

COMPLIANCE THROUGH DOCUMENT PROCESSING

The right solution takes the risk out of managing paper.

by Rick Kushel, president & CEO, Archive Systems, Inc.

Everyone's talking about compliance in the mortgage industry and increasingly companies are paying particular attention to how document processing fits in. Lenders struggling to manage massive amounts of paper documents while complying with regulatory guidelines are looking for a simple way to handle such a complex part of their business process.

When you're dealing with Sarbanes-Oxley, additional federal regulatory framework, and different types of disclosure requirements in each state, making sure each document is compliant is no simple task. That's why document processing and compliance initiatives are directly linked.

In the past document management was typically under the responsibility of the COO or legal department. With compliance becoming an enterprise-wide issue, companies are beginning to put the role of document/records management under a Chief Compliance Officer.

At New York Mortgage Company, Chief Compliance Officer Jonathan Foxx decided to take the record retrieval process under his wing. Mr. Foxx wanted to make sure every single regulation with respect to archiving was being maintained and that everything was in place. He believes that

archiving is a vital link between operations and compliance and views records management as a collaborative effort. Putting it in place correctly is what's critical.



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"I make sure the company's archiving and record retention is functioning correctly. Records management is an important part of the serious decisions we make about how to carefully take care of our bulk sales and our flow sales," Mr. Foxx said. "I believe a strong compliance department now, in our day and age, is at the epicenter of the company's legal and regulatory compliance activities."

With companies like NYMC undertaking document processing as an enterprise-wide issue, it's emerging as a key part of a company's plan to achieve and maintain compliance. With regulations pushing companies towards this holistic approach, there are a few ways they are dealing with the management of documents.

Some lenders think the only way to do it is to build it in-house. Most software solutions for managing documents entail building and maintaining an internal document imaging infrastructure. After documents are scanned by an internal conversion group, lenders store and access documents electronically on their in-house servers. The hard copy records are then stored internally or with an outsourced vendor.

The option lenders are increasingly using is a document process outsourcing (DPO) solution. DPO services encompass every aspect of loan processing from fully redundant Web-based image hosting and workflow automation to document scanning and hard copy records storage. These vendors typically have a Software-as-a-Service (SaaS) model which enables organizations to outsource friction points of managing loan documents, while retaining control of processing business information.

Each of these methods supports a company's compliance strategy by creating, reviewing and storing content in a way that adheres to regulations and minimizes risk. However, lenders are finding challenges in deploying internal solutions.

Mortgage lender Opteum of Paramus, NJ, VP and General Counsel Chris Scolaro emphasizes the importance of the scan quality. "Quality control is always a concern for me, especially for compliance and meeting the requirements of banking agencies," stated Mr. Scolaro. "If loan documents are not legible, they are of no use to the company. We would have to go back to the hard copy file to access documents."

Mr. Scolaro believes a Software-as-a-Service model is the way to go in order to maintain consistent quality. "For mortgage companies, which is a paper heavy industry, to be able to provide that type of service is invaluable."

Lenders maintain that one of the main reasons they are accessing documents and need the highest quality is for auditor reviews. When auditors (or examiners) are sent out at a moment's notice by the state banking departments for inspections of disclosures or other documents, they must be easily accessible and legible.

As a proactive measure, CIT, a leader in commercial and consumer financing solutions, implemented a program to consistently manage early disclosure packages ("EDP") in its mortgage lending practice. Previously, these papers were being mailed out by internal staff.

Now with CIT's streamlined, automated process EDP's are created in-house, sent out by an outsourced distribution vendor

and electronically stored on Archive Systems' hosted, Web-based application.

"This assures proper handling and provides a consistent approach within our 30 national offices. It guarantees that EDP's are stored, as specified by regulations, and ensures that they are quickly available for review by our compliance team or by examiners," David Thwait, CIT's Senior VP – Credit / Compliance explained.

Companies like CIT find that outsourcing providers and hosted offerings present the most effective way to tackle the urgent need for compliance programs, without the operating expense of internal software and hardware. In particular, DPO models can be up and running quickly and offer the measures and controls required for compliance.

"In regards to records retention, I think that in the last few years there are technologies that make it possible to have a seamless environment," stated Mr. Foxx of NYMC. "If outsourcing is done economically it means that you don't need to bring it in-house and don't have to invest your capital into the necessary equipment."

As an important element of this partnership Mr. Foxx stresses that a document management vendor must pass their SAS 70. He believes this, combined with a good working relationship with the vendor, keeps the partnership seamless and based on clear, concise and enforceable regulations.

This certification is critical with federal regulations such as Sarbanes-Oxley and Gramm-Leach-Bliley requiring corporations to audit the internal controls of their suppliers and consumer privacy regulations, including those that provide for

document process automation services.

With DPO services and other technologies helping lenders run their business more efficiently, they look to a future with even more enhancements. CIT's John Burns, Vice President - Operations & Compliance, spends time day in and day out thinking – what can technology do to help more?

"Brokers and appraisers have to be monitored and licensed. There is so much paperwork, an integral part of any management of these documents is going to be a user-friendly, scan-on-demand process, which instantly delivers requests for hard copy documentation for staff to view electronically," Mr. Burns explains.

Keeping compliance programs consistently enforced is just not reliable through a purely human effort. With the push for content to flow at the speed of the Internet, document management solutions will greatly streamline mortgage processing.

While the mortgage industry as a whole has been slow moving, Mr. Foxx from NYMC thinks it's headed in that direction, saying we're in an environment where HUD and other agencies are allowing imaged documents to be used in place of signed originals. There was a time when that couldn't even be considered.

"I see it as an exciting time because there are tremendous savings for a company to be able to use that technology, and it not only increases the bottom-line profits by saving costs, but increases profit by being able to get documents quickly, review them quickly, so you can process more loans," explained Foxx.