By Janet Ford

The Importance of a 360-Degree Customer View

Current trends impacting the mortgage industry show lenders are being bombarded from all angles with increased risk: stagnant unemployment, mounting delinquency and foreclosure, diminishing profit margins. Getting out from under this looming pressure requires lenders to actively take a more comprehensive, 360-degree view of their borrowers—and to leverage trusted third parties to help provide that transparency, profitably.

The Department of Labor has reported unemployment at well over 9 percent for the past 10 months—and a broader "underemployment" picture currently standing at 16.9 percent—with 42.8 percent of those unemployed being out of work for 27 weeks or more. The significant and stagnant number of people suffering from lost income poses a challenge for borrowers trying to make mortgage payments and exposes unforeseen risk as those numbers evolve.

As well, managing increasing delinquencies and foreclosures is becoming a growing risk and resource drain for lenders. According to Jacksonville, Florida–based Lender Processing Services Inc.'s (LPS') February (ital) Mortgage Monitor (end) report, home loan delinquency rates now surpass 10 percent—then if you factor homes already in foreclosure, it brings the rate of non-current mortgages to 13.5 percent (versus 7 percent just two years ago, according to LPS data).

If that weren't enough, lenders' profit margins are severely under pressure due to a decline in originations and tighter approval standards. According to the Mortgage Bankers Association's (MBA's) Quarterly Mortgage Bankers Performance Report, average profits are down to $890 per loan from $1,358 only six months earlier (comparing second-quarter to fourth-quarter 2009), due to a combination of lower production volume and greater loan production expense. With such operating pressures, lenders need to maximize every resource they have today.

When lenders have to build and train a team to verify borrower employment and income, it becomes a fixed cost for them. In this turbulent environment, fixed costs can spell financial ruin for already embattled lenders.

Outsourcing income verification transfers that fixed cost to a variable cost and results in a lender only paying for the work that gets done as volumes shift and change. Rather than staffing up and then having to deal with employee attrition when volumes decrease, outsourcing enables lenders to be scalable to easily address fluctuating loan volumes.

To mitigate further loan defaults, lenders need to understand the borrower's credit history, historical payment behavior and the collateral aspect. Having a comprehensive look at the borrower's credit profile will mitigate the lender's risk and improve investor confidence. This holistic view of the borrower's credit, capacity to pay and collateral also improves the lender's profit picture and reduces fraud as the information is coming from a trusted third party.

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A complete picture

A 360-degree view of borrower credit, collateral and capacity to pay enables lenders to make better loan decisions, mitigate risk and improve their loan portfolios. The 360-degree view involves the following:

Capacity

Capacity addresses the borrower's ability to pay, which includes verifying his or her most current employment and income. Because of the current high level of unemployment and underemployment, methods used to verify a borrower's credit picture in the past (and even under current guidelines) are not as sound as what is needed to avoid future delinquencies. In the past, if the borrower supplied several pay stubs and a credit score, that was all that was required because the house was projected to be worth significantly more in a year than it was at the time of purchase.

Even under today's guidelines, solely accessing the borrower's most recent year's tax transcripts (Internal Revenue Service [IRS] form 4506-T) is regarded as a valid way to verify "current" salary. The 4506-T provides important information, but given the rate of unemployment and delinquency, a more current assessment of ability to pay is needed.

Lenders must move beyond a borrower-provided pay stub and independently access both the historical tax-transcript income plus the current employment income

to adequately know someone's actual and most current income.

With fewer resources to respond to verification requests, employers are less willing to provide timely employment- and income-verification information. Lenders also have fewer resources to gather data, and should devote the limited resources they have to evaluating the data and making the risk decision.

Lenders often get income and employment information provided by the borrower, which tends to be inaccurate. Using a trusted third party that 1) verifies that the stated employer is legitimate and 2) contacts the human resources or payroll resource at the employer who is in a position to provide borrower information lends additional credibility to the information being provided. It also provides traceability and transparency for audit in the secondary market.

In the case of delinquent loans, servicers are being asked to act as underwriters, which is not their core competency. An underwriter has a very specific skill set. Lenders should recognize this gap in expertise and make the best use of resources by outsourcing the collection and verification of employer and IRS tax transcript information. Servicers and underwriters alike should spend their time analyzing this critical borrower information to make the most informed risk decision.

Credit

In addition to traditional credit data, unique data sources such as Irving, Texas–based National Consumer Telecom & Utilities Exchange (NCTUE), a member-owned database managed by Equifax, are important in evaluating younger borrowers or those who have not owned a home before or whose credit report may be thinner than average.

Using the NCTUE data, lenders can look at other bills the borrower has paid consistently in the past while he or she was renting. These data give further insight into the borrower's propensity to repay and also serve to bolster credit.

Collateral

Wealth data, which includes asset and property data, delivers "ZIP+4"-level views to lenders in what is known as "micro-neighborhoods." This type of data helps lenders bolster their decision from a modeling perspective, and further defines a particular borrower.

By pulling data from financial investment houses, lenders can determine what other assets the individual borrower has and how that may impact his or her ability to pay. Working with a trusted third-party provider gives lenders the transparency and insight they need into the borrower's overall financial profile.

With access to all the unique data assets now available to lenders (e.g., credit, employment, wealth), they can make more informed lending decisions than was possible in the past. Previously, lenders looked at credit obligations from the borrower's credit report. Now, lenders are looking at the income balance sheet on the borrower, and assessing what they know about the borrower's income, assets, and bank-deposit types and investments, among other things.

Gathering the data necessary to evaluate individual borrowers can be labor-intensive, and with strapped resources, lenders are finding it difficult to devote staff to this initiative. Outsourcing the process of borrower data verification eases the lender's burden while also mitigating future portfolio risk.

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