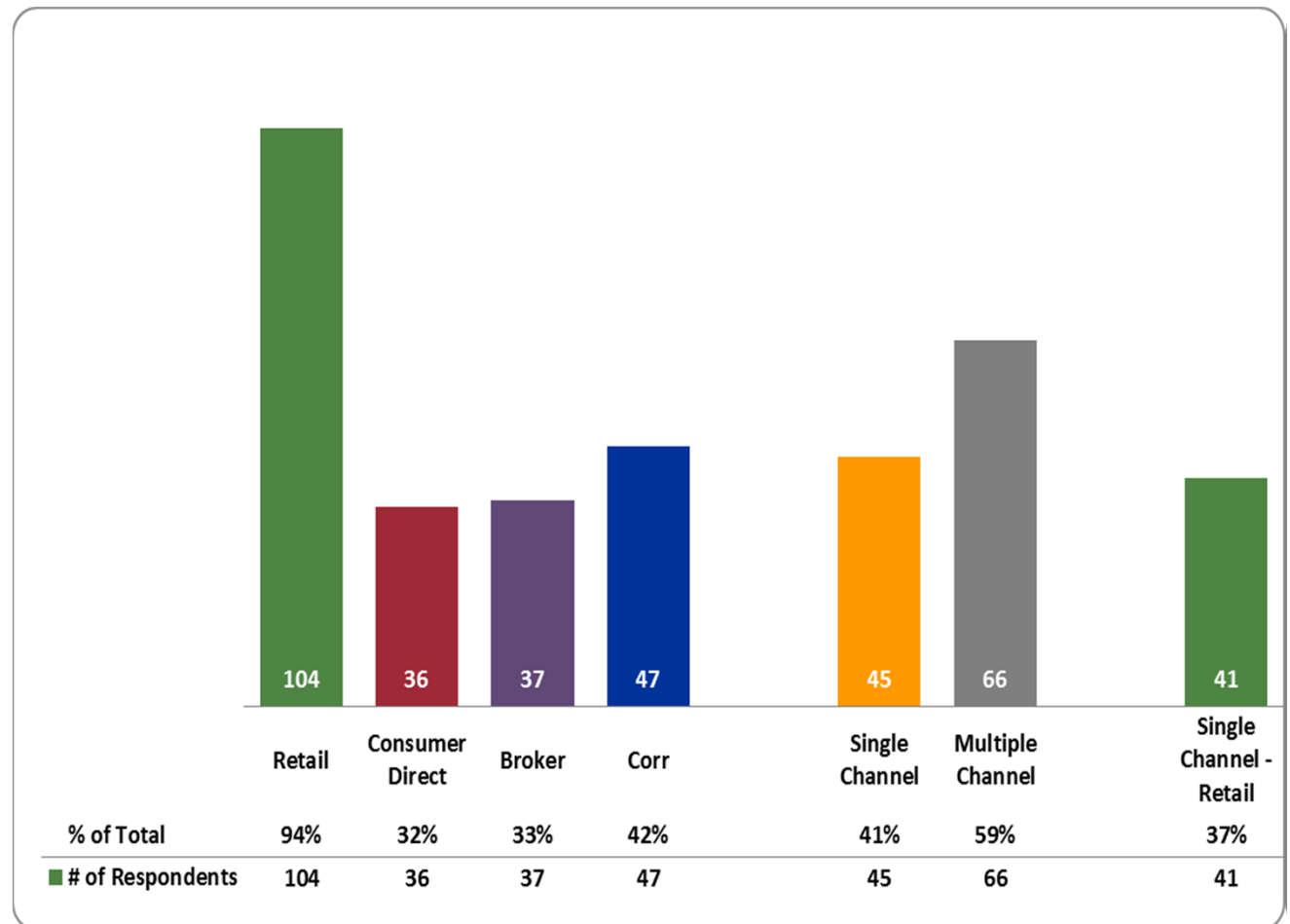
- Respondents were evenly split between lenders that originate loans within a small region (54% of lenders originated within 10 or fewer states) and lenders that originate multi-regionally or nationally (46%).

## Which best describes the states in which you originate loans?



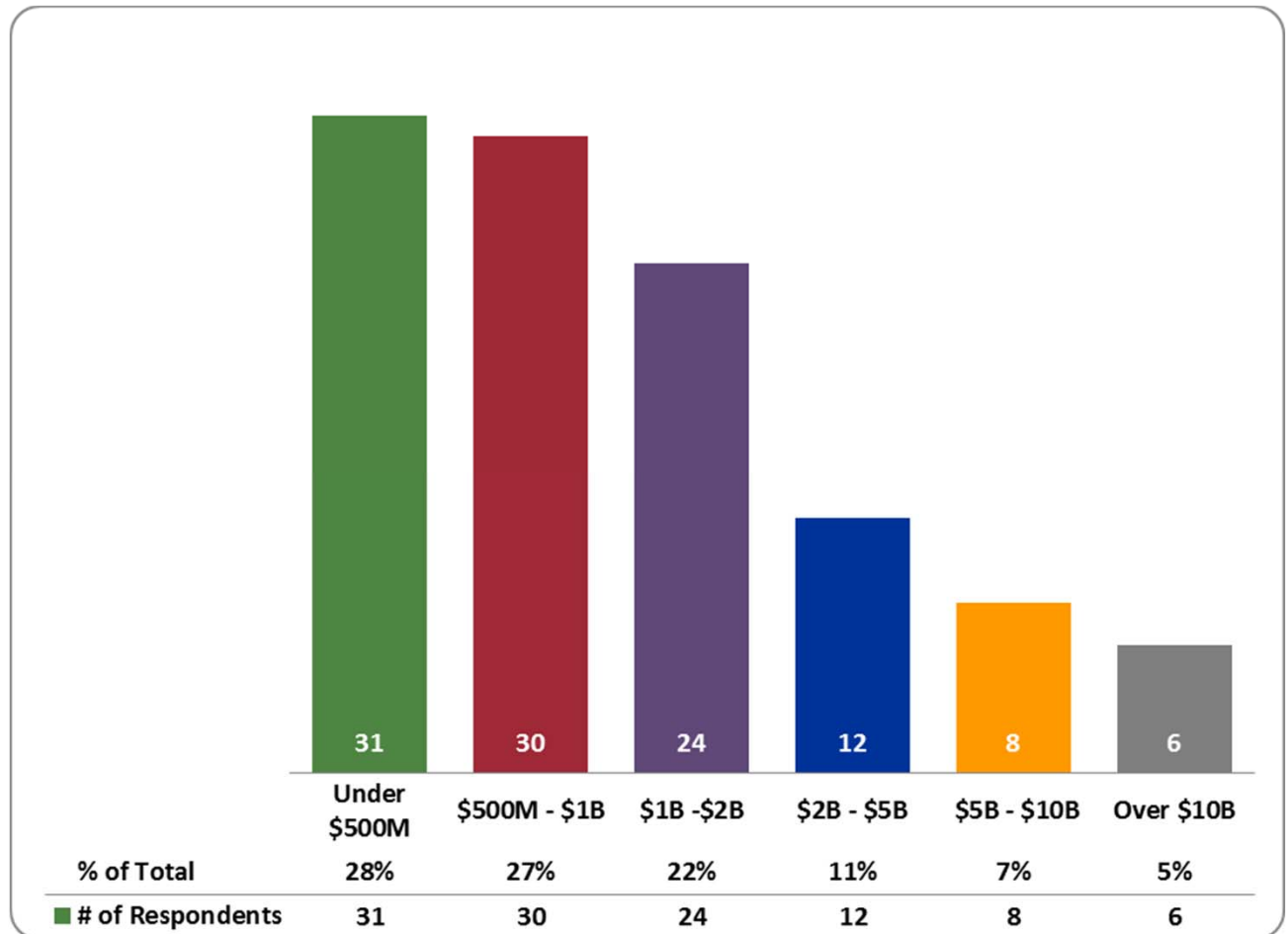
- Of the 111 responding lenders, 45 (41%) originated through a single channel and 66 (59%) through multiple channels.
- Of the 45 lenders originating through a single channel, 41 (about 90%) were Retail-only.
- On average, the 66 lenders originating through multiple channels each originated through 3.4 channels:
  - 63 of these 66 lenders originated through Retail

## In which channel(s) does your company do business?



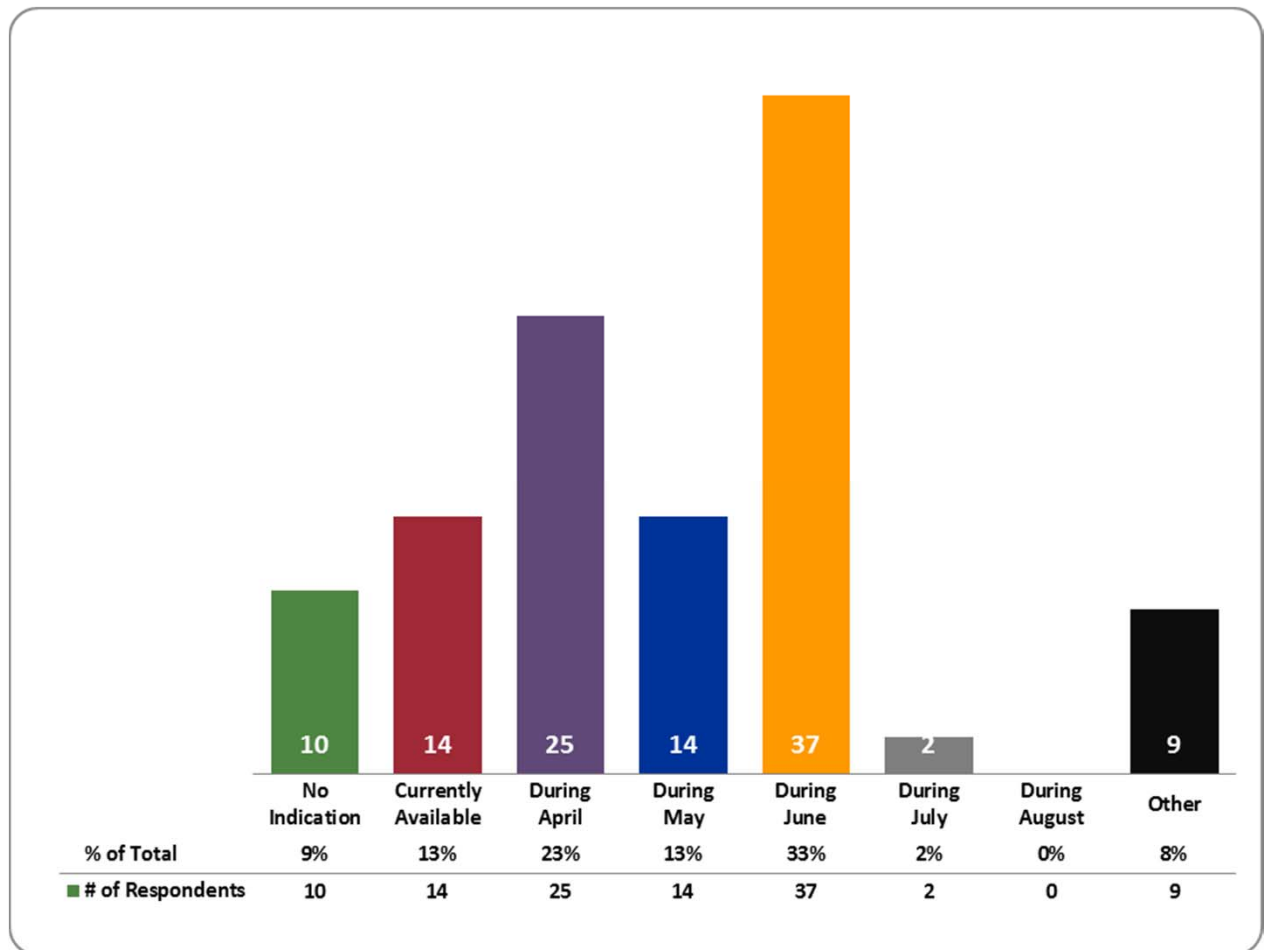
- Of the 111 responding lenders:
  - 61 (55%) originated \$1 billion or less (small-lenders) across all channels;
  - 36 lenders (45%) originated between \$1 billion and \$5 billion (mid-size lenders); and
  - 14 lenders (12%) originated more than \$5 billion (larger lenders).

## What was your origination volume across all channels for 2014?



- Of the 111 responding lenders:
  - 90 (81%) indicated that TRID updates will be available from their vendor no later than the end of June.
  - 10 lenders (9%) indicated that they had received “no indication” from their LOS vendor. Surprisingly, 7 of these 10 lenders are clients of the top 2 LOS vendors.
  - 9 lenders (8%) responded with “other” either because they “didn’t know” what their vendor had or had not indicated, were in the process of switching systems or were engaged in “internal development.”

## By when has your vendor indicated the TRID system updates will be available for testing?



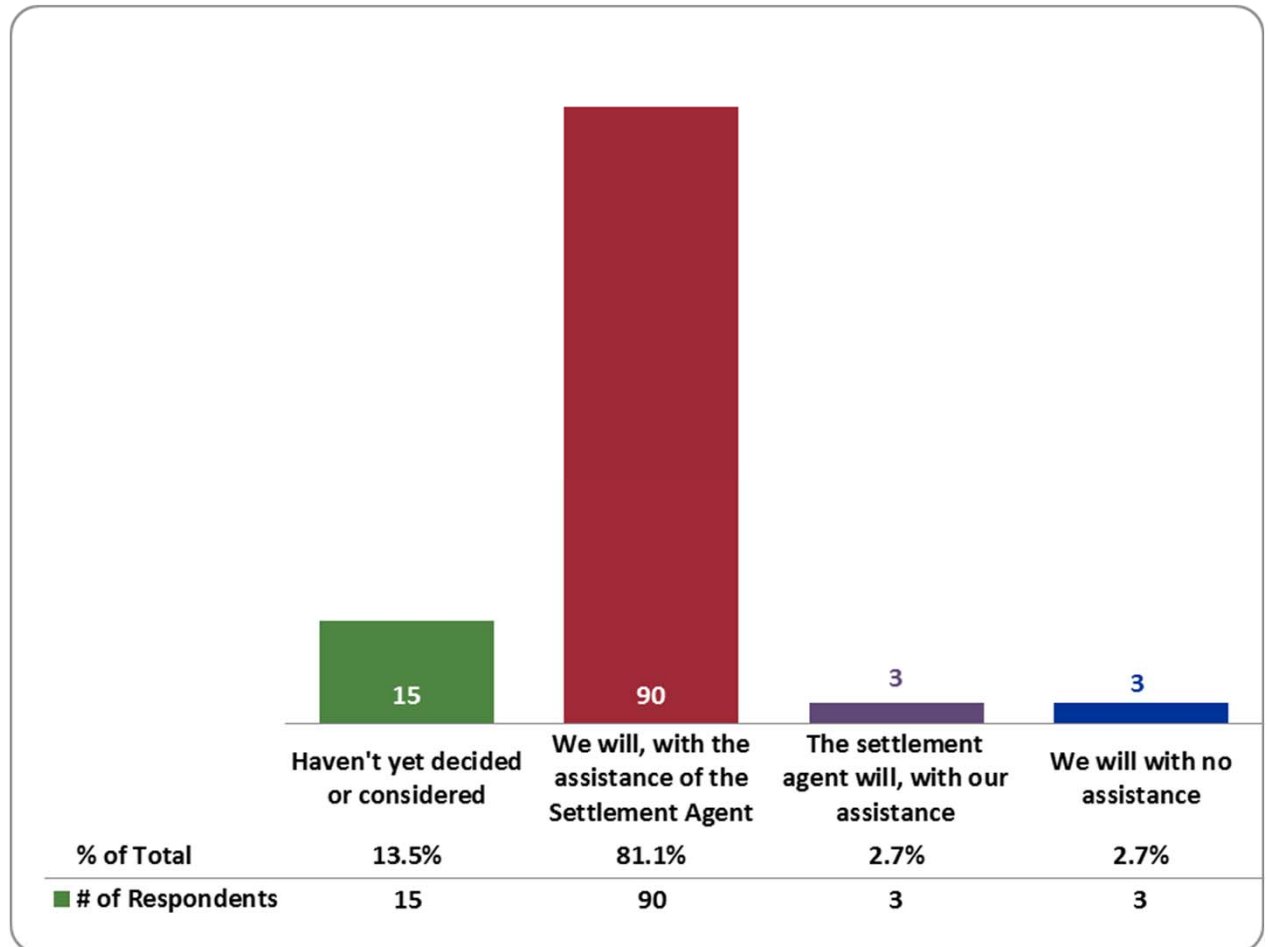
# Timing of TRID updates available for testing by System

	Timing of TRID system updates for testing								
	# of Responses	No Indication	Currently Available	During April	During May	During June	During July	During August	Other
Ellie Mae - Encompass® (formerly Encompass360) - Banker Edition	50	6%	24%	28%	6%	30%	2%	0%	4%
D+H - Mortgagebot LOS® (formerly Avista Agile®)	9	44%	0%	0%	0%	56%	0%	0%	0%
Proprietary System	8	0%	0%	13%	0%	50%	13%	0%	25%
D+H - E3® (formerly Harland E3)	4	0%	0%	0%	50%	50%	0%	0%	0%
FiServ - Unifi Pro®	5	0%	0%	0%	40%	60%	0%	0%	0%
Mortgage Builder - Architech®	4	0%	0%	100%	0%	0%	0%	0%	0%
PCLender LLC - PCLender® (formerly Black Knight – PCLender In-House Mortgage®)	3	0%	0%	67%	33%	0%	0%	0%	0%
Integra - Destiny®	3	0%	0%	0%	67%	33%	0%	0%	0%
Wipro - NetOxygen Enterprise LOS®	3	0%	0%	33%	0%	33%	0%	0%	33%
Other Systems w/ Fewer than 3 responses	22	14%	9%	14%	18%	27%	0%	0%	18%

- The following systems are included in the 'Other Systems' category because they had fewer than 3 survey responses.
  - Black Knight - Empower® (Classic)
  - Black Knight - Empower.NET®
  - Calyx Software - Point®
  - Calyx Software - PointCentral®
  - FICS - Loan Producer®
  - ISGN - MORvision® (formerly Dynatek)
  - MeridianLink - LendingQB®
  - Accenture - Mortgage Cadence Enterprise Lending Center® (formerly Orchestrator)
  - Blueberry - Relay TM
  - Byte Software - Byte Pro Enterprise Edition®
  - FIS - Loan Origination Studio® (L.O.S.)
  - FiServ - EasyLender Mortgage®
  - MortgageFlex - LoanQuest.net®
  - MortgageFlex - LoanQuest®
  - OpenClose - Lender Assist®

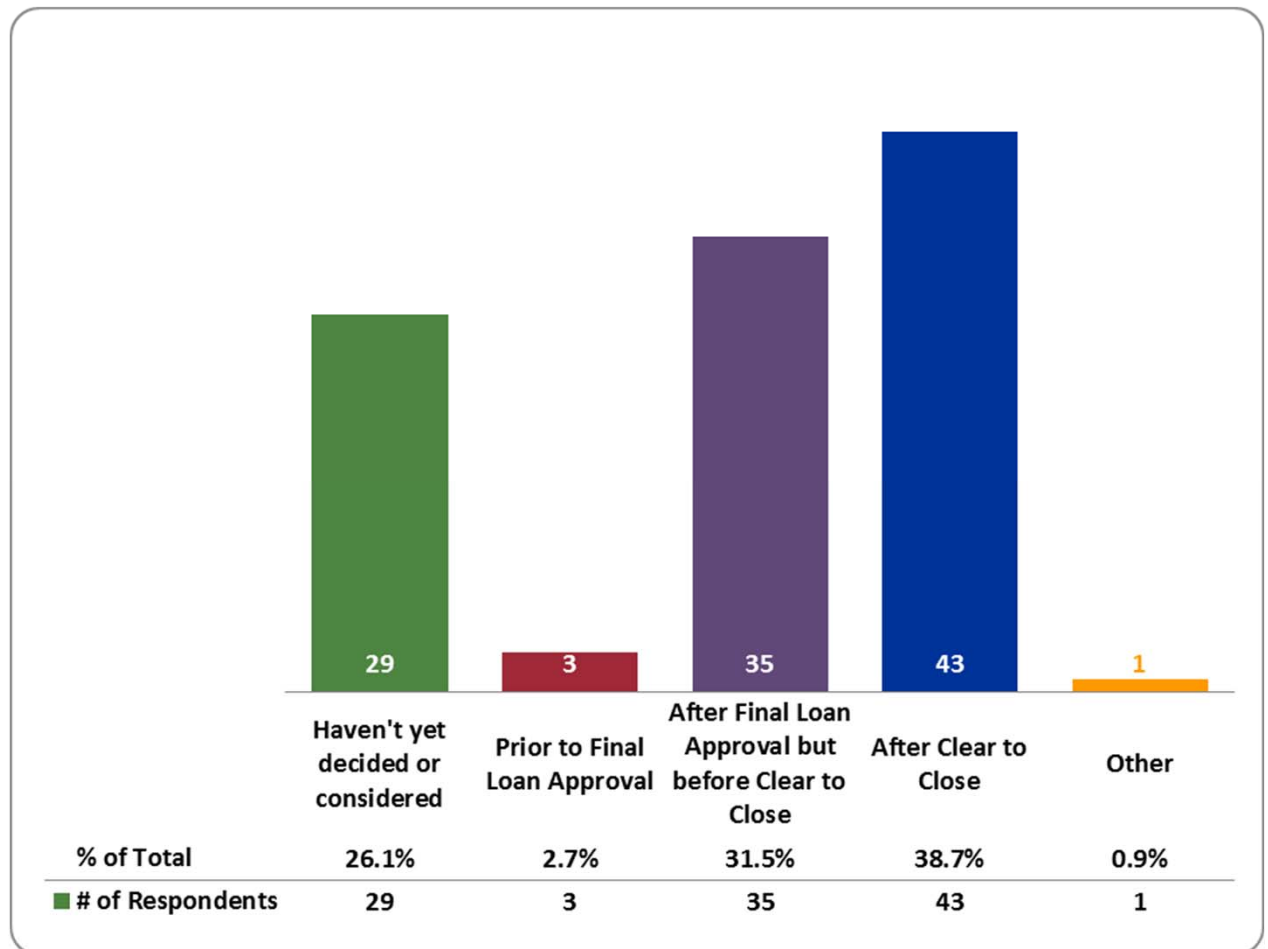
- Across virtually all types of lenders, roughly 80% indicated that they would generate and send out the Closing Disclosure themselves with the assistance of the Settlement Agent.
- While 13.5% of all respondents indicated that they “haven’t yet decided or considered” this decision, roughly 20% of independent or smaller lenders chose this response.

## Who will generate and send out the Closing Disclosure?



- As regards to when the Closing Disclosure will be issued, significant differences exist between banks/credit unions and independent lenders:
  - Roughly 18.4% of bank/credit union lenders indicated that they “haven’t yet decided or considered” versus 35.2% of independent lenders.
  - Of those lenders that have considered and decided, 65% of bank/credit union lenders will issue after a loan is “clear-to-close” versus 46% of independent lenders.

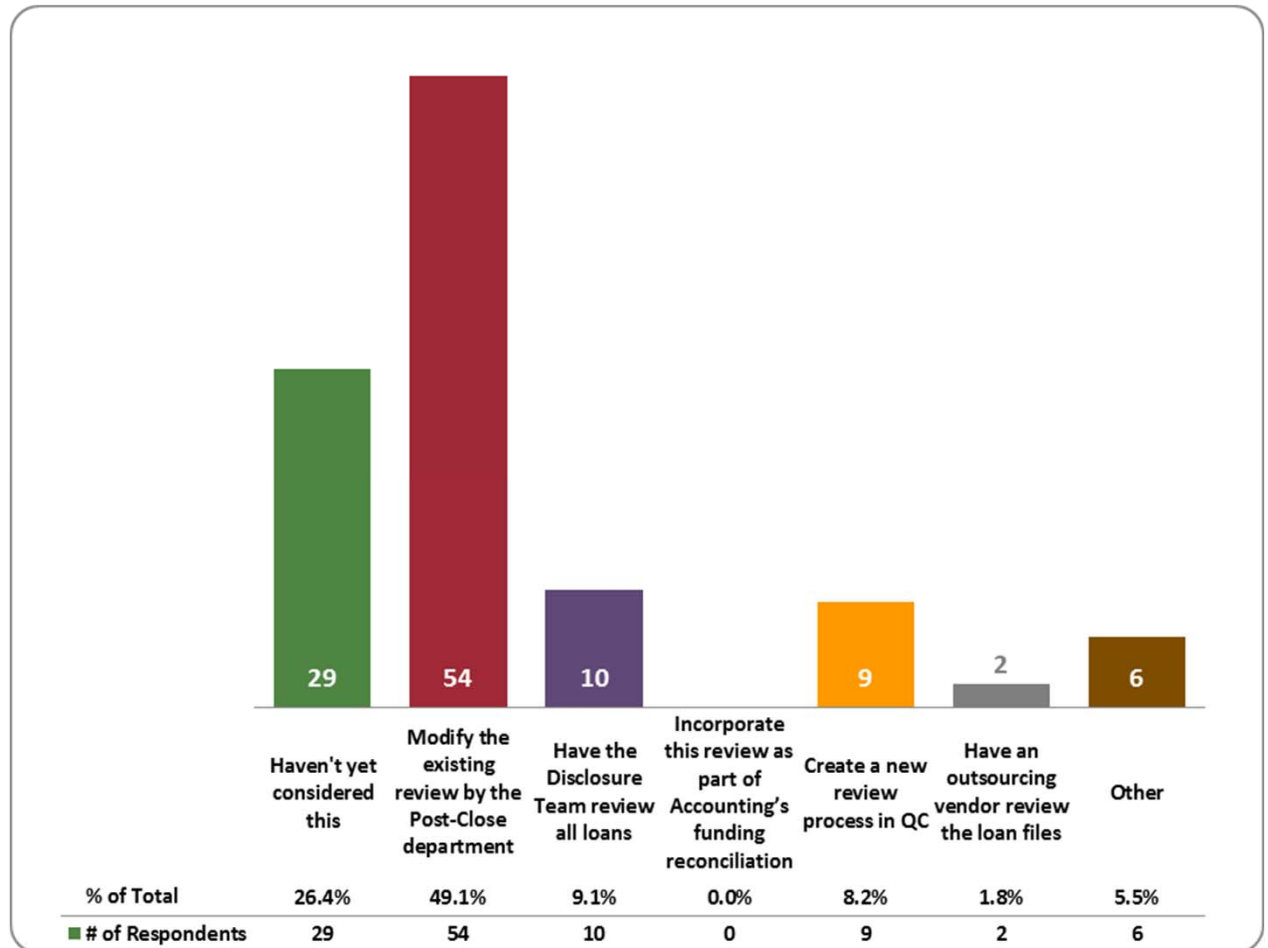
## When will the Closing Disclosure be issued?





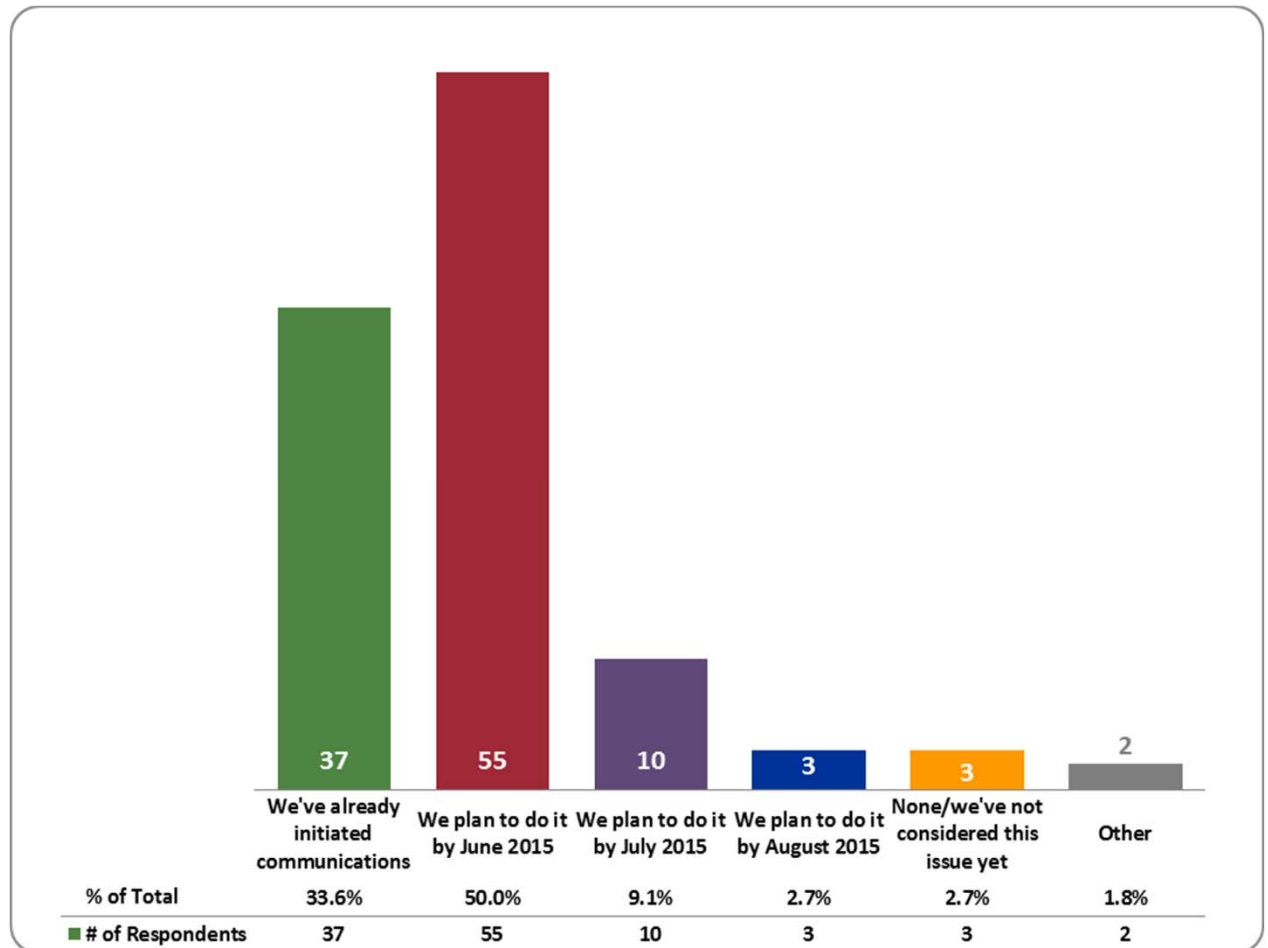
- While almost half of all respondents plan to modify their existing review by their Post Closing department, 26.4% of lenders haven't considered this function. However:
  - Virtually every credit union has considered this requirement, with almost 86% choosing to modify their existing Post Closing review process.

## How do you plan to handle the Post Closing review to identify and repair closing disclosure errors?



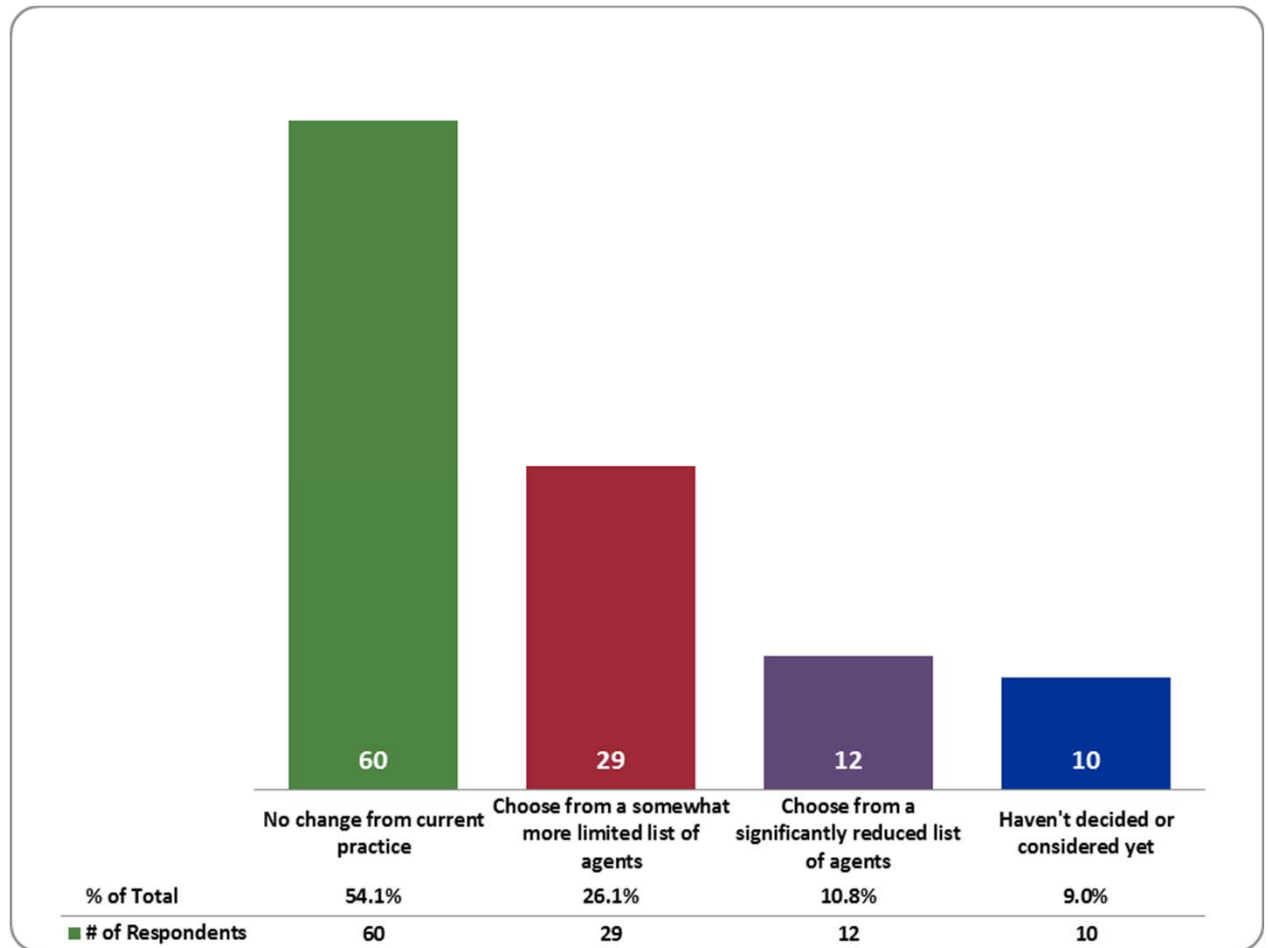
## Which of the following best describes the level of communication with your settlement agents with respect to TRID procedures?

- About 33% of lenders have already initiated communications with their Settlement Agents as regards TRID procedures.
- An additional 50% expect to have done this by the end of June.
- This leaves about 12% of lenders planning to initiate communications in July or August, which may cut things close, 2.7% not having considered this requirement and about 2% doing something else.
- *As is the case elsewhere, independents are lagging bank and credit union lenders in their planning and readiness in this area.*



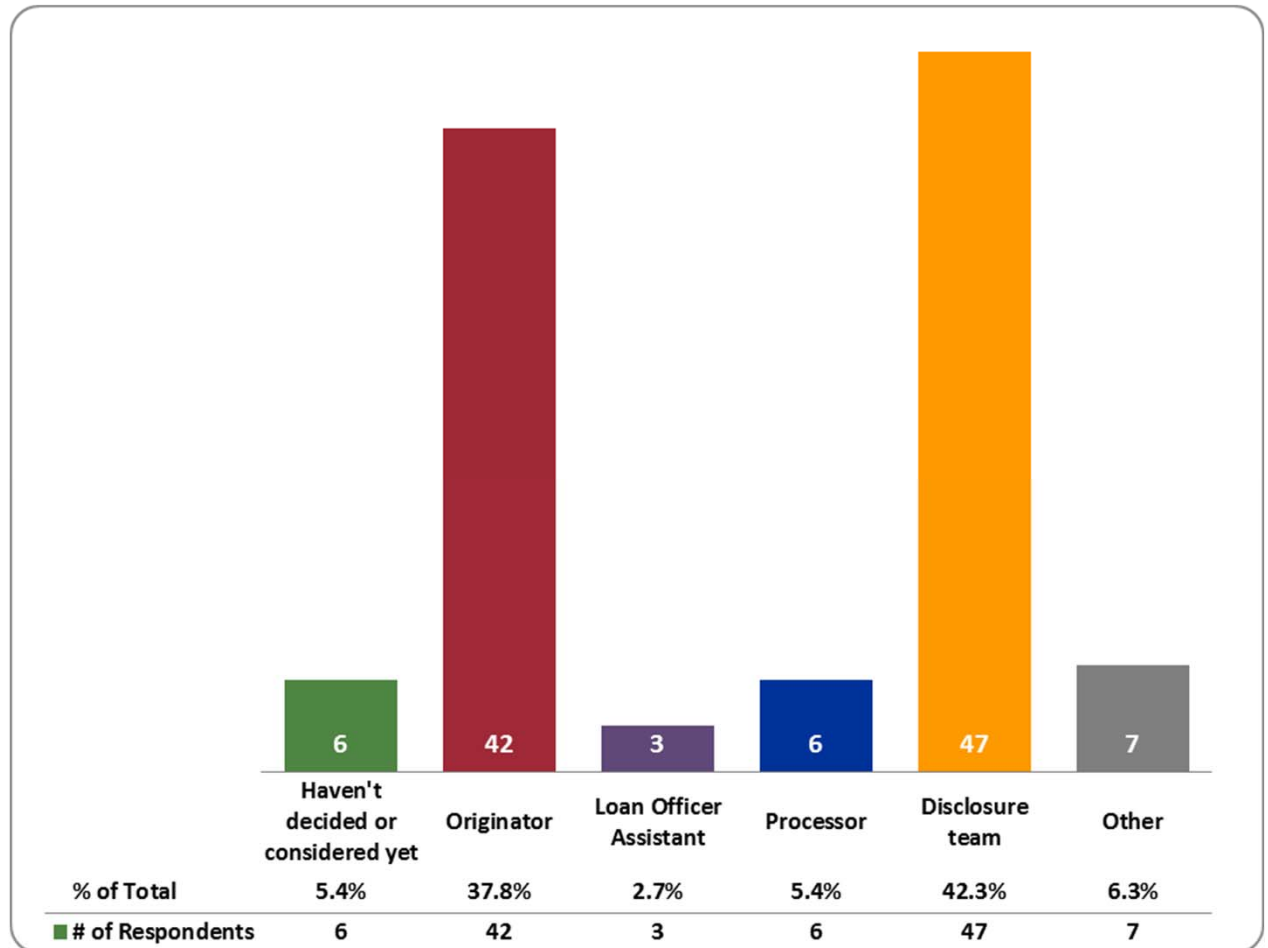
- While 54% of lenders have no plans to change the number of Settlement Agents that borrowers can choose from, 37% of lenders plan to somewhat or significantly reduce this number:
  - Credit unions, however, are 2-3 times more likely than other lenders to be planning significant reductions.

## Which of the following best describes your plans as regards the number of settlement agents that borrowers can choose from?



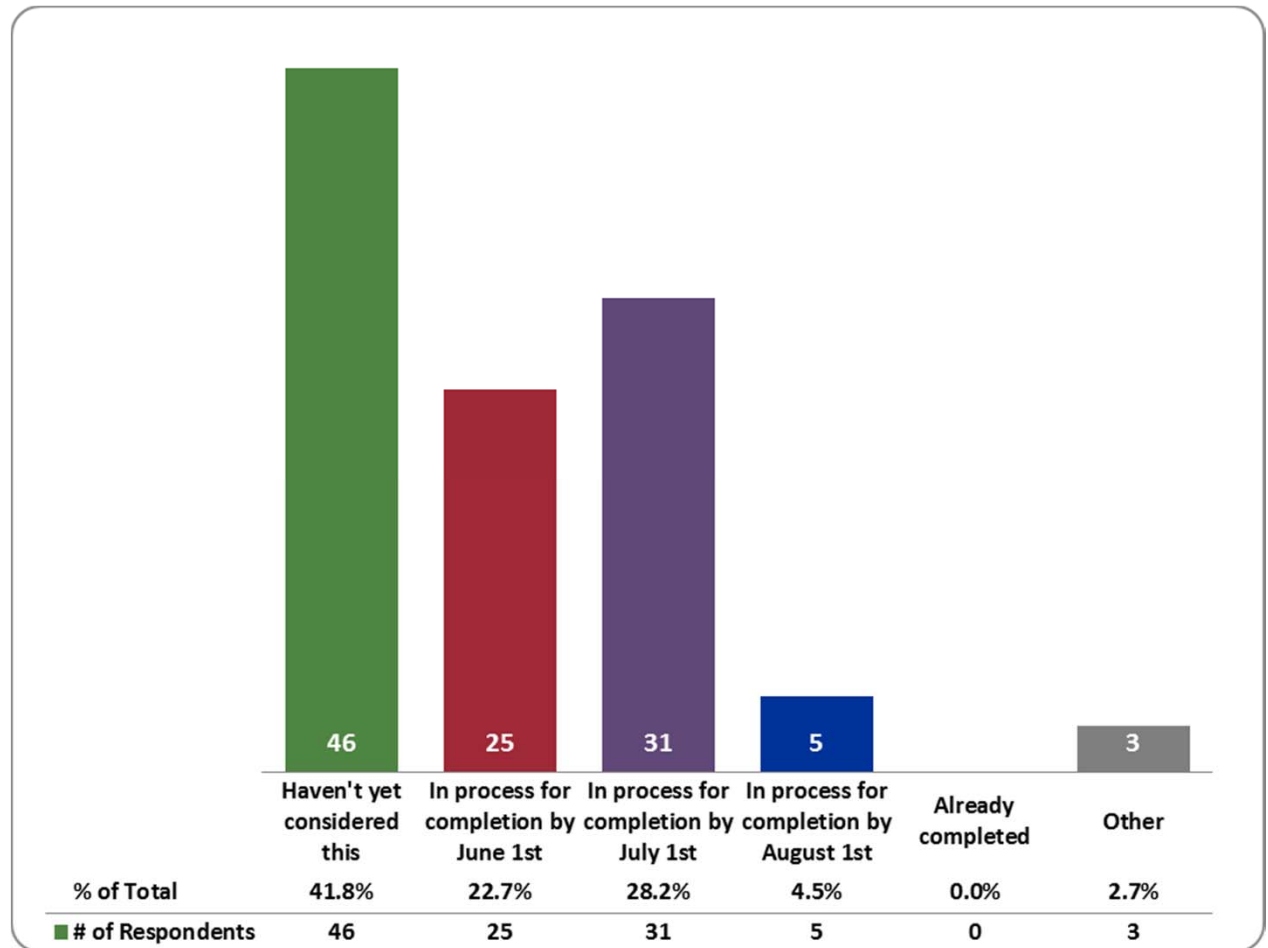
- About 80% of lenders will issue the Loan Estimate by either their originator (37.8%) or a disclosure team (42.3%).
- For 82% of lenders, this represents no change from current practices; however:
  - 26% of bank lenders reported that their go-forward practice represents a change from current practices; and
  - 0% of credit unions plan to change from current practices.

## Who will issue the Loan Estimate?



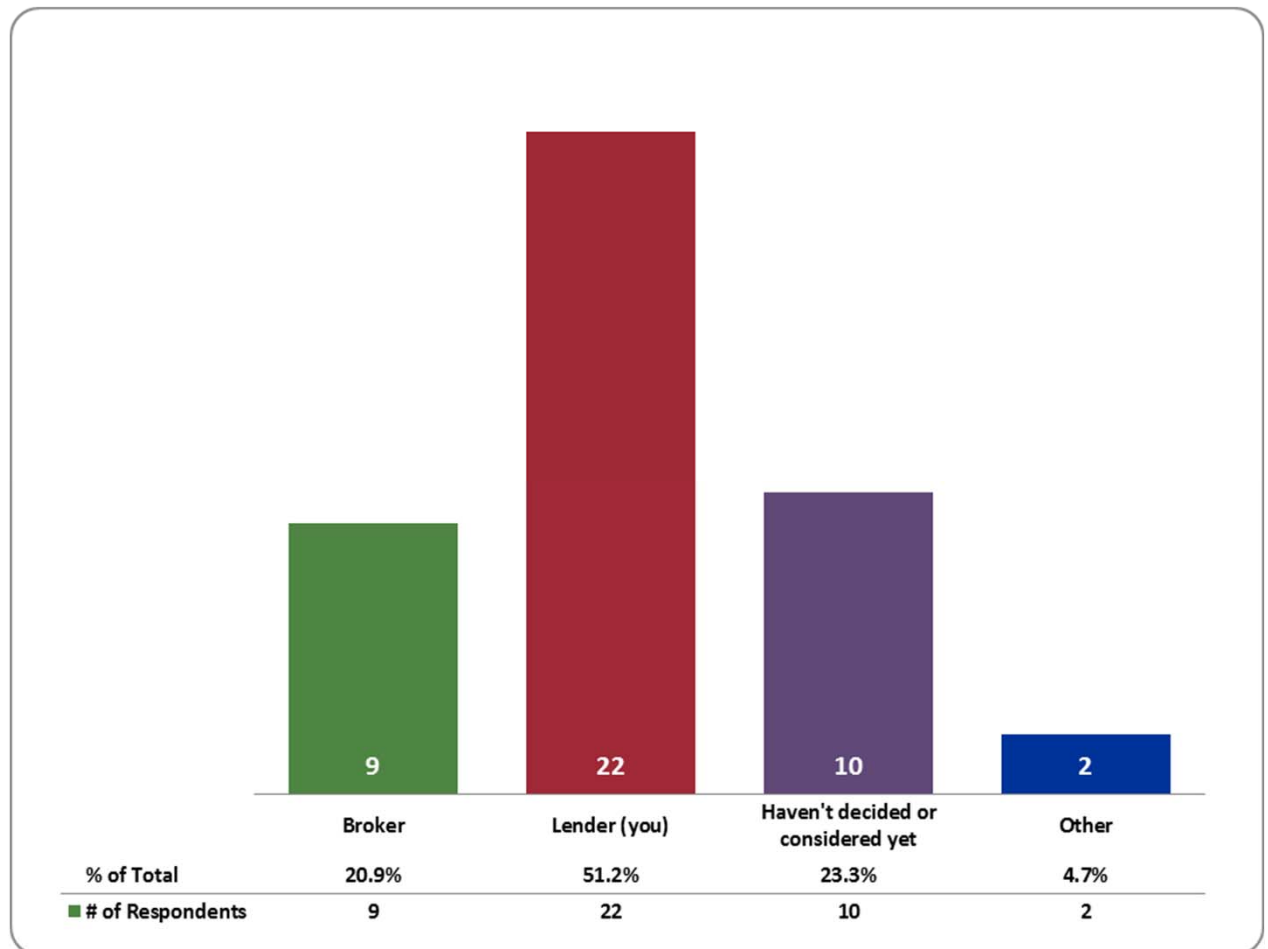
- Across independent and bank lenders, roughly 45% have not yet considered plans for scripting sales and fulfillment personnel.
  - 51% are underway and expect to complete this by the end of June or July.
  - Another 4.5% are underway, targeting end of August for completion.
- These results suggest that scripting could be a significant problem area. However:
  - Credit unions are again ahead of the pack as regards readiness, with almost 86% expecting to be ready by the end of July.

## Which of the following best describes your status for the preparation of scripts for use by LOs, processors and closers with respect to borrower communications?



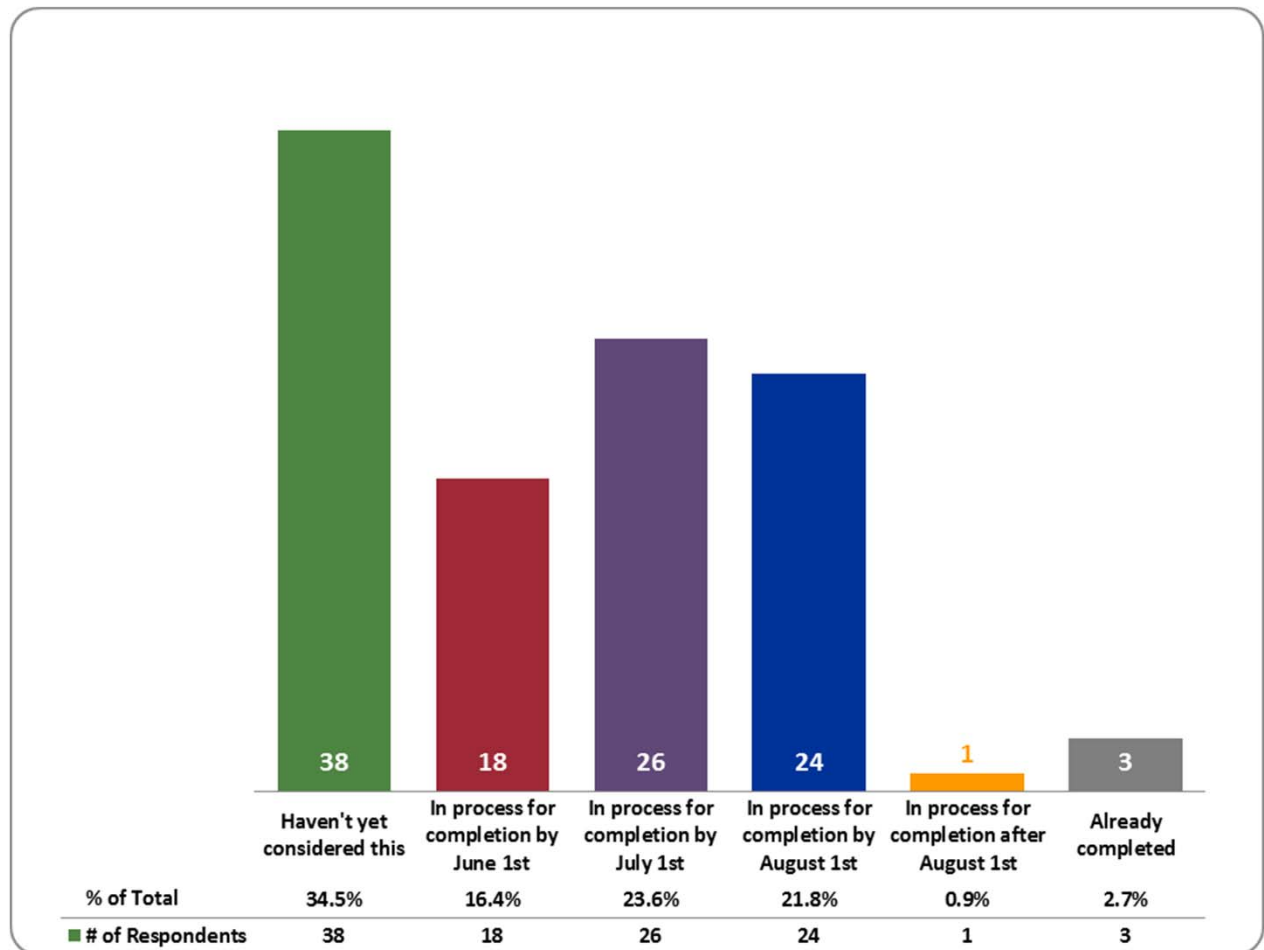
- Of the 43 wholesale lenders 33 (77%) have decided who will prepare the loan estimate:
- Of the 33 decided lenders:
  - 9 lenders (27% of the 33) will let the broker prepare the LE;
  - 22 lenders (67% of the 33) will prepare the LE themselves; and
  - 2 lenders (6% of the 33) will be taking hybrid (“Other”) approaches.
- 7 out of the 10 lenders that have not decided or considered this decision are independent mortgage lenders.

## If you have a Wholesale (Broker) Division, who will prepare the initial Loan Estimate?



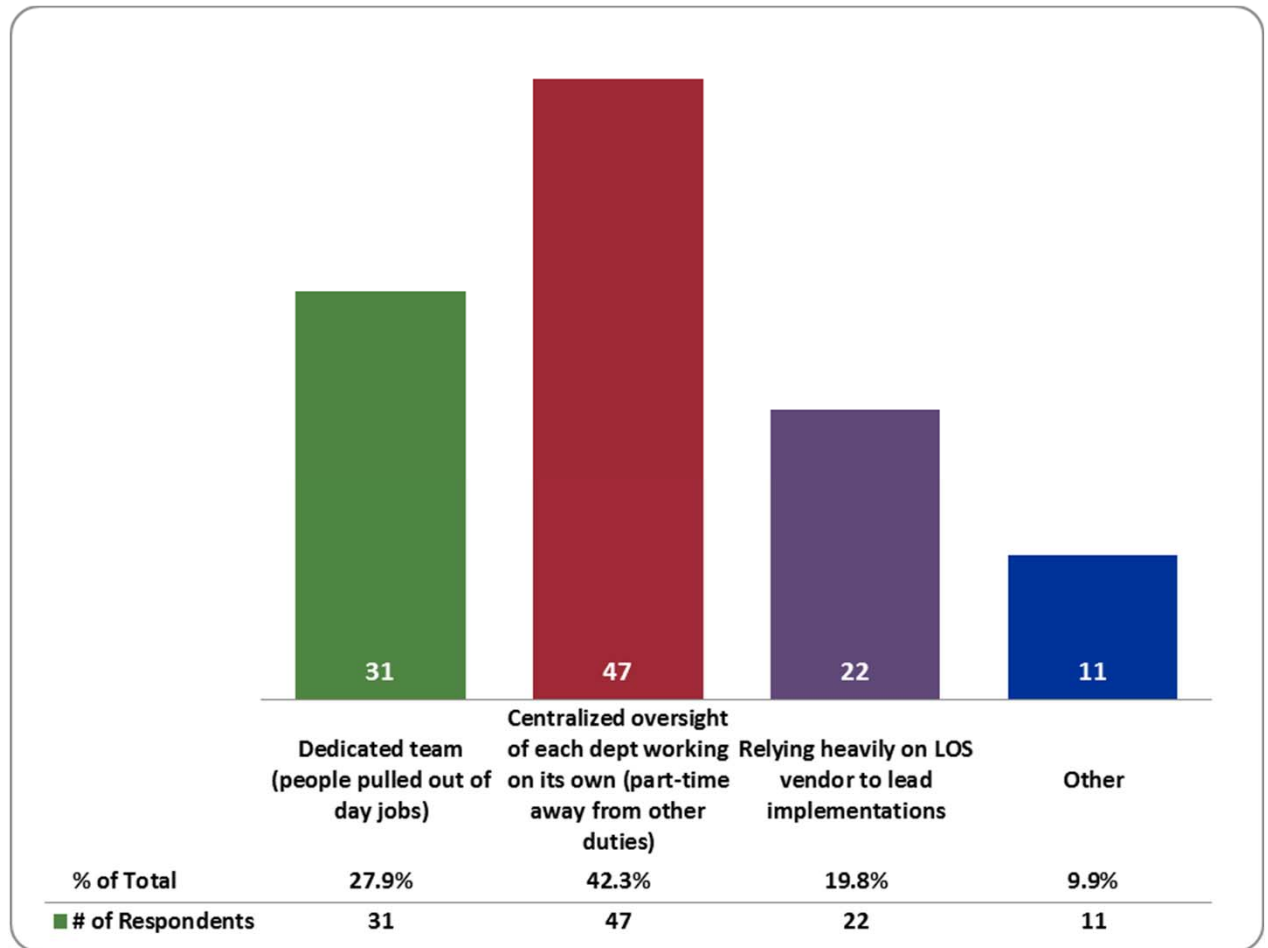
- Across all lender types, 34.5% have not yet considered Post Closing repair procedures. Included here are:
  - 39.6% of independents
  - 31.0% of banks
  - 28.6% of credit unions
- Of the roughly 62% of lenders that have initiated development of such procedures, credit unions are furthest along, followed by bank lenders, with independents least advanced.
- As with scripting, development of Post Closing repair procedures appear to be lagging (although the need for such procedures may be lower priority than other procedures).

## Which of the following best describes your status for development of Post Closing repair procedures?



- 42.3% of lenders appear to be relying on central oversight of teams organized by department and staffed by people working part-time away from other duties for TRID implementation.
  - *STRATMOR judges this a risky approach to TRID implementation because accountability is blurred and day-to-day responsibilities of part-time staff tends to push out development tasks.*
- Relying on vendors to lead implementation (almost 20% of lenders) strikes us as being even riskier, especially as regards tasks for which system vendors may not be either especially experienced or skilled, e.g., scripting.

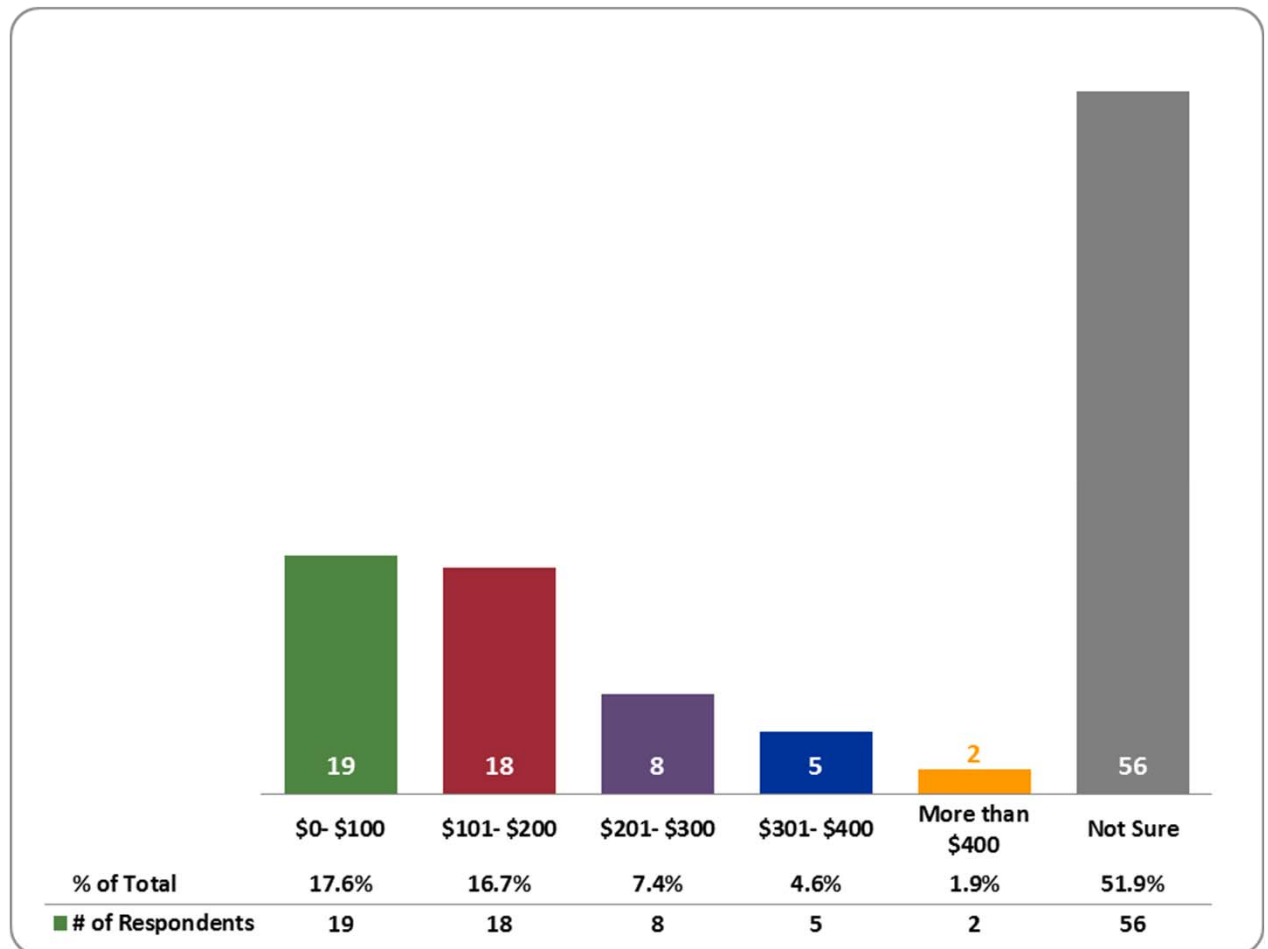
## How have you organized to implement the new rules and transitions?





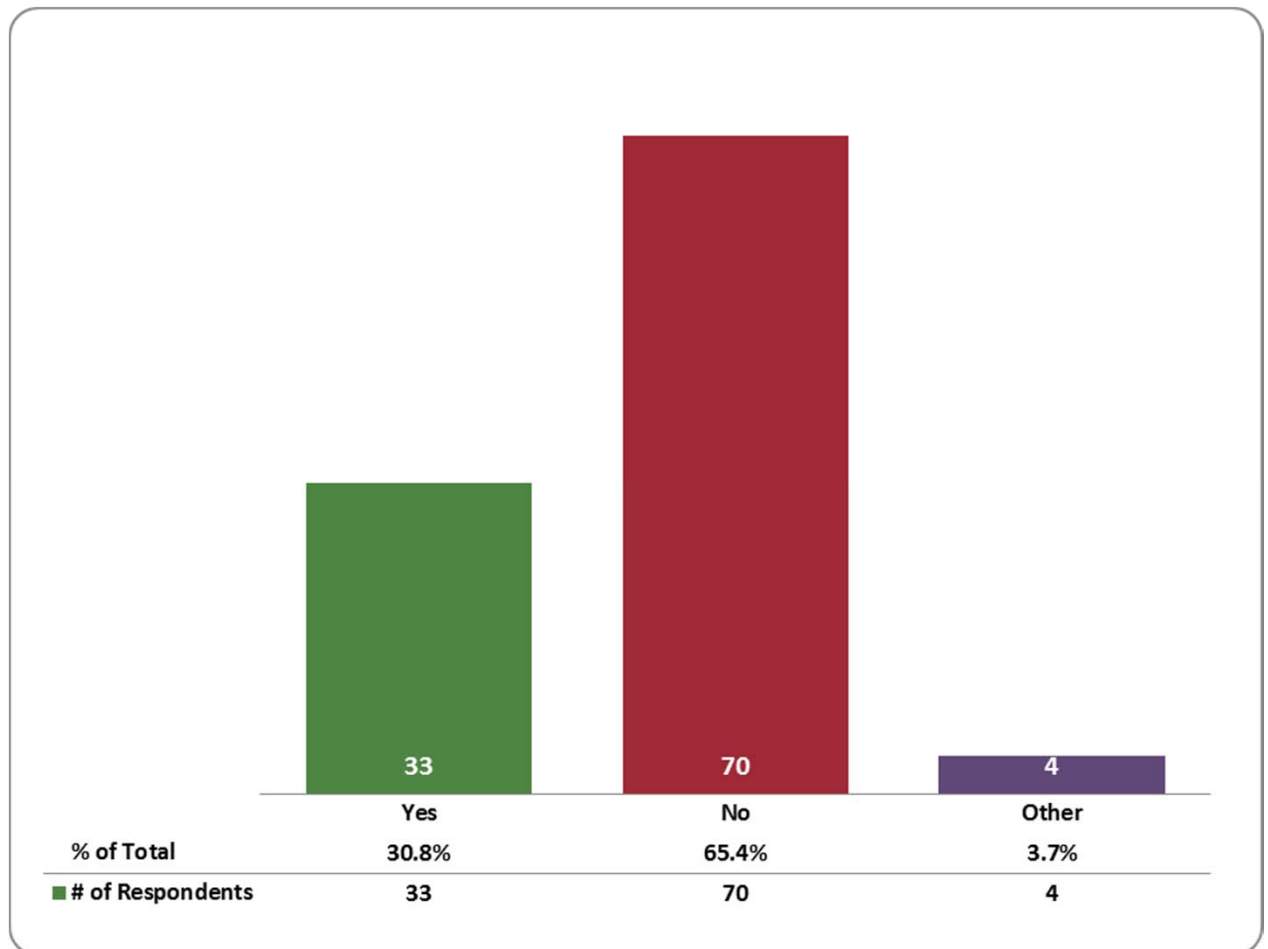
- Using the midpoint of each “additional cost bucket,” the average additional cost for TRID compliance estimated by the 52 lenders that provided an estimate to this question was \$159.62 per loan.
- This estimate was pretty much the same across lender types except for credit unions, for which the average additional cost estimate was \$83.33 per loan.

## What do you estimate the additional cost per loan will be to comply with TRID requirements?



- Roughly two-thirds of all lenders are not using outside consultants - other than their LOS vendor - to assist them in meeting TRID requirements.
- Use of outside consultants was roughly the same across lender types except for credit unions. Not a single credit union reported using a consultant.

## Are you using outside consultants to assist you with meeting the TRID requirements?



# Additional Comments regarding TRID

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- It's going to take heavy collaboration and coordination with settlement agents to ensure timely and accurate CDs. That is our biggest concern right now.
- Interested to understand the population of lenders utilizing a manual process with Settlement Agents to exchange data in preparation of CD vs going live on 8/1 with vendor/portal automation
- They *<the regulators>* have no idea the mess they have created nor the unintended consequences we anticipate this will cause.
- The biggest challenge will be resetting the expectations of Originators, Realtors, and Settlement Agents around the timing, flow, and divided responsibilities during the closing/settlement process.
- *<The new practices and policies will be>* Cumbersome and confusing to the consumer.
- While we are completely aware of the change we are not getting too far out in front of it so that we do not create policies and procedures that will be obsolete by August 1st.
- There is a lot of work to do before August 1.
- TRID Implementation Team consists of existing staff from various departments. Scope and Implementation approved by Executive Management will call for a Project Manager with the members specializing in implementation in their *<respective>* departments. Adding 1 position to Compliance Team for this project and other related duties.
- Realtors are still in denial on the 4 day delay & no last minute changes.
- Due to different interpretations and results from various entities, we would like to see more updated direction and FAQ's from the regulators.

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