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The RESPA-TILA Gorilla:

process changes to meet compliance needn’t be a walk through the jungle

Driven by the Dodd-Frank Wall Street Reform and Consumer Protection Act, Congress required the Consumer Financial Protection Bureau to come up with a simpler disclosure process to help consumers better understand what they’re getting into when applying for a home loan. The resulting integration of previous disclosure regulations (RESPA and TILA) basically means that instead of providing four disclosure forms to the borrower, the lender now provides two. While the odds of bringing about a case of pesky eye strain have decreased for the borrower, this seemingly simple reduction in paperwork has huge repercussions on the lender’s internal processes. With an August 2015 deadline to comply with the new RESPA-TILA regulation, and stiff penalties outlined for non-compliance, mortgage lenders are in a bit of scramble.

Here’s how one forward-thinking Mortgage Lending Company is taking control. A swat team of project managers and subject matter experts first set out to identify all current processes that use information from the four well-known legacy forms (Good Faith Estimate of Settlement Costs, Initial Truth-in-Lending Disclosure, Final Truth-in-Lending Disclosure and HUD-1) that are now combined into two new forms (initial Loan Estimate and final Closing Disclosure). The impact is big: upwards of a hundred current process flows have been identified that need to be modified to support the new regulation. While some processes only need minor modifications, many of them need to be totally rewritten.

To collect a true picture of the current state, project managers and SMEs from different groups – Acquisition, Receiving, Underwriting, Funding and more - gather around visual process models to map out steps and come to agreement on how the current process really works. They start at a high level and work their way down several layers of decomposition. Because of the technical nature of the regulation, workflows are modeled at a very detailed level to allow for visibility into every part of the process that is affected.

Then the planning starts. For the future-state processes, the goal for this Mortgage Lending Company is to have efficient processes that both comply with regulation and don’t exceed a level of risk that they are uncomfortable with. Compliance groups and project managers work together to capture and catalog requirements from the new regulation as well as risks of non-compliance. Project managers start modeling how the future processes should be, connecting the requirements, risks and controls to appropriate points in the updated processes. Decision points in the to-be processes are analyzed - for example, what happens if a piece of required information isn’t available? Should the process continue, or should it stop? What is the cost of stopping the process? What is the risk of non-compliance? Armed with models of how the processes interact with the requirements, they can make compliant process design decisions that balance costs, benefits and risk.

Bonus: the final, approved processes are then the basis for communication with implementation teams as well as training and documentation for the end users.

Bonus bonus: the resulting model and reports are also the perfect tools for communicating with auditors to demonstrate compliance.

Not only has this Mortgage Lending Company gotten a jump on the upcoming regulation and will avoid costly fines, they've accomplished it in a complex landscape of continuous change. Creating a repository of the new processes, requirements, risks and controls has enduring value: besides RESPA-TILA, other regulatory and compliance projects are ongoing and will drive additional process changes. Knowing which process steps and rules are required and why will help keep unintended changes at bay, while also knowing which controls may no longer be required will help keep processes lean and as efficient as possible over time.

The iGrafx Team