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THE INEVITABILITY OF MORTGAGE OUTSOURCING

As compliance costs related to mortgage lending continue to skyrocket, an increasing number of banks are turning to outsource services to process their customer's home loans—albeit under the bank's label. The rising regulatory costs along with a drop in mortgage business volume has led both mid-tier banks and America's biggest financial institutions to get onboard with what is clearly becoming a mortgage market trend. While the tasks that get outsourced vary, recent analyses show that turn-key servicing from loan origination to loan servicing can be performed at a significant savings via outsource providers.

Compliance Concerns

Traditionally, lenders outsourced their mortgage processing tasks when business picked up, it being cheaper to outsource for a limited period than to hire additional staff or pay overtime wages. In the current market, however, customer demand is not the impetus for outsourcing mortgage processes but rather concern over compliance adherence. According to the head of a mortgage cooperative: "Over the past couple of years, and historically, we've seen people expand outsourcing based on how much business they can do. However, most recently it really has been done to make sure all compliance components are administered as efficiently as possible to control cost variables."

That motivation was further driven by the recent issuing of 1,800 pages of new mortgage regulations by the Consumer Financial Protection Bureau—as mandated by the Dodd-Frank Wall Street Reform Act. A New York mortgage analyst also stressed that compliance concerns are driving mortgage loan outsourcing: "The risks are too high for companies to lend without a very high level of compliance expertise."

Losing Money on Mortgage Business

A report released by the Mortgage Bankers Association (MBA) in June disclosed that "independent mortgage banks and mortgage subsidiaries of chartered banks reported a net loss of $194 on each loan they originated in the first quarter of 2014, down from a reported $150 in profit per loan in the fourth quarter of 2013." MBA Vice President Marina Walsh further confirmed the loss problem when she stated: "The significant overall production volume decline in the first quarter hurt mortgage bankers. Purchase volume did not pick up, while refinancing volume dropped, and costs continued to rise. Given these conditions, companies that managed to break even in the first quarter should consider that a reasonable outcome."

Anticipated Market Growth

Although the mortgage industry was previously more reticent than other industries to embrace outsourcing, a leading mortgage outsource provider who supplies services to both mid-tier banks and to two of America's biggest lenders announced that his company's goal is to increase lending to $80 billion a year—a 57 percent increase over its 2013 volume.

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