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The Rubber Band Effect

By **BILL CARY**

Mr. Cary, director of strategic consulting for Lender Processing Services' strategic consulting services practice, Jacksonville, Fla., has written an op-ed on how he believes existing origination technology can be used to create efficiencies for low-risk borrowers without compromising risk management efforts. His thoughts on these topics are presented as this month's Viewpoint. For more Origination Views, please visit <http://www.originationnews.com/views>.

YOU COULD CALL IT THE RUBBER BAND effect. Earlier this decade, the industry began stretching beyond traditional credit guidelines to help more families get financing. Later, when defaults and foreclosures started pouring in, the entire industry snapped back hard.

While failures in the industry have been overwhelming, it is important to remember that the number of performing loans far exceeds those that have run aground. By focusing almost exclusively on what went wrong, institutions may take their eyes off the wealth of excellent customer data they have.

Unfortunately, all borrowers are now painted with the same brush of extreme caution. Today, it is much harder for even high-quality borrowers to get a loan — not only because of tightened credit policies, but because of more time-consuming, manual processes. While it makes sense for the industry to pull back from some risk-laden products, it does not justify nor require reinstating complicated, time-consuming processes that adversely impact lending to low-risk borrowers.

Rather, for this significant segment of qualified borrowers, lenders should continue to streamline. Financial institutions have a wealth of information, data, analytics and

statistics about these consumers, all of which continue to show whether they pay their obligations in a timely manner.

Delinquency rates are in the 10%-12% range right now but we can't lose sight of the 88%-90% of borrowers who are excellent credit risks. So how does the industry effectively curb risk, while not alienating the borrowers who stay current?

It's a matter of leveraging comprehensive mortgage and credit data that are available to subdivide the bank's customer base. By segmenting borrow-

ers into tranches and looking at the tranches individually, lenders can easily determine which borrowers are appropriate for a more streamlined approach. Many institutions have already invested in these tools, but are not fully leveraging their capabilities. These tools performed extremely well back when pipelines were filled — but the product and credit parameters originators used were based on assumptions that in many cases, turned out to be flawed. This doesn't mean the tools were.

To pull back on the use of automation and decisioning tools because some mortgages have failed is a bit like throwing the baby out with the bathwater. Understandably, the industry has become hyper-focused on losses. But it is also important to serve the needs of existing customers and to in-

VIEWPOINT



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vite the business of new low-risk consumers. Without equal attention, existing good customers may take their mortgage business elsewhere. While financial institutions can't lose their focus on working to minimize losses, they must also rebuild.

Using advanced analytical modeling and the tremendous range of data that is available in the industry, lenders can examine existing loan portfolios and glean a great deal of detailed information about the quality and credit performance of its customers. Then, using automated decisioning coupled with workflow technology, institutions can appropriately segment the customers in their portfolio — routing low-risk customers to more streamlined processes for refinancing or new loans, and higher risk customers into a more detailed process to determine the most appropriate product or solution given their circumstances.

If a customer does not meet the risk profile requirements for a product, it's better to say “no” quickly rather than go through an elongated process only to find out they can't qualify.

Innovative technology can go far beyond segmenting and underwriting borrowers to help lenders collect, verify and manage documentation information throughout the origination or refinance and settlement processes. Financial institutions can also access a tremendous range of information on prospective new customers such as job histories, income and credit profiles and then stream that data directly back into the origination system.

Fraud mitigation tools help to further decrease risk, while automated compliance systems and electronic closing solutions can streamline those processes immensely.

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