

Scott McCallum: Overregulation is limiting innovation from benefitting a changing housing industry

Posted on Thursday, Jan 31, 2019

The column below reflects the views of the author, and these opinions are neither endorsed nor supported by WisOpinion.com.

Since my time serving as Governor of Wisconsin, I have taught extensively as a professor about the impact of new technology in our economy. While these technological changes have occurred, I have watched my students graduate, start families of their own, and take the necessary steps forward towards making what will likely be the most significant financial decision in their lifetime: purchasing a home.

This has increasingly drawn my attention to the state of the current housing market, new developments in mortgage lending and servicing, and how tech is playing a role in these spaces. In spite of the leaps and bounds the tech world has made in this decade, the same innovation isn't taking place in the mortgage industry. Why, if tech innovation is bringing so many other sectors to new heights, has the mortgage industry fallen so far behind?

Before the 2008 crash, it was the major banks that dominated the mortgage sector. However, after the financial crisis, these banks shied away from the mortgage space, or [in the case of Capital One](#), departed the residential mortgage market altogether. This left other players in the industry, such as independent banks and non-banks, with the important role of bringing stability back to the American housing market.

>> WisPolitics is now on the State Affairs network. Get custom keyword notifications, bill tracking and all WisPolitics content. [Get the app or access via desktop.](#)

With the big banks gone, collaboration between the government and the independent and non-bank mortgage industries produced results. In fact, serious delinquencies and foreclosures among independent and non-bank customers are at the lowest levels in more than a decade – only 2.13 percent in Q3 of 2018, [according to the Urban Institute](#).

Yet, against the backdrop of other sectors of the economy exploring the implementation of new and innovative technological concepts, such as artificial intelligence and machine learning, it has become clear that greater, sweeping regulations targeting the mortgage industry at the federal and state level have left firms woefully behind the curve when it comes to the same kind of tech innovation.

While well intentioned, these regulations have resulted in burdensome processes, needless paperwork, and increased costs for firms in the mortgage sector. We all know there is no free lunch and ultimately costs are borne by consumers. According to the Mortgage Bankers Association, the cost to service a defaulted loan has increased more than 200 percent. This has serious implications for the industry and for consumers.

Rising costs hinder the ability of independent and non-bank mortgage servicers to invest in innovative tech solutions, such as mobile apps or digital lending platforms, that would better serve their direct customers – the borrowers. As a result, companies have been forced to focus on the loan origination (a transaction), instead of on innovation in loan servicing (the ongoing personal relationship with the borrower).

While all of this is taking shape, the stakes couldn't be higher. The realists among us know the question is not if, but when, another economic downturn will occur. Most individuals that understand the critical role non-bank mortgage providers played following the 2008 crisis will agree that we should ensure these companies are at their healthiest. We can do this by enacting smarter regulations that are at their core focused on helping the consumer rather than generating headlines.

By and large, the American public has been misled in the media about the current regulatory environment for non-banks. For example, some of the “experts” who are on cable TV have [made false claims](#) about the industry, inaccurately stating that non-banks are less regulated than the big banks, when in reality, these non-banks face tougher regulations. In fact, non-banks are subject to licensing by all 50 states as well as oversight from all 50 state Attorneys General and multiple federal

agencies.

Furthermore, firms in the industry have already been hit by expansive, over-burdensome, and costly investigations from federal and state regulators, resulting in at least [\\$243 billion in fines](#) since the crisis and a consolidation of the industry as a whole. And regulators haven't stopped.

While regulations that punish negligent or malicious actions are necessary to keep wrongdoers from repeat and predatory behavior, overregulating good-faith businesses has stifled job growth, efficiency, and tech innovation.

I've seen this trend of overly broad enforcement play out in the tech world, leaving firms saddled with uncertainty over what the future will hold. In those cases, it has unnecessarily weakened the standing of firms in the industry, preventing responsible growth in the market and diverting funds away from investments in smarter and newer tools for consumers.

While overregulation has already been a drag on technological innovation in the independent and non-bank mortgage sector, it's not too late for regulators to wise up, remedy these mistakes, and change their course.

Americans who counted on the mortgage industry to come through for them a decade ago might not be able to fully articulate the far-reaching implications of a mortgage sector overwrought with regulation. Nevertheless, the same people will be the ones that are left high and dry if a balanced and fair system is not maintained.

As the independent and non-bank mortgage industry continues to step up and play a critical role for a new generation of homeowners, it's essential that these customers have the ability to benefit from innovative tech advancements and tools. That's why regulators must abandon superfluous enforcement actions and focus instead on serving the millions of Americans that are depending on them to have their best interests at heart.

-Scott McCallum is the former president and CEO of Aidmatrix Foundation, Inc., a global non-profit technology firm that specialized in humanitarian relief efforts. He served as the 43rd Governor of Wisconsin from 2001 to 2003.