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Mortgage Technology

Special Report

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Contact information:
October Research, LLC
ATTN: Dodd Frank Update
3046 Brecksville Road, Suite D
Richfield, OH 44286
Tel: (330) 659-6101
Fax: (330) 659-6102
Email: contactus@octoberresearch.com

Until mortgage compliance can be solved by pressing a button ...

Dear Readers,

One day, far in the future, mortgage technology may become so advanced that lenders will be able to push a single button to instantly gather, verify and submit borrower data in a way that meets standards set by the government-sponsored enterprises and federal regulators.

On that day, lenders no longer will have to worry whether their staff has had enough training on software designed to account for new collection data fields required by amendments to the Home Mortgage Disclosure Act. They won't feel compelled to implement steps for ensuring that data transferred into a uniform closing dataset is accurate, and cybersecurity concerns will be a thing of the past.

Most lenders will never meet borrowers because the eMortgage process will be so flawless and reliable that the idea of signing closing documents in person will be decried as a waste of both ink and paper. Blockchain technology, of course, will play no small part in that respect, given that any concerns some may have about it will have long since been addressed.

Since that day is likely a long, long way off, let's go ahead and dive into some of the benefits and challenges posed by the latest advances in mortgage technology and the new regulations for which they must account.

There are plenty of aspects to cover, and our hope is that the experts we've consulted in compiling our third annual Mortgage Technology special report will provide you with the comprehensive knowledge you need to ensure that your technology systems and your staff are ready to take on the complex compliance challenges that lay ahead.

Best,

Robert Rozboril
Editor
rrozboril@octoberresearch.com

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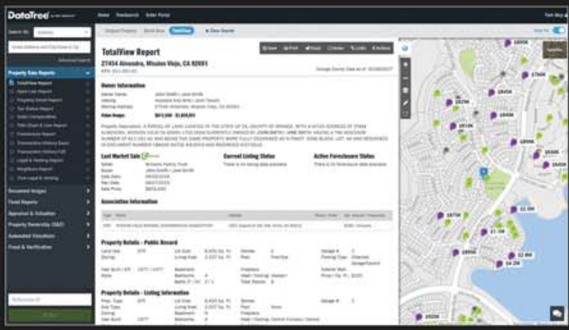

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LOS providers detail major implications of 'minor' changes

Whether the "S" in "LOS" stands for "software," "system," "solution" or something else entirely in your vernacular, the importance of ensuring that loans are originated in a way that is consistent with federal regulations is undeniable for lenders, and most other professionals in the mortgage marketplace.

With new submission requirements for Uniform Closing Datasets (UCD), effective Sept. 25, 2017, new TILA-RESPA Integrated Disclosure (TRID) requirements, effective Oct. 1, 2018, and new Home Mortgage Disclosure Act (HMDA) requirements, effective Jan. 1, 2018, LOS providers have their hands full.

Ellie Mae Vice President and Counsel of Product Compliance **Angela Cheek**, **Rich Gagliano**, president of loan origination technologies at Black Knight and **Lionel Urban** and **David Parker** of Fiserv discussed with *Dodd Frank Update* some of the most daunting challenges facing LOS providers and how they can make sure they are on track to meet the various compliance dates on their calendars (assuming they have calendars with those dates marked, which can be handy to have).

One of the two biggest challenges, according to Cheek, is the length of time between when a rule is finalized and when it is implemented. The other involves determining the scope of the change. She noted that even amendments regulatory bodies consider to be "minor" still can feel pretty sizable to the industry.

"When a government agency or an investor publishes what they may consider to be a minor update, it is usually really not a small change, especially if it must be incorporated into the loan origination system," Cheek said. "Each new requirement may involve a new data field, a new set of calculations, a new disclosure date captured, updated mapping to disparate state, investor, federally-mandated reports, or a new disclosure or disclosures."

Urban, Fiserv vice president of product management, noted that the sheer number of hours that companies such as his have had to dedicate to regulatory support projects is substantial, given the complexity ensuring that data systems are up to speed.

"Significant effort was required to enable required data to be extracted from documents supporting these regulations, make sure processes were in compliance and communicate with agencies to ensure our system of record would consistently deliver satisfactory end-user results regardless of program or product, fees and loan data permutations," Urban said. "Post-production guideline and regulatory interpretations and clarifications required significant additional code modifications and/or administrative options to be developed."

Parker, Fiserv director of financial risk management solutions, said that a lot of the complexities lenders face when getting their origination systems compliant is accounting for the various documents involved throughout the process.

"Given lender workflows are not all self-contained, demands from clients dictated that we are able to ingest various documents including TRID, LE (Loan Estimate) and CD (Closing Disclosure) documents," Parker said. "Our solutions had to recognize these documents and understand differences between versions of documents, identifying the most recent documents, comparing the disclosure information with the note and with the data stream from the lender LOS system."

Let's be clear

One thing recent updates to HMDA and TRID have promised to bring is something that the industry cannot stress enough that it needs more of from regulators: clarity.

"It is very difficult to implement the requirements of a regulation if the guidelines are not clearly described," Cheek said. "Words and the context in which they are written matter, especially when they will be implemented into an LOS – like 'reasonable' or 'bona fide' – without specific definitions can be difficult to consistently implement."

She also pointed out that there has been a lack of guidance concerning allowable changes to document or disclose when a specific transaction does not fall within required (safe harbor) formatting, including field length limitations, font type and size.

"Assumptions made by regulators on the types of loan products offered can increase this challenge, when the terms of the product do not conform to the specific regulatory requirements," Cheek said. "In automating compliance into the mortgage loan origination process, the ultimate answer must be 'yes' or 'no.' There is no 'maybe' in software."

Ambiguity in regulatory standards makes compliance a time-consuming process, Cheek said. It is difficult to automate the implementation of unclear standards, which can be confusing to customers and increase the potential for user error. Open-ended standards necessitate more training and documentation than those that are clearly spelled out.

"Changes required by disparate state, investor and federal definitions, calculations and reporting requirements also are time consuming," she said. "Disparate definitions and calculations require multiple data fields for the 'same' piece of data, which reduces consistency, increases individual interpretive biases, increases the potential for customer confusion, and may lead to imprecise, inconsistent data entry."

Cheek offered some examples of disparate definitions and calculations, including: application date, consummation date, loan purpose, loan amount, loan fees and calculating the borrower's cash to close, among others.

Then there is the matter of reconciling compliance dates with the release dates for new software meant to keep businesses in compliance, which can be quite a trick.

"With software release schedules and roadmaps, it is always a juggling act to implement last-minute compliance changes," Cheek said. "Since changes must be made in an LOS before subsequent changes can be made or tested, downstream parties are waiting for the LOS to be updated before they can act."

Is there an app for that?

In the modern era, there are untold numbers of gadgets and software options to help companies stay compliant. However, sometimes there is no substitute for good, old-fashioned hard work and dedication.

"I believe the most useful tool in ensuring compliance is senior management's commitment to compliance, which translates into a culture of compliance," Cheek said. "Once you have this commitment from senior management, it enables the organization to find and hire the right compliance team, establish compliance responsibilities, implement business processes that incorporate compliance, find the right tools to enable compliance, and take corrective action by modifying tools, systems or materials if and when an issue occurs. Senior management's commitment to compliance will demonstrate itself in all aspects of a loan origination system, enabling sustainable, consistent, efficient and transparent quality and compliance."

Gagliano also noted the importance he sees in making sure that compliance staffers are as up-to-date on compliance matters as making sure the same is true of his company's technology products, such as LoanSphere Empower.

"We make significant investments in our people and our technology to support regulatory changes," Gagliano said. "We also leverage a collaborative approach with our client base. In addition, we support multiple third-party compliance providers as an additional test."

Automating compliance in an LOS is a very complex process, and the LOS provider must be nimble in all aspects, from research and analysis to development to implementation to documentation and on to testing.

Each change must go through a rigorous review process to assess how it will affect any one of those aspects so that the LOS provider can assure clients of the quality of their loan documents.

Companies often want to customize their LOS systems but Cheek said that overreliance on customization is a common compliance misstep. She recommends the more pragmatic approach of structuring LOS systems to be configurable in anticipation of future regulatory changes.

"Customization freezes a compliance decision at a single point in time," she said. "Regulatory requirements are constantly evolving and changing. Maintaining numerous compliance customizations is a drain on the LOS and employee resources. Instead, whenever possible, configurability allows the LOS and customer to tailor the system to the customer's specific residential mortgage lending model at the highest level. This allows the customer to more accurately define its business process and workflow, which in turn will allow for consistency, quality and compliance in calculations, mapping, disclosures and documents."

New data fields

Regarding HMDA, Cheek said that loan origination systems should be able to produce Loan Application Register (LAR) files, formatted in pipe delimited text, for 2017 transactions, which will be reported in the first quarter of 2018.

Additionally, she said loan originators should be capable of gathering, storing and reporting expanded HMDA data by now to allow lenders time to test the new HMDA data and LOS functionality, and to train their employees on the new HMDA requirements, if they have not already done so.

"It is important to point out that the new HMDA data is not simply a matter of adding new data fields to an LOS," she said. "For example, the new HMDA Unique Loan Identifier is a calculated value dependent on multiple data fields, and LOS providers should have the ability to store and produce the new HMDA Unique Loan Identifier based upon the channel and nature of the entity selling the loan or making the credit decision."

Cheek said the Consumer Financial Protection Bureau's (CFPB) proposed rule clarifying certain definitions and the anticipated release of its web portal for HMDA compliance and geocoding tool, means "minor changes" for LOS providers to implement, primarily in enumerations and logic.

Since the government-sponsored enterprises (GSEs) only recently released their specifications and capacity to receive expanded demographic data, required by HMDA, Cheek said LOS providers likely will need to update their automated underwriting systems and loan delivery file formats to accommodate the expanded information.

New data technology

With the Sept. 25 deadline for mandatory compliance with new Uniform Closing Dataset (UCD) requirements passed, and all necessary fine-tuning (hopefully) taken care of, UCD provides technology experts an opportunity to shine.

"From an industry perspective, the UCD is a huge deliverable for LOS providers who support the origination of conventional loans," Cheek said. "The UCD is a common industry dataset that allows information on the CFPB's Closing Disclosure to be communicated electronically. It was developed by Fannie Mae and Freddie Mac at the direction of their regulator, the Federal Housing Finance Agency."

Moving forward, LOS providers will want to focus on making necessary fundamental changes to Uniform Residential Loan Applications, which is expected to be coming up on the horizon.

"Although there has been no formal announcement about an effective date," Cheek said, "it will be a fundamental change to systems, and great care will need to be taken to prevent unintended consequences to workflow, calculations, reporting, disclosures, mapping, and documents."

Gagliano said many lenders are looking to replace origination systems that are do not have enhanced digital capabilities for origination or servicing, such as allowing consumers and loan officers to interact with data and other LOS capabilities from internet-enabled devices, such as tablets, smartphones or laptops, without needing to directly access the LOS. This is one area where his company has focused a lot of effort.

"We continue to enhance our digital capabilities within all of our technologies, from origination to servicing," he said. "Additionally, we are working with multiple third parties that will enable our lenders to provide a consumer-facing interface that will deliver a digital loan application process."

Urban and Parker also noted numerous updates made to the Fiserv PCLender and LoanComplete platforms to help ensure accuracy and efficiency.

"We have allocated resources to support implementing user (loan level) and system audit controls, expanding third-party vendor integrations in terms of documents and data delivery to support compliance objectives, and establishing table defaults to streamline regulatory requirements for workflow and system configuration," Urban said.

As Cheek noted, automation is not the end-all-be-all for loan origination technology; however, it still is a priority for technology providers in the industry as they strive to take their systems to new levels. Parker highlighted this fact, discussing his company's plans for future development.

"A big focus has been on automating documents, disclosures and data comparisons to help lenders avoid costly, time-consuming and error-prone manual processes," Parker said. "This focus on automation will continue and will extend to additional compliance, auditing and loan origination functions."

What about TRID?

When it comes to the latest TRID amendments, Cheek said LOS providers should be analyzing how they will impact their origination systems, workflow, calculations, fee variance, LEs, CDs and other documents so they are ready when mandatory compliance begins Oct. 1, 2018.

"Once the required system updates are determined, I believe LOS providers will implement these changes periodically during the next 12 months in order to meet the mandatory effective compliance date," Cheek said.

The bureau's adoption of an accuracy tolerance for the total of payments disclosure will make life easier for many lenders and their service providers. However, the TRID amendment requiring lenders to issue a revised LE when locking in a loan interest rate, regardless if anything has changed since the loan's origination, likely caused a few groans in loan offices across the country, as did the bureau's announcement that the "Black Hole" issue would be addressed at a later time.

> "It is very difficult to implement the requirements of a regulation if the guidelines are not clearly described."
>
> **Angela Cheek**
> VP and Counsel of Product Compliance,
> Ellie Mae

HMDA compliance deadline nearly upon us

Every now and then, it is refreshing to find some good news affecting the financial and housing marketplaces, even if it comes from a seemingly unlikely source.

That is how ComplianceEase President and co-founder **John Vong** and Wipro Gallagher Solutions Head of Product Management and Strategy, Compliance **Scott Dunn** told *Dodd Frank Update* they would characterize a majority of the work the Consumer Financial Protection Bureau (CFPB) has done to update and help facilitate compliance with its new Home Mortgage Disclosure Act (HMDA) rule.

However, Vong and Dunn also noted certain challenges that have not been addressed as fully as many in the industry would like. They pointed out that more could be done to make things run a bit smoother for covered entities as they make final preparations for the implementation of the updated HMDA requirements.

"I think the CFPB has done a fairly good job with its materials that help guide HMDA compliance, though the timing seems to have come a bit late," Vong said.

"That's made the industry kind of nervous because there are only a few months left before the compliance deadline and lenders, especially larger ones, still need to do a lot of testing."

In case of compliance concerns . . .

The CFPB offers a web-based, open-source portal, which is undergoing continuous development at github.com/cfpb/hmda-platform, to allow companies to test for HMDA compliance, as well as a Loan Application Register (LAR) formatting tool, a detailed list of HMDA loan scenarios, a HMDA FAQ and a summary of supervisory guidelines used by the Federal Financial Institutions Examination Council for examinations and data quality, which companies can download for reference.

Dunn described the portal as tantamount to a live system that companies can use to practice inputting various pieces of information and gauging how much more work the company needs to do on its end. He noted, however, that all the testing in the world won't eliminate the inevitability that there will be issues related to the HMDA changes.

"With any large regulatory change, things will go wrong," Dunn said. "Lenders have contingency plans in place to be able to navigate those waters very quickly, expecting the unexpected."

Leave them wanting more

Both Vong and Dunn acknowledge that there is still more the bureau can do to help supervised entities with HMDA compliance. "The [web portal] looks very good. It's robust. And lenders can utilize that to get prepared," Vong said. "But the bureau still needs to do a lot of things to enhance it."

The lack of the CFPB's geocoding tool, which the industry has waited for the bureau to release, has been a concern for lenders, as is the fact that it remains unclear what HMDA information will be available to the public. However, Vong noted that the other materials the bureau has provided still are quite useful.

Most lending organizations have designated HMDA compliance officers in place or at least one person on staff who is well-versed in that particular rule and its many nuances and amendments. This does not, however, eliminate the need for frequent quality control checks.

"Quality control checks prior to the end of the loan lifecycle will be paramount to ensuring the accuracy of the data," Dunn said.

Dunn said he was actively patient prior to releasing a product with enhanced HMDA functionality for the sake of ensuring that it was as current with new requirements for the rule as possible and produced accurate data as a result.

Larger lenders typically are not using government-provided HMDA software, Vong pointed out, as many have in-house software or software provided by a vendor. This means that smaller lenders are the ones most impacted by the CFPB's delay in releasing compliance tools.

"It's mainly small lenders that are using the free software that the bureau provides," he said.

"They want to make sure that the LOS is exporting data files in the correct format, accounting for technical changes from the existing export file so that they are prepared to use that software when it is time to prepare the LAR."

Know before you report

Historically, Vong noted, lenders have not paid as much attention to HMDA data as he believes they should to prevent possible reporting inaccuracies that could reflect poorly on them.

"One thing we've noticed is that lenders, especially non-banks, are not spending a lot of effort paying attention to HMDA data collection," he said. "In my opinion, if they don't, with the amount of data they still need to submit to the government, they will be hurting themselves and possibly even incriminating themselves. They need to review the data, clean the data and make sure the reported data truly reflects what is on the loan. Otherwise, technology will uncover these issues, and they are just inviting a possible examination."

Vong compared the process of reporting HMDA data to another activity often associated with headaches and the potential for unpleasant encounters with the government.

"It's just like filing your tax returns," he said. "If you're not prepared and don't do it correctly, you could be subject to an audit."

For companies that utilize third parties for HMDA services, it is advised to keep the channels of communication flowing.

"I think lenders need to be working closely with their own HMDA providers, as well as watching what the CFPB is putting out in terms of free software for them to get ready," Vong said.

"They need to make sure that their loan origination system (LOS) is ready to capture all of the new data elements. Most of the LOS providers are working hard to get on the new 1003 forms because that is where they can capture all of those new data elements required by the new HMDA rules. So there are just a lot of projects that the technology providers have to finish by the end of the year."

Companies that already have begun collecting HMDA data, and (presumably) have taken the time to properly train their staff on how it is to be recorded, are ahead of the game. For those that have not begun collecting the data and still have training to do, there is no time like the present to start.

"One of the things that I would look out for would be training," Dunn said. "If your company has started to collect HMDA data early, there are going to be more touches, and the better trained the staff will be when it comes time for enactment."

Demographics and fair lending

With limited time before mandatory compliance takes effect, it is important to identify what data requirement changes may be most troublesome for covered entities and their staff and, therefore, require the most attention in the months leading up to implementation.

"The biggest pain point is the collection of demographic information," Dunn said. "That changed pretty drastically in terms of the subcategories that potentially have to be corrected, although the consumer can choose not to provide that data. The CFPB is really looking for that additional data to do some analysis and the customers will do some analysis on that data to ensure fair lending as well."

Similarly to how the CFPB's TRID rule tells borrowers "Know Before You Owe" on a mortgage, Vong noted that it is important for lenders to know and understand their data before they report it so that the information they are submitting is correct and properly reflects their lending practices.

"What federal and state examiners are trying to get at is not how you file, it's whether you discriminate," he said. "So, fair lending is the end goal for the regulators using the HMDA report. If you want to avoid a fair lending examination because of a poor HMDA report, which we have seen, you just really have to know your data before you submit. Fair lending is pretty subjective, in many ways, and you have to defend yourself in the case of an examination."

Clarifications

Among the most useful clarifications in the CFPB's most recent HMDA amendments pertains to the use of the "Check Digits" process used to identify whether any characters were changed during the calculation of a Universal Loan Identifier (ULI). Dunn noted that there were concerns about the Check Digits process, which were alleviated by recent clarifications.

Dunn also noted that there were some "cosmetic changes" that help provide clarity regarding various definitions, data field labels and the automated underwriting data points. "One of the things that was questionable was whether companies are required to report if they use (an) automated underwriting system that isn't covered by the definition," he said.

"There was a clarification that a system must be an electronic tool that has been developed by a securitizer or a federal government insurer. There are lenders out there who have their own automated underwriting systems that are not necessarily provided by GSEs or federal government insurers, so that was a clarification that was needed."

UCD compliance: Syncing up your data

Having worked extensively with Fannie Mae and Freddie Mac, ComplianceEase President and co-founder **John Vong** sees why uniform closing dataset (UCD) technology has become the favored means of sending and receiving mortgage information for the government-sponsored enterprises (GSEs).

With the GSEs, and especially the Federal Housing Administration, Vong told *Dodd Frank Update* that federal regulators believe that greater data accuracy is not the result of anything a loan originator does, but is a byproduct of UCD utilization.

"That is why the GSEs have been contacting the loan document providers to do the integration as well," Vong said. "We've learned from examiners and other secondary market providers that closing data exported from the LOS (loan origination software) often doesn't match what is on the Closing Disclosure (CD). What's happening is that last minute changes to the CD aren't being updated in the LOS. So this will be a good exercise to have more consistent data in the final CD, which means a better path for the mortgage as a whole."

Although the UCD compliance date has passed, requiring all loans with a note date on or after Sept. 25, 2017 to include a UCD XML file, lenders have been provided relief on borrower and seller data. A UCD implementation update published by Fannie Mae and Freddie Mac in June 2017 states that the GSEs will offer relief for the first six months following the rule's implementation.

"[T]he GSEs are more closely aligning in several areas and thus providing a six-month relief from embedding the Closing Disclosure (PDF) within the UCD XML file," the implementation update states.

The update was published in connection with the GSEs' Uniform Data Mortgage Program, which is intended to help entities with any concerns they have about UCD technology and compliance.

"Fannie and Freddie both have dedicated teams to work on the integration of UCD with technology providers and formatting validations to make sure that the data that they are receiving makes sense," Vong said. "They don't want to have any hiccups right at the start, as this is a brand new process."

In addition, the seller information and CD will not be required to be included with the UCD data until September 2018.

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One of the main challenges to UCD compliance stems from the fact that UCD technology is based on MISMO 3.3, which many LOS providers do not use to cultivate and export data, according to Vong. Data-mapping errors could be commonplace after the compliance deadline among technology providers who choose not to upgrade their software.

"In the MISMO format there are more than 10,000 fields, and there might be some fields that look similar but are not exactly what the (lender) meant," Vong said. "A lot of LOS providers are not using MISMO 3.3, and are instead using MISMO 2.6 or some other format in which some fields are not available. So they need to add fields as an extension to the file they are using, which are not standard. Once you're creating your own list, you open the door for mapping inconsistencies. That will tend to be the common error."

Wipro Gallagher Solutions Head of Product Management and Strategy, Compliance **Scott Dunn** is well-versed in the process of integrating data into a format that meets standards set by the FHFA, in coordination with the GSEs. His company is among numerous service providers that utilize MISMO 3.3 for UCD submissions.

In speaking with *Dodd Frank Update*, Dunn noted that companies who upgrade their data systems to keep them in line with the GSEs' standards still need to have contingency plans to account for providers that do not.

"Anytime there is a MISMO upgrade, especially with interfaces for GSEs, we take that and upgrade our systems for that," he said. "One of the things, from a technology standpoint, that needed to be tested was other third parties that provide data to lenders through other interface capabilities, as a lot of them have not upgraded to the MISMO 3.3 standard. There was some contingency that had to take place to account for the differences."

Down the road, once the industry has a higher level of comfort using UCD datasets, Vong expects that the GSEs will be working to validate the data submitted to ensure that it meets TRID and other compliance standards.

He noted that many small lenders do not own the most up-to-date technology and are completely reliant on their LOS provider to keep them compliant. That means trouble for those small lenders, if those LOS companies don't do their due diligence. "The lenders really need to make sure that their LOS vendors are providing the UCD export or TRID data according to what the regulations require," Vong said. "A lot of the lenders just don't have the resources to double-check and triple-check and perform extensive due diligence on their vendor. Often times they don't discover an issue until they have a reject by an investor or the GSEs."

He noted that the cost associated with conducting pre-purchase reviews can be reduced significantly by having data documented in both "human-readable" and "machine-readable" formats in the same file. That is another benefit of UCD technology.

"This is all going down the path to digital mortgages and eClosings, where we can use human-readable documents, such as a PDF," Vong said. "The machine-readable part is the dataset. The purpose of eMortgage is so that you can present a file that is both machine-readable, as well as human-readable, which can prevent many fraud issues. It also reduces the amount of time that it takes for the due diligence process to take place."

"Right now, a lot of the investors and aggregators still have to key in the data to do their pre-purchase due diligence," he said. "And that's really time-consuming and is really costing them a lot of money. So, using UCD moving forward and reviewing those datasets through automated due diligence will really save a lot of cost in the future."

Lenders should remember that the UCD will have a PDF copy of the dataset included in the final Closing Disclosure attached to it. Vong said lenders will want to ensure that the dataset on that PDF matches what is exported to the GSEs through the UCD file.

"This is a major step to working with eMortgage," he said. "I think the GSEs and the Federal Housing Finance Agency are putting a lot of effort into getting it right, not to threaten the industry and, more importantly, not to slow down the selling process."

Vong noted that UCD technology has been around for several years and federal regulators have given the industry, what he believes is, sufficient time to get up to speed with it. However, the process of actually using it in practice will be new to many.

Regardless how long the technology has existed, he said there are bound to be mistakes in the first few months following the compliance date and that the GSEs have plans to account for that fact.

What can Blockchain do for lenders?

For a number of professionals working in the housing and financial markets, Blockchain technology represents a new frontier ripe with possibility, and a degree of uncertainty.

It is thought provoking to think about a future where one innovation could drastically reduce title insurance premiums, eliminate the need for county recorders and alter the industry in other ways to make life easier.

Mark Ladd, Simplifile vice president, regulatory and industry affairs, and president of the Property Records Industry Association, told *Dodd Frank Update* that although such transformative change is possible, theoretically, it likely still is a long way off from coming to fruition.

"There are some Blockchain evangelists out there who think that Blockchain can be very transformative in the mortgage process, and that may be possible, ultimately," Ladd said. "But, I think where the industry, and lenders in particular, will see lift when it comes to Blockchain is when it comes to secure payments: Making sure the right person gets the money at the right time, and avoiding wire fraud or fraudulent wire instructions that we see plaguing the industry today."

Automating the payment process through Blockchain could mean more efficiency in payment reconciliation, Ladd said, making what traditionally has been a slow, painstaking process much quicker and easier, which would be big for the industry.

Bigger than sliced bread?

As impactful as the technology may be if it continues to catch on and be more widely utilized, Ladd does not view it as the kind of thing that will be at the forefront of conversations for decades to come. He imagines its presence will be much more low-key.

"I think Blockchain will be one of those things where, maybe, it is one of those underlying technologies that you don't necessarily see but is the technology that lenders are using to facilitate mortgage transactions and speed up different parts of the transaction," Ladd said. "That could be one of those things where, in five to 10 years, you could see a fair amount of pieces of the transaction driven by blockchain."

Blockchain's security is one of its greatest appeals. However, the fact that it affords users the ability to complete transactions anonymously comes with no shortage of concerns, some of them coming from a regulatory angle.

"Blockchain can be very anonymous and that could provide an interesting regulatory compliance challenge for lenders if they're not careful," Ladd said. "Even though the system is secure and is very reliable, bad actors are still doing a fair amount of business out there in digital currency, so there's some caution at the same time."

Digital currencies have some obstacles to overcome to prove their efficacy in mortgage transactions. The fact that Bitcoin and others allow people to do large transactions without disclosing their identity raises questions regarding their legitimacy in the tightly regulated mortgage industry, which requires a significant amount of transparency from all parties involved in a given transaction. However, Ladd said if the use of digital currency continues to become more commonplace, financial companies may become more active dealing with it in transactions and finding ways to mitigate possible compliance pitfalls.

"I think it's something that lenders are going to need to look at," Ladd said. "Technology providers in that space are very active in doing some pilot projects now. I think, right now, the big lenders are looking at Blockchain and Bitcoin, in terms of money transfers and just moving money around in the system, and asking 'Is Blockchain a better, more efficient way of doing the business of banking?'

And as they learn more about that, and more about these digital currencies, especially if the digital currencies can overcome some of the market volatilities that they encounter, I think it can be one of those things that lenders start to take a closer look at and see if there are applications for digital currencies in their mortgage activities, as well as just their banking activities."

Technically speaking

Kelvin To, president and founder of Data Boiler Technologies, LLC and a member of the Financial Services Roundtable Tech Advisory Council, told *Dodd Frank Update* that he sees a lot of merit to Blockchain but that there also are some intricate details within technology that may hold it back and cause concern among potential investors and consumers.

"Not all 'hard-forks' of Blockchain are beneficial, and some may hurt the consumers and/or participants," he said. "Hard forks are like the reset button on a computer. There are points through the hard fork process where Blockchain can do some upgrades to the system. But, like when you hit a reset button on your computer, you incorporate additional details into an algorithm that are not necessarily always beneficial all the time. It could introduce risks into your programs. It all depends on what kinds of upgrades they add through that hard fork process."

Another main concern he has about Blockchain is the possibility that its two-factor authentication process is vulnerable to breaches because it relies on a reusable login key. He said that the encryption process used to secure access information may not be safe from "keylogging," a technique used by Microsoft and Google for "machine-learning," the process through which computers learn without being programmed. He said there are ways that hackers could reverse engineer the Blockchain authentication process to gain access to the data.

To compared the type of encryption breach he fears for Blockchain to the risk of a "51 percent attack," which is when one entity gains ownership of more than half of a system's computing power. That risk has raised concerns among Bitcoin users who fear that such an attack could cause a collapse in the digital currency market. However, To said he is not concerned about such an attack on Blockchain systems.

"I am not concerned about the '51 percent attack' because it will take eight times the power of super-computer to compromise the integrity of Blockchain," he said. "So don't get me wrong, I do feel Blockchain does have its potentials and the above mentioned challenges can possibly be addressed.

"I indeed think Blockchain-distributed ledger is a revolutionary way to disrupt or 'disintermediate' the centralized bureaus, such as banks and the Depository Trust & Clearing Corp. (DTCC). The irony is the DTCC is also a big investor in Blockchain."

Just be patient (aggressively)

To also said that some potential investors may be resistant to Blockchain because they will not be willing to give up traditional practices that they know and trust to yield lucrative profits, and this could hinder the technology going forward. Ladd said Blockchain stakeholders need to be "aggressively patient" and cheer for their successes from pilot projects and other events along the way that highlight the potential benefits of the technology. "I think they have to keep pushing forward but, at the same time, you've got to be patient because people don't like being foisted on them," Ladd said. "But they'll accept change that they have researched and feel comfortable with. I really think it will be at least 10 years until we see a totally Blockchain-driven mortgage transaction. But, who knows."

The cybersecurity value proposition

The term "cybersecurity" gets tossed around frequently, and with good reason. There are no indications that the perpetual growth of online products and services is going to slow down in the foreseeable future, and neither will the influx of unscrupulous Internet users looking to hack data systems for personal gain.

Among the most common targets of cyberattacks are financial institutions of all sizes and business models, which constantly work to keep their data systems up to the task of keeping their customers' private information safe from hackers, such as those responsible for the "WannaCry" ransomware attack in May that affected millions of computer systems.

fTLD Registry Services, LLC, Managing Director **Craig Schwartz** is chiefly aware of such threats.

He spoke with *Dodd Frank Update* about how important it is for companies to demonstrate their ability to ensure their customers a secure banking experience for the sake of remaining competitive in the modern financial industry.

In developing its .BANK domain as a more secure alternative to other web domains (e.g., .COM), fTLD began consulting experts in 2011, about a year before applying to the Internet Corporation for Assigned Names and Numbers (ICANN) for the rights to .BANK in 2012. ICANN approved the application in 2014 and fTLD launched .BANK the following year.

The company established a working group to formulate a set of security requirements for its new domains. It included professionals from numerous financial institutions, as well as the domain name industry, such as registrars, security experts, privacy experts, technical experts and domain name system (DNS) experts.

"We spoke with pretty much anyone who would have an interest in having a more secure online system and set of infrastructure,"

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Schwartz said. "We heard from the very, very smallest of banks to Citibank and Wells Fargo and those types of banks. We got a good range of perspectives on our security requirements so when we go to make changes, we can consider how a variety of banks will be affected. When we come out with new requirements, we like to think that they are adaptable to any bank, regardless of size, and still offer the same level of value and benefit."

The company regularly blogs about cybersecurity-related topics, such as securing against phishing scams and maintaining "good browser hygiene," among others. Recent cyberattacks, such as "WannaCry," have kept fTLD busy, offering a fresh point-of-reference when going in-depth into cybersecurity topics that are not top-of-mind for many organizations.

"Browser hygiene is about more than regularly clearing your search cookies," Schwartz said. "It's more about ensuring you're browsing the Internet with the support of the best encryption technology available."

Nearly all financial institutions employ some form of cybersecurity monitoring system; however, Schwartz notes that some do more than others to recognize and address where their blind spots are.

"Many banks already track how people connect to their website, and if they can determine that someone is connecting using an infected or unsecured browser, they may even deny the connection," he said. "But, more often than not, banks are taking the time to educate their visitors that the connection that they're making could be more secure, and how to go about updating their browsers."

To facilitate this process, fTLD developed a tool called "Secure Your Browser," which works by enabling banks to redirect customers and website visitors using a vulnerable browser to an informational webpage on the bank's website. That webpage displays a message telling the user that they are using an unsecured browser and that it must be updated if they wish to continue to do business with that particular bank online. The message is specific to the browser being used, and offers information, in plain English, about the importance of having a secure browser and how to update a browser to the most secure version available.

"We call it 'detect, inform, refer,' " he said. "So it's informing you about the importance of browser hygiene, detecting the kind of browser that you have and then referring you to a means to update your browser." Most of the conversations Schwartz said he has with banks involve helping them to understand the value proposition of .BANK, and helping them get a sense of what is involved in the process of migrating their website and email from a traditional domain to a .BANK domain.

"They also ask what extra security requirements they have to put in place to have a more secure place online," he said. "We have a lot of very technical conversations with bankers about the best practices for implementation of DNS tech or security extensions or deploying authenticated email, which is one of our requirements."

One of the most effective methods any cybersecurity-focused company can use to attract new clients is to give current ones a platform to showcase what steps they are taking to better secure their information systems, Schwartz said, noting that fTLD often posts client success stories on its website.

"Peer pressure is sometimes as powerful a motivator as actually wanting to do the right thing," he said. "Part of having banks share their stories about their experiences is to help others understand what the real value is."

Although he estimates that a little more than 2,400 banks in the U.S. and 2,700 globally own .BANK domains, only a few hundred use them. But that number is growing as more banks look to differentiate themselves from competitors and convey to customers a message that they can be trusted to provide them with the most secure banking experience possible. The main benefit banks seek from purchasing added cybersecurity products, such as .BANK domains from fTLD, Schwartz said, is the marketing value that comes with them.

"It signals to their customers that they care about the security of their assets, that they care about the security of their personal information," he said. "You can think of it like a 'Good Housekeeping Seal of Approval.' It's something that's easy to show and to explain, versus trying to tell a customer about all of the technical things they do to protect them."

Some banks also look at the .BANK domain as a way to get a domain that is more reflective of their brand, which they could not obtain from other domains, viewing the extra security value purely as added value on top of the branding aspect. TLD has working relationships with most fintech providers that service banks, several of which have registered .BANK domain names themselves, Schwartz said. He noted that certain fintechs, such as Jack Henry and ProfitStars, already have started offering. BANK-branded URLs for online banking access.

Bringing eMortgages to mainstream

With each passing day, it becomes increasingly difficult to find something that is not handled electronically. With that in mind, it is a wonder that the vast majority of mortgage closings still involve ink and paper.

Mark Ladd, Simplifile vice president, regulatory and industry affairs, and president of the Property Records Industry Association, has been involved with the Mortgage Industry Standards Maintenance Organization (MISMO) and its eMortgage work groups for the better part of a decade. He shared with *Dodd Frank Update* some of his views on what is the holdup when it comes to widespread eMortgage adoption.

"Some of us who have been around the eMortgage space for a long time have a saying that it's just three to five years away from catching on," Ladd said. "Only, we've been saying that for about 15 years now. So, our ability to prognosticate is questionable but I really do, on the eMortgage and eClosing side of things, see that becoming more and more mainstream within that proverbial three to five years."

One of the driving forces that could help eMortgages gain favor in time is their ability to streamline the closing process for borrowers.

"I'm a believer that eClosings provide the potential for the consumer to have a much better experience," Ladd said. "All of the things that the CFPB pilot project kind of pointed to: the ability to get the documents ahead of time, review them, get educated, ask questions. I think all of that promise is out there."

True eMortgages vs. hybrids

A true eMortgage is extremely rare. ComplianceEase co-founder and President **John Vong** told *Dodd Frank Update* that most mortgages that use electronic documents and signatures actually are what some refer to as hybrid mortgages.

"Right now, less than 1 percent of originations are through a true eMortgage process," Vong said. "That means everything, including the note, deed of trust and the mortgage, are done electronically. A lot of eClosings are actually hybrid closings where borrowers sign everything digitally except the note and the security instrument. Those two documents are done in ink."

The significant number of requirements the secondary market places on the eMortgage process has made adopting a true eMortgage platform particularly difficult for lenders, Vong noted.

One of the most burdensome requirements is a technology-based security audit.

"Lenders have to go through extensive security audits as frequently as every year," Vong said. "For a lender to do an audit is not easy or cheap. That is why there are not a lot of lenders who can do a true eMortgage."

Ironically, Vong pointed out, adoption of an eMortgage platform can reduce costs because such platforms provide more efficiency than traditional mortgage closings.

Clearing legislative hurdles

A multifaceted list of obstacles has stood between eMortgages and the mainstream since their infancy. "During the run-up in the early 2000s, lenders were so busy that they didn't have time to look into eMortgages in a timely way," Ladd said. "Then, of course, you had the financial meltdown and that just spoiled everybody for doing much of anything as far as investing new dollars. As we've kind of been creeping back up to a new normal, there have just been those kinds of impediments there."

Legislative hurdles also have slowed the progression of eMortgage technology. The fact that states often vary in their approach to mortgage technology is one of the most daunting challenges for lenders and service providers.

"There's this hodgepodge of legislation across the various states and it can be something as simple as electronic notary," Ladd said. "Some of those documents involved in the transaction, such as the deed and the security instrument, need to be notarized. It's a small number of documents involved in the transaction but they're critical documents, and if you don't know for sure where you can eNotarize a document and have it recorded in the land records without fear that someday in the future some bankruptcy judge or trustee invalidates the security instrument used because it was electronically notarized in a particular state that didn't accept eNotarization at the time the document was executed."

That hypothetical example represents only one of the many unanswered questions within the industry that have held eMortgages back and need to be addressed before they are widely accepted.

What Ladd believes eMortgage technology needs is some sort of benchmark standard that is consistent across the country to ease the industry's concerns, as well as investors willing to buy into it.

"We've all existed for years with 50 states having 50 different sets of regulations on mortgage transactions," Ladd said. "But we knew what the baseline was. So, as we move into the eClosing, eNotary, electronic records space, people are looking for that baseline certainty. But, there is starting to be more consistency with the county recorders."

Vong noted that more than 70 percent of counties currently have the capability to record digital records but it will still be some time before the same is true of all county recorders.

Who's going to pay for it?

Ladd said he believes that the market for eMortgages is relatively small right now, which inhibits the technology's expansion. However, that may not be the case for much longer.

"When it comes to the warehouse lending space, there are only a handful of warehouse lenders that are open to buying eMortgages or eNotes," Ladd said. "So, there's just been a lack of a marketplace for them and that slows things down. But, I think we're starting to see the industry turning a corner on that. More and more investors are getting set up to do the eMortgage/eNote thing."

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