

## **Sample Case Study: Loan Officers Performing Their Loan Estimate Tasks**

The performance problem: Loan Officers do not complete and deliver the early disclosure material, the Loan Estimate (LE), accurately or in a timely manner according to industry regulations. This failure presents regulatory risk that has led to an audit finding requiring correction before our next state examination. Potential penalties from state auditors may include fines and/or restrictions on doing business in the state.

Company leadership's perception of the problem: Loan Officers believe themselves to be too busy to administer this paperwork. They can't remember how to do it correctly, even if they've been trained on it, and it's a requirement of every loan application. Besides, it's not in the nature of a good LO to administer the paperwork, so maybe we should shift this responsibility to the processor.

Company leadership's desired solution: Ron Smith, the company's Director of Sales, has concluded the Loan Officers' lack of knowledge about the LE's importance, content, and regulatory requirements is the problem. He has support for this opinion from a number of his direct reports, the Regional Sales Managers. Ron has asked Credit Employee Performance Solutions (CEPS) to develop and implement a two-hour webinar covering the knowledge gaps for LOs. He wants it to be mandatory training for every loan officer, regardless of their performance with the LE, and expects to track and report on learners' engagement – not simply attendance – in these webinar classes.

### Analysis methods:

- We interviewed Ron Smith, Director of Sales, for 35 minutes using Zoom. This interview was scheduled for one hour but was terminated when Mr. Smith informed us he had another, recently scheduled meeting to attend. Subsequently, two email messages and three voicemail messages attempting to schedule further Zoom interviews with Mr. Smith went unanswered.
- We conducted structured, 30-60 minute interviews with 3 of the 6 Regional Sales Managers, all of whom report to the Director of Sales.
- We facilitated interviews and observation of 2 members of the Pre-Close Quality Review team and 2 employees in the Post-Close Quality Review Department. One of these Pre-Close Quality staffers was identified by Mr. Smith as a subject matter expert in meticulously completing the Loan Estimate.
- We researched through the Consumer Financial Protection Bureau's website the federal requirements for completing and delivering the LE. This probe included a practice exercise to actually complete a sample Loan Estimate.
- We examined an LE assessment job aid used by the Quality Control staff and inspected the quality reporting delivered to sales leadership.
- We conducted 2 Zoom interviews, each including 6 Loan Officers. Using a scenario developed with the assistance of the quality teams and a Regional Sales Manager, we also tested these 12 Loan Officers on their ability to accurately complete the LE.
- We examined job descriptions for the Loan Officer, Sales Manager, and Regional Sales Manager positions.

### Analysis results:

1. Accurate completion of the Loan Estimate has been randomly examined by the Quality Control teams on 3% of all loans. In this small sampling, almost one-third of loans are cited for incorrect information in the LE. Monitoring of LOs' performance for LE accuracy is performed by the Pre-Close Quality Review team and in the Post-Close Quality Control Department. The Quality Control staff relies on an LE assessment job aid and on their own knowledge to determine accuracy. Loan Processors and Loan Underwriters, two positions downstream from the LO in the loan production process, have no responsibility to audit the Loan Estimate. The results produced by the quality teams are aggregated in reports provided to sales

management, but are not shared with any other employees, including Loan Officers. In interviewing 12 Loan Officers having varying levels of experience with the company, we found only one case of sales leaders informing a Loan Officer of quality errors in an LE he had produced.

2. The two groups named in the previous bullet point are also responsible to assess the timeliness of LE delivery. They do this using Encompass, the company's loan origination system, which recognizes the date on which the initial Loan Estimate is completed but does not capture the date or the method by which it was sent to the customer.
3. There is no system of rewards or consequences for the LO to accurately complete and punctually deliver the LE. Those tasks are considered a normal part of the LO's job and the company contends good performance is recognized in the LO's regular, negotiated commission earnings. Statutes of the Dodd-Frank legislation prevent the company from assessing any penalty for poor performance on the LE by clawing back any of the LO's commission.
4. Loan Officers admit to being confused by the contents required in the LE. Their training is limited to their manager's explanations which are infrequent and not necessarily correct. When 12 Loan Officers were given a 10-question, scenario-based test to complete a Loan Estimate, they averaged a score of 73% with a range of 50-100% in correct answers. All of them knew how to access the LE completion form in Encompass, but many could not identify the right sources of information to complete all fields correctly. LOs generally understand when the LE must be delivered but offer reasons for why they frequently need to delay sending it beyond the federally mandated 3-day deadline.
5. Eleven of the 12 Loan Officers interviewed for this analysis demonstrated the mental and physical capacity to flawlessly complete and deliver the Loan Estimate. The outlier's ability to comprehend the purpose and many simple factors in producing the LE did not match that expected of an LO according to our interpretation of the company's Loan Officer job description. The LO's job description lists "administer required paperwork to earn loan approval and comply with industry laws and regulations" as the fourth job responsibility. The Sales Manager's and Regional Sales Manager's job descriptions list no responsibility to assure compliance with government or investor requirements, statutes, and regulations.
6. There is dissonance between the company's perceived value in precisely completing and delivering the LE and in most Loan Officers' perception of their job priorities and their rewards for performing those tasks. Company leadership wants to avoid regulator findings that could result in adverse consequences for the organization. LOs are driven primarily by the impact of their performance on their income. With no perceived compensation reward or consequence for their administration of Loan Estimates, LOs see this task as very low on their list of priorities.

#### Conclusions:

1. Sales leadership at all levels must determine and communicate the value of accurate and timely Loan Estimates before committing to take curative actions if those actions are to have long-term value.
2. Although Loan Officers generally understand the delivery timing requirements for the LE, they lack knowledge of any consequences to the company for failure to meet the deadline, regardless of excuses. The expectation for accuracy and timely delivery of the LE must be communicated and reinforced as a standard task in the Loan Officer's job performance.
3. The GSE standard for loan review is 10%. The company's limited review and subsequently non-existent feedback to Loan Officers from the 3% of reviews prevents the LOs from learning what they did right or wrong in completing and delivering the LE.
4. There is no available reference for LOs to follow when completing a Loan Estimate. They are required to rely on their knowledge and memory to be meticulous in this task. Using Quality Control's LE assessment job aid will likely deliver improvement if provided to LOs with an expectation they will use it.
5. Loan Officers can benefit from formal, structured training and job aids to better perform the LE tasks.
6. Recruiting and hiring Loan Officers who have the capacity to perform tasks required for the Loan Estimate has been successful.
7. The difference in responsibilities, values, and priorities between sales leadership and Loan Officers must be bridged to achieve worthy performance.

Summary: Sales leadership at all levels and Loan Officers will benefit by implementing a series of progressive improvement actions to improve LOs' performance of their responsibilities to accurately complete and deliver Loan Estimates. The percentage of quality assessments must increase to meet investor standards, and individual case results from those assessments should be communicated to sales leadership and to the respective LOs. Whether to transfer responsibility for the Loan Estimate task to Processors is a possible solution but may generate a timing problem to meet regulatory deadlines. Many of these actions recommended for Loan Officers may also be valuable for Processors.