



Dancing with Swords...

a technology vendor's perspective on the 2010 RESPA changes

by **John McCrea**

MMBA - February 9, 2010 RESPA Reform Event

The Sword Dance is an old Scottish dance, performed by skilled warriors on the eve of battle. It's difficult to follow, quite complicated, requires meticulous attention, and is dangerous.

The new government regulations remind me of that dance, especially the complicated part. It's complicated for everyone involved, lenders, brokers, technology vendors, even the government agencies. So we danced the dance, took a break, picked up our swords and started whittling away the details.

As a technology provider of loan origination software, our concerns were the same as a lender or broker but from a different perspective. We needed to be ahead of the curve so our customers could be up and running by January 1, consequently our target date was October. We also had to deal with all the behind-the-scenes technology changes so loan fees would not have to be manually calculated or our customers wonder if the information in the system met compliance requirements or not.

MortgageFlex regards our customers as long-term business partners. They rely on the system we provide to be accurate, so we took a proactive stance. From what I'm reading and hearing around the industry, proactive wasn't the normal approach. Some vendors opted to have their systems ready January 1; others are still working to meet RESPA requirements. Everyday, I hear of companies adding quality control staff and back-office personnel to review loan applications, brokers out shopping for lenders to avoid compliance, lenders using the highest rates "just in case", and more.

We stay abreast of regulatory requirements and start planning for updates as soon as possible. We have found that actively involving our customers in our plans gives us insight into their issues, things we may miss. With the RESPA changes there are several ways to interpret requirements and that interpretation is dependent upon the size and type of lender, even their location.

Our product development group hosted weekly customer forums to discuss concerns and followed up with hundreds of Q&As. We also made our technical specifications available to all of our customers, adapting them as needed. After all the planning and review, we started development.

In addition to the required changes, we opted to create some additional feature screens to make the transition easier. We created the Conversion Screen (converts 2009 loan fee information to the 2010 formats) so our customers would not have to rewrite hundreds of loan records.

And a new GFE Disclosure Screen that allows users to disclose only changed circumstances, and the new GFE can be imaged every time it is printed. We also built in pop-ups to monitor tolerance levels, and an option that compares the GFE to the HUD 1 throughout the process.

The 2010 RESPA changes were without a doubt the most daunting regulatory updates we have ever faced. And did we come out unscathed? Not entirely, but we didn't trip on our swords either.



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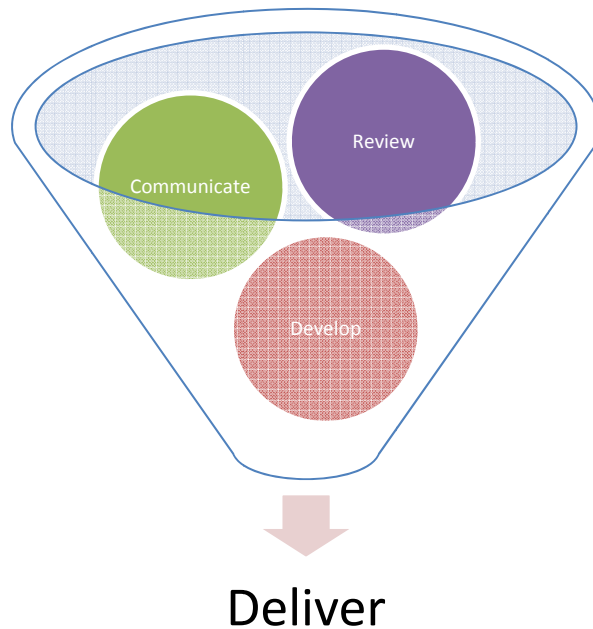
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Challenge: Adapting our technology to accommodate 2010 RESPA requirements **early**, so our customers can test, train their staff and make the January 2010 compliance due date with an accurate, fully functioning system.

- Guidelines are open to interpretation
- State variations
- Changes affect the loan origination system systemically- impacts many parts of the system, involves calculations
- Getting definitive and timely answers from HUD
- New screens needed

Actions:



- 7/1, Review preliminary guidelines.
- 7/8, Notify customers via email newsletters.
- 7/15 – 9/9, Host a series of customer forums to review concerns and proposed system updates.
- 7/20, Prioritize concerns/issues changes
- 8/11, Design development specifications
- 8/15- 10/1, Communicate changes and FAQs
- 10/15 – Deliver system changes



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Result: A successful transition in tandem with our clients, resulting in several new screens and true calculations.

The screenshot displays several software screens for mortgage fee management. The top-left screen, '2009/2010 Loan Fees Conversion', shows a table mapping 2009 line items to 2010 line items. The top-right screen, 'Loan Fees, 2010, MCGEE, LYNN (011420104)', provides a detailed comparison of GFE and HUD1 charges. A 'Warning' dialog box is overlaid on this screen, stating '10% Tolerance has been exceeded.' The bottom-left screen, 'GFE Redisclosure, MCGEE, LYNN (011420104)', shows a list of line items with descriptions and amounts.

Item(2009)	Description(2009)	Item(2010)	Description(2010)
803	Appraisal Fee	804	Appraisal Fee
804	Credit Report	805	Credit Report

Charges that cannot increase	HUD1 line #	GFE	HUD1
Origination charge	801	\$2,866.50	\$3,516.60
Credit/charge for interest rate	802	\$0.00	\$0.00
Adjusted origination charge	803	\$2,866.50	\$3,516.60
Transfer tax		\$2,000.00	\$2,000.00
Government recording charges		\$1,424.10	\$1,424.10

Line	Description	GFE	HUD1
801	Origination charge		
802	Credit/charge for interest rate		
803	Adjusted origination charge		
804	Appraisal fee	\$75.00	\$75.00
805	Credit report	\$22.50	\$22.50
806	Tax service	\$500.00	\$500.00
807	Flood certification	\$72.50	\$72.50
TOTAL		\$6,454.01	\$7,204.01
Increase between GFE and HUD1 charges		\$750.00	11.6207 %

Initial deposit for your escrow account	1001	\$49.22	\$49.22
Daily interest charges	\$32.1900 per day 901	\$547.26	\$547.26
Homeowners insurance	903	\$100.50	\$100.50

Line	Description	GFE	HUD1
904	Line 904 Text	\$32.00	\$32.00
905	Line 905 Text	\$56.25	\$56.25
1103	Owner's title insurance	\$700.00	\$700.00
1107	Agent's portion of total title insurance premium	\$300.00	\$300.00

John McCrea is Vice President, Director of Business Development at MortgageFlex Systems, and has over 15 years in the financial and software industries. Prior to joining MortgageFlex, he was Regional Sales Manager with Harland Financial Solutions for over seven years.