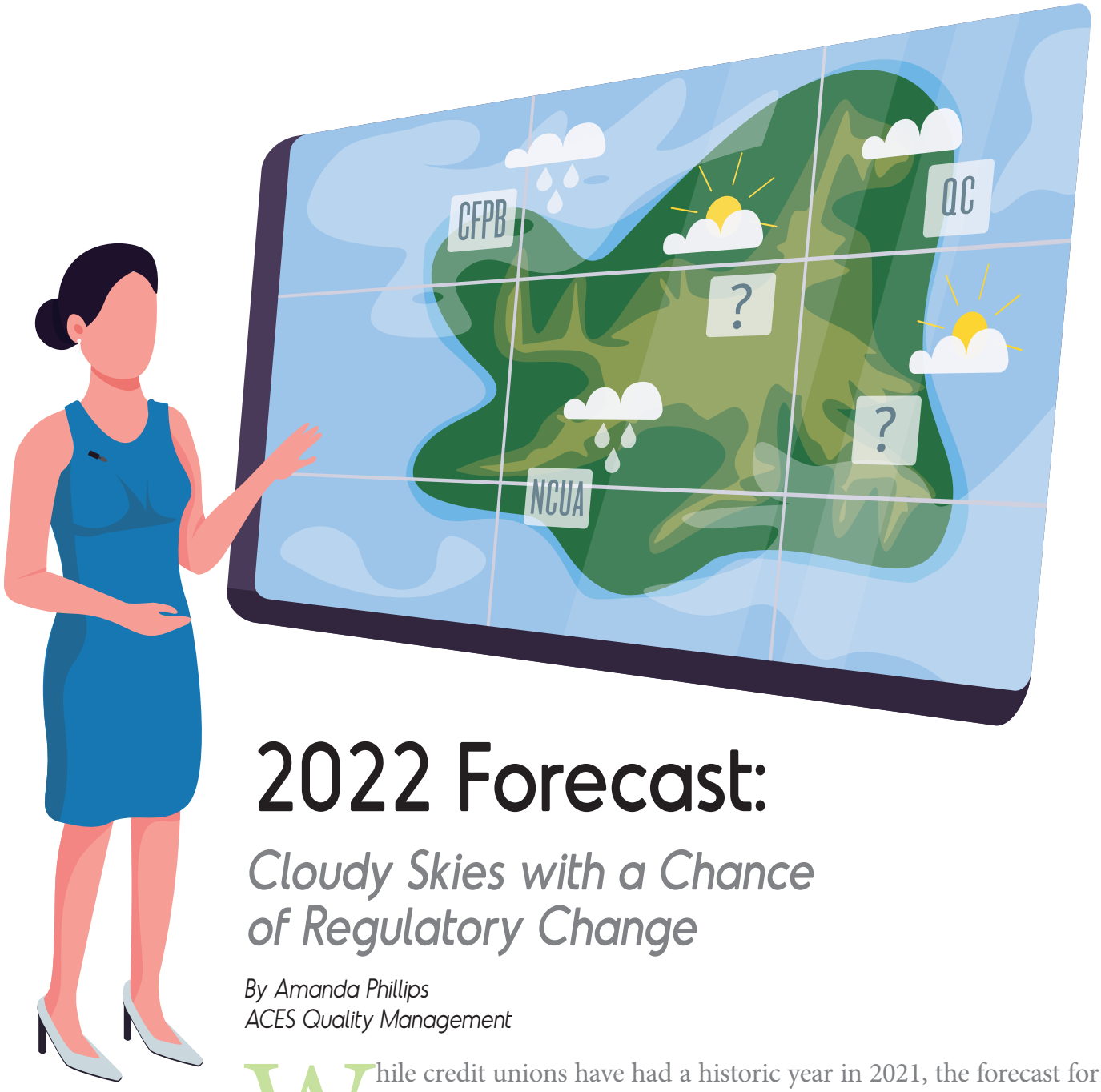

2022 Forecast:

Cloudy Skies with a Chance of Regulatory Change

By Amanda Phillips
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While credit unions have had a historic year in 2021, the forecast for 2022 is one for which credit unions need to prepare.

Mortgage volume is expected to fall, wage pressure is rising and warnings of increased regulations and requirements are coming to fruition. We can see that economic factors are in no short supply as credit unions plan for the upcoming year.

While the National Credit Union Administration (NCUA) has historically taken a softer approach than other federal prudential regulators, the recently issued Memorandum of Understanding (MOU) between the NCUA and Consumer Financial Protection Bureau (CFPB) discusses the agencies' plans to be more collaborative and consistent in their application of laws during examinations for regulated institutions.

This alignment of regulatory enforcement styles has already brought increased scrutiny to credit unions, as NCUA exams have become increasingly more detailed. Historically, where the CFPB leads, agencies usually follow, making the time to shore up quality control and compliance never better than the present.

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MORTGAGE IMPLICATIONS

For credit unions offering mortgage services, this alignment between the NCUA and the CFPB further compounds the regulatory complexity and scrutiny of their institutions.

In April 2021, the CFPB warned mortgage servicers that it would begin increasing its scrutiny of servicers' handling of forbearance requests and loss mitigation efforts after those forbearances expire.

Although credit unions with less than $10 billion in assets are not subject to Bureau examination, these organizations are not exempt from the increasing pressure from the coordination between the CFPB and the NCUA. Nor should they disregard the CFPB directives and guidelines, as the designation only exempts these institutions from examination, not compliance.

Self-identification and self-correction go a long way with all regulatory examiners, including the NCUA, state regulators and any other supervisory agency that comes knocking.

To weather this new regulatory storm, credit unions must ensure their quality control (QC) processes are adequate and operational.

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All too often, mortgage departments utilize highly manual, disparate methods to track and communicate quality issues as part of their internal quality control process, with spreadsheets and email being the most common. For compliance-minded credit unions with an eye towards growth, these methods are not only inefficient and not scalable, but they also expose the organization to unnecessary risk.

Spreadsheets lack the ability to identify red-flag issues, show trending and trace back to the source of a defect. Communicating this information via email makes it difficult to bring the proper sense of context and urgency to addressing loan quality issues.

Furthermore, using these disparate methods to identify, track and report defects makes it extremely difficult to establish a cohesive audit trail of these activities, which regulators will expect to see in the event of and during the course of an audit.

TECHNOLOGY ASSISTANCE

Given the role that QC plays in implementing and confirming compliance, credit unions would be well advised to invest in technology designed specifically to manage this function. In addition to creating a centralized, easily auditable repository for all QC-related activities and communications, there are added efficiencies that a QC-specific platform can deliver.

For example, QC technology can automate the loan sampling process using a criteria-based methodology to create improved and larger sample sizes in a matter of minutes vs. hours. QC-specific technology can also enhance the review process by reducing loan review speed and identifying defects faster.

Reporting is another area that can be improved through automation. With a spreadsheet-driven QC process, review findings often must be manually re-keyed into a report each month. Given the limitations of tracking loan quality over time using spreadsheets, it can be difficult to distill months and/or years of data into trending reports.

Using an audit platform, QC teams can automatically upload the required data into a pre-configured report template and generate loan quality trending information within seconds, thus improving both the overall quality of reporting and the organization's response speed to loan quality issues.

An effective and efficient QC process enhances the originations process to provide high-quality mortgage originations, reduces operational deficiencies and risk, improves fraud prevention and protects borrowers.

In addition, a QC platform can be leveraged enterprise-wide to improve quality in both lending and non-lending lines of business, thereby extending the value of the investment far beyond just the mortgage division and allowing credit unions to do more of what matters the most—serving their members.

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Thus, with the right technology system, credit unions can enhance their quality control, execute audits efficiently and improve productivity and efficiency regardless of the regulatory forecast.


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