The Race to ELECTRONIC

Choosing Your Fintech Mortgage Partner Wisely

Vendor Management: Best Practices in a World of Numerous Options

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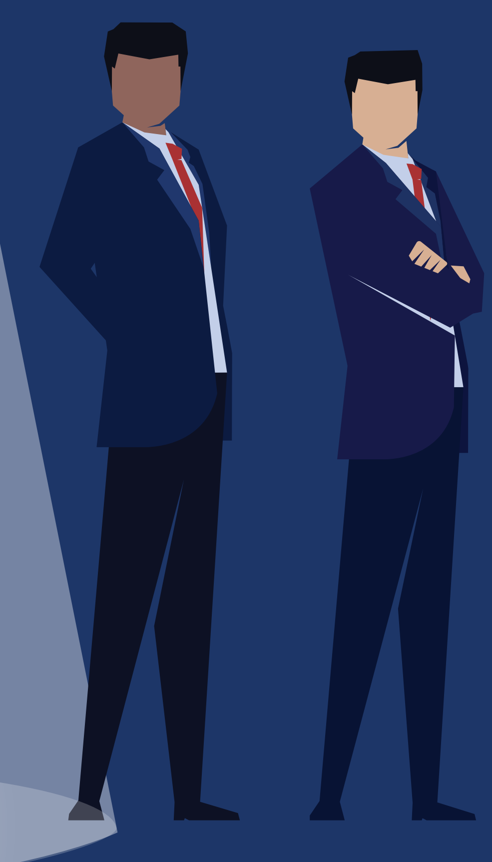
Better. Faster. More cost-effective. Have you ever heard those words before?

At the rapid pace that technology has moved us, it's more important than ever to consider improving your digital mortgage process. Even if you have a digital strategy and an implementation plan and timetable, most likely the current pandemic has accelerated it.

Consumers and businesses, by necessity, are forced to embrace technology in this time of social distancing and stay-at-home requirements. Boards and management have seen that they have to adapt more rapidly. The culture change is apparent and there is no going back to business as usual. We must move faster.

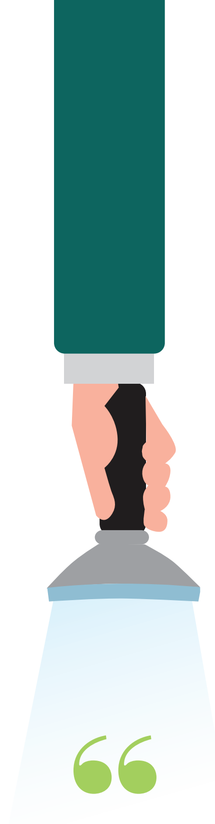


Credit unions are continuing to employ digital technology in many aspects of their operations to better serve their members. For the mortgage lending process, there are many different technologies and third-party partners that come into play to optimize the overall mortgage experience. These include lead generation, application submission, loan processing, underwriting, electronic signatures, closing and servicing.

There are many risks to consider and decisions to be made. If there were ever a time to have a robust vendor management process in place, this is it. A rigorous vetting process will help ensure that your financial technology (fintech) partner will deliver what is promised and expected.

VETTING A THIRD-PARTY PARTNER

The third-party relationship guidance from the NCUA has been around for some time, and the fundamental principles remain the same (SL No. 07-01/October 2007 – Evaluating Third Party Relationships). That guidance tells us that "When considering third-party relationships, proper due diligence includes developing a demonstrated understanding of a third party's organization, business model, financial health and program risks. In order to tailor controls to mitigate risks posed by a third party, credit unions must have an understanding of a prospective third party's responsibilities and all of the processes involved when adding programs."



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What are the best practices for evaluating your potential mortgage fintech partners? And, what are the issues that you, as the entity ultimately responsible for the third-party relationship, need to consider?

Of all the various aspects of due diligence, our primary focus here is on mortgage process experience, credit union knowledge and regulatory compliance expertise required. As credit unions explore their options, what are some of the key considerations to balance creating a better member experience and ensuring that regulatory expectations are met?

1 Credit Union and Mortgage Experience and Expertise

Ideally, your fintech partner will have demonstrated a deep understanding of the mortgage lending process and the associated regulatory requirements, including consumer protection.

Clearly the functionality of the technology is an important consideration and that is often the first part of the evaluation process. However, as you execute your due diligence process, you will want to look carefully at the experience of the fintech company's management team.

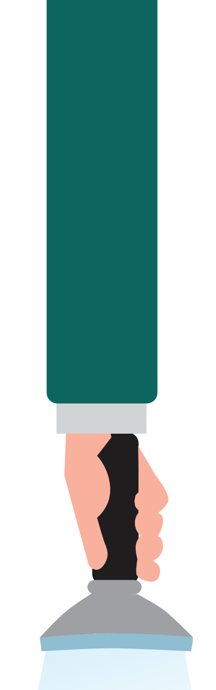
They should have a deep understanding of the mortgage lending process, the credit union environment, and how their particular technology impacts the entire borrower experience. You will want to speak with their existing clients about the integration process, adaptability, responsiveness and security.

In addition, if you are planning to retain your existing loan origination system (LOS), you must consider whether the fintech company has experience working with your LOS. How easily can changes be made on both sides to accommodate your business or new regulations? Are strong change management processes in place to confirm systems updates or changes are properly implemented? Are service level agreements being met?

All technology companies should have a defined process for receiving, analyzing and processing regulatory updates impacting the software; be sure your contract is clear on who is responsible and the service level response time.

A cybersecurity breach is one of the largest risks a lender faces in today's technology environment. The chief information officer should be comfortable that customer information is safeguarded, and that controls are in place to prevent and detect a breach.

Determine who will be hosting the application and the data that is collected. Do they fully understand state privacy requirements and the Graham Leach Bliley Act? Is adequate cybersecurity insurance coverage in place at the fintech company and how does it interrelate with the credit union's coverage?



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2 Regulatory Compliance Knowledge

The culture of compliance in the fintech industry is shifting. Fintechs are realizing that to grow and form partnerships, regulatory compliance is a non-negotiable requirement of their partners and they must get through the credit union's vendor management process. Having a compliance culture and all the correct pieces in place is essential.

Depending on what part of the process the fintech company is fulfilling, they should have reviewed their product for compliance with all relevant consumer financial protection laws and regulations including fair lending and Unfair, Deceptive or Abusive Acts and Practices (UDAAP).

A robust third-party due diligence process is imperative. Make sure compliance requirements are addressed and controls are implemented to monitor performance to those requirements. After all, the fintech company's compliance errors are essentially your errors in the eyes of consumers, secondary market investors and regulators.

3 Cultural Compatibility

No matter how attractive the technology, ultimately you want to ensure that there is a good cultural fit between you and your fintech partner.

Compatible means "a state in which two things are able to exist or occur together without problems or conflict." Working with a fintech partner is a two-way process that involves established visions, goals and shared values.

Research for that should include due diligence on the fintech's management team, board of directors and advisory teams. Does your current culture consist of trying new things or trying not to do new things? Are you seen as conservative or an early adopter?

Your strategic plan should tell you what your reputation and risk tolerance should be. Spend time together to ensure that you trust them, they know what's important to you and they have a solid reputation in the financial and mortgage industries. Fintech companies can be a valued partner and collaborator to bring the credit union and its members into a promising future.

4 Expectations and Effects on Membership

Partnering with a fintech company can provide an enhanced member experience. Is the solution you are providing easy to understand and will it save time and cost to you and your members? Does it solve a problem or a perceived problem and enhance your ability to gain a new base of membership?

This is a very competitive environment, and consumers have become more technologically savvy because of the challenges COVID-19 has presented. While in the past, the hurdles may have been more about whether the right technology was available, or could be integrated effectively, that is not as much the case today.

The technology is here, and many competitors are demonstrating they can make it work. Are you ready to embrace, pivot, and jump on the digital bandwagon? If so, when done with the right level of due diligence, you can be better, faster and more effective and as a result, more successful.

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