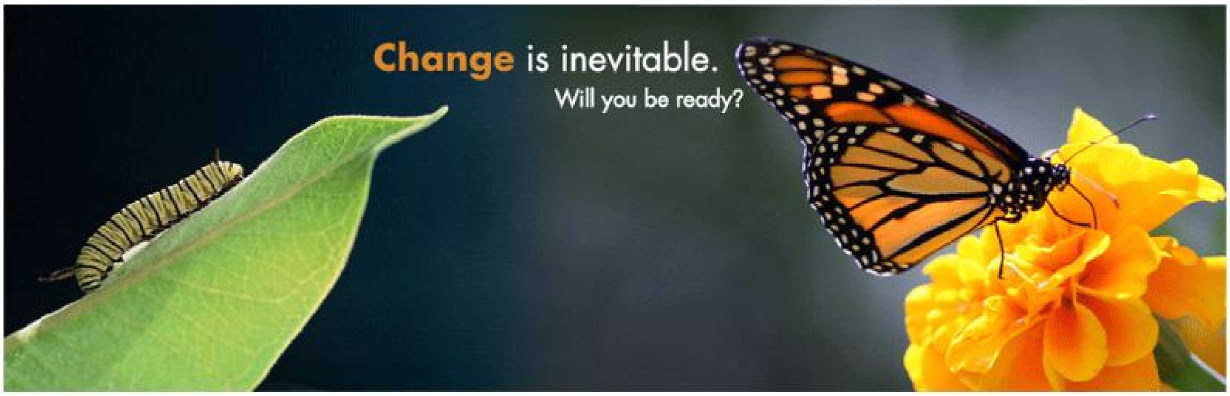
igniting ideas for the mortgage industry.
matchbox

IGNITE
BECAUSE DATA MATTERS

matchbox (Op)erations (Ed)itorial Page
Thoughts and Observations on the Mortgage Industry
October 13, 2015



matchbox consulting services - we speak mortgage...

Well, we are one week into TRID and guess what?.... we all survived. And for most, it went better than expected. While all the concerns about the implementation were valid, most companies hunkered down over the past month and got ready for October 3rd. Based on what we have seen, we estimate 35% of firms are fully ready for TRID, 45% are pretty close, but will change policy as soon as new details are learned and 20% are not prepared, even if they say they are. These statistics are being presented to show that there are only a small percentage of companies that are in full understanding of the regulations and who will satisfy the good faith effort that the CFPB has offered as the guide for enforcement. Lenders that are being hyper-critical and evaluating all TRID loans in their pipeline both before and after disclosure issuance are the ones poised for successful adaptation to TRID. With the potential TRID delays and an anticipated rate increase, income potential is sure to be affected over the next 6 months. We speak to these concerns and the roles your accounting team needs to play in the months ahead.
We will be at the MBA National Conference next week in San Diego. Please let us know if you are attending and would like to meet and catch up. We always prefer to meet in person if possible, even if it is brief.

The Calm Before the CD

Last week was pretty uneventful, which was a welcome reprieve for the entire Mortgage Industry. The initial Loan Estimate disclosure part of the process had some nuances, including the combination of two disclosures into one, but for the most part it is very similar to the prior process. Outside of seeing the creation of a disclosure desk and an overall greater concentration of firms using a centralized disclosure department to aid in this process, most items remained the same; perhaps there was a bit more urgency to disclose as soon as possible. So overall last week went really well and while we were not sure of what to expect, the fact that the initial part of the process did not cause too many hiccups was not a shock. If we were going to use the acronym, LE, it was **Less than Expected**.

Looking ahead, this is the calm before the CD, as we think this is the piece that is going to pose the biggest challenges for multiple reasons:

- Most firms have put their main focus on the initial LE part of the process. Interacting with clients on the testing front has brought a lot of LE inquiries, but the inquiries on the CD side have been rather low. There has not been a lot of testing on the Closing and CD side of the process.

- The CD process is drastically different than preparing the HUD and overall closing process. The timing, coordination, and tracking of the client's receipt and acknowledgement of the CD is a totally new process that has an impact on multiple departments. We have also seen Pre-Closing departments created in an attempt to get ahead of the closing document preparation and ensure that the new CD process does not cause additional delays.

- There has been less guidance on the CD front than there has been on the LE side. We have seen many scenarios presented with more responses returned on the LE process than the CD process, which equates to many more unknowns to be uncovered in the coming weeks.

- Using the acronym path again, the CD has the capability of proceeding to be the **Cause for Delay** and/or **Closing Disaster** as the CD and an incorrect CD management process will lead to loans not being purchased. Investors are going to put a lot more focus on the review and compliance on the CD front, to the level that they will reject loans for purchase, which will lead to delays, your processes requiring to be updated and ultimately delays to your pipeline.

The point is that while last week went pretty well, and we hope it continues, there is a strong belief that the worst is yet to come in the coming weeks when CD's start to generate. If you have put a lot of time and effort into the CD process and feel comfortable that it will not cause delays, please try to do some stress tests to confirm your beliefs. Please run a handful of your most issue-laden closings over the past month through the CD process and see how these would be handled in a CD TRID world. Would there be delays? Would you have to absorb costs that could not be changed? Were there multiple changes that would cause need for a re-disclosure and add another 7-10 days to the process? Has the process for tracking multiple CD's and the client receipt of such been tested and easily supported for a future audit?

As we all know, most of us understand the straightforward part of the business. The expectations, and how they are handled are the difference-makers between firms that are ready and firms that think they are ready, but are looking at **C**ertain **D**elays in the future.

Hail to the Bean Counters

2015 has been very positive for most, if not all, firms. A strong first quarter supplied the strong base for 2015, and for the most part, rates have remained low so that volume and financials have remained strong throughout the year.

Coming into the fourth quarter of 2015 and the first quarter of 2016, there appears to be ample reason for the financials to take a step back over the next 6 months. Between TRID and an almost certain rate increase, pipelines will be affected which will equate to a reduced bottom line. This will require your CFOs and accounting departments to be aware of the potential negative changes in order to take appropriate action for year-end and beyond as financials will be changing in the coming months.

Examples of these will be:

- Pipeline delays due to TRID
- Additional payroll requests due to TRID delays
- Potential increased pipeline fall-out due to rate increases
- Hedging cash flow changes due to rate increases
- Investor pull back at year-end due to a very strong first three quarters
- A reduction in your reserve strategy if there is one in place

It is much easier to be a good CFO when things are good; it takes skill to look ahead and prepare for when things are retrenching. Please ensure that production teams are in communication with the accounting department as the pipeline and income potential looks to change in the coming months due to market events. Your accounting team needs to be proactive in the coming months and aware of potential changes rather than simply waiting for the month to close. Additionally, they need to know what to look for, do they? Reports, Dashboards and other methods of reporting on potential loans that can/will pose problems becomes paramount. You need to know before you find out.