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Data Standards Make a Uniform Shift

Will standardization across the GSEs improve bankers' business?

In the wake of the recession, the mortgage industry finally is becoming standardized. More specifically, the Federal Housing Finance Agency (FHFA) has said in its strategic plan for Freddie Mac and Fannie Mae that standards soon will be created to dictate how others do business with the government-sponsored enterprises (GSEs) and how business is conducted in general throughout the industry.

Mortgage lenders and bankers in particular should keep a close on eye on industry standardization, as this could affect — and improve — numerous aspects of the industry as a whole. For some, the word "standards" may bring to mind notions of rigidness and inflexibility. With these new standards, however, the mortgage industry has an opportunity to become truly dynamic.

That's because the GSEs recently started a new era when they began accepting information from their customers using the standard data sets defined under the Uniform Mortgage Data Program. This will lead to many companies modifying their data to rely on certain new features in their loan-origination system platforms. Admittedly, this may cause certain risk and control issues in the short term and could result in misleading data if bugs exist in the system. At some point soon after, however, this measure can help the industry run more smoothly.

In addition, this shift in standards will cause something else to happen that will benefit every company that sells to the GSEs: They'll be able to do business with both entities without having to change their internal systems and processes. For years, many small companies had to choose between one GSE or the other, a choice that could result in adopting two very different sets of processes and system interfaces. This will no longer be the case. In fact, there's no reason why there can't be more GSEs in the future, as the primary market now will be able to interact with new investors in a seamless manner.

There are numerous other benefits that this shift will have on the market, as well, including better data from origination through securitization, better controls, decreased repurchase risk and an overall lower cost of doing business. There are other aspects of the industry, however, that likely won't change in the short-term, including the existence of programs like Desktop Underwriter, Loan Prospector and the Federal Housing Administration Total Scorecard. Investors, insurers and guarantors also will need to continue maintaining their proprietary decision engines and pricing mechanisms on a go-forward basis unless radical changes are mandated through GSE reform.

This past year, new guide language was set in place for the Servicing Alignment Initiative (SAI) and, because of that, doing business with Fannie Mae and Freddie Mac in the servicing space now will be largely the same. With that in mind, there's a unique opportunity for someone to emerge with a tool that will store all of the edits and rules required by SAI. For years, the model has been one in which primary servicers perform their work on proprietary systems or by using major service providers. In either case, servicers send information to the GSE and wait for messages back that validate whether it was accepted or rejected, and specify how much is owed, among other details.

With SAI, however, the rules are all public information and standard across both entities. It seems logical, then, that servicers should be able to ensure that their information is complete, timely and accurate prior to submitting to the GSEs. With a standard data set across the industry and a standard validated set of rules, it should be simple to streamline this process, which in turn will save time and money for both servicers and the GSEs.

In considering the new standard for securities, it's intriguing also to consider the concept of an industry securitization platform, which would benefit the market in two key areas. First, it would deliver better, more consistent loan-level disclosure, providing transparency and allowing for more comprehensive analysis across the risk spectrum. Second, this platform would create a guaranteed security that doesn't need a GSE label. In the future, if a company can underwrite, deliver and service loans adhering to the standards mandated by the pooling-and-servicing agreement, that company could issue a security with the same or similar guarantee, removing the middleman while still achieving the same end result.

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Of course, all of this standardization comes at a cost. In the short term, it will appear onerous to move from the status quo to these new standards. Many firms are facing pressure to cut costs in the near future, so spending funds on process and technology changes may not seem to make sense. That said, for those entities who are either starting their operations from scratch or are redesigning their platforms, the payoff in the long term could be significant, as having a standards-based infrastructure will allow for more nimble, modifiable architecture. In the long run, it will be much easier to add and remove software components, rearrange business processes and outsource entire business functions to providers who are the best in their class.

With all of this in mind, it seems safe to say that the industry will experience a number of changes within the next few years. Assuming no significant political shift or additional market chaos, these standards likely will be rolled out and adopted, and the market will move forward, as it always does. New players will emerge while many of the traditional industry names may fade. Regardless, we can only hope that our industry is poised for a true renaissance — and not simply toying with more good ideas that just don't catch on.