



A CLOSER LOOK

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a solution. For some, this could mean staying in their homes or minimizing the negative impact that a default scenario brings to the homeowner and servicer.

Casting a Wider Net

In the past, financial institutions have leveraged credit data to assess and respond to consumer requests for credit, giving them the insight they needed into a customer's propensity to pay. But with unemployment numbers projected to increase for the foreseeable future, servicers must look beyond credit data to minimize default risk. Today, more than ever, servicers must understand not only a consumer's propensity to pay, but also their capacity to pay. This is where up-to-date employment and salary verification becomes a powerful tool in evaluating potential and existing borrowers.

To manage default risk within their portfolios, servicers must monitor employment and income data for all of their borrowers—not just those considered a poor credit risk because they missed a mortgage payment. This means keeping a close eye on borrowers who appear to be good credit risks but may have suffered a job loss. In these cases, access to credit data as well as income and employment data gives a better snapshot of the borrower's financial profile—insight that could signal the likelihood of a future loan default or foreclosure.

All Solutions Not Equal

The benefits of using employment and income verification for

FEATURE STORY // FORECLOSURE

STORY BY // STACEY SIMPSON EXCLUSIVE TO DS News

Beyond the Numbers

Credit Data is No Longer the End-All, Be-All Determiner in Mortgage Lending. Up-to-Date Employment and Salary Verification Can Help Servicers Gauge Risk.

Once upon a time in the mortgage market, credit data was king when making lending decisions. Oh, how times have changed. According to a recent government report, 2008 job losses exceeded 1.9 million—with 533,000 posts vacated in November alone. Couple these numbers with recent figures by the Labor Department—which estimate that a record one in 10 American homeowners was at least a month behind on their payments or in foreclosure by the end of September 2008—and a new picture of the mortgage lending environment emerges.

The effect of recent trends on nearly every facet of the credit economy—including the mortgage, auto, and credit card markets—is staggering. While all of us know the impact of the credit crisis stretches far and wide, many wonder just how far it extends. As might be expected, the mortgage industry has shouldered a major portion of the credit pain along with consumers and businesses spanning multiple industries. According to the Mortgage Bankers Association, job losses have accelerated delinquency rates for traditional 30-year fixed-rate loans made to borrowers with strong credit.

In fact, total delinquencies on these loans rose to 3.35 percent in September compared with 3.07 percent at the end of June.

Pinpointing Potential Risk

With statistics like these, servicers cannot afford to rely solely on credit information to manage risk. The good news is there are effective strategies—pre-emptive actions they can take—to mitigate negative consequences of tough market conditions. For example, if servicers can more accurately evaluate the financial status of the borrowers in their loan portfolios, they can better work with them to find

decisioning are apparent to many servicers; however, it's important to recognize that all methods of obtaining this data are not created equal. Traditional methods of employment and income verification have typically been too expensive and labor intensive to serve as practical tools for loan default mitigation.

For example, many employment and income solution providers offer manual solutions, where the financial institution contacts the employer directly. The industry also offers another option known as income predictors. These analytical tools are

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designed to predict income by leveraging self-reported data but typically lack the actual employment and income verification necessary to accurately gauge risk.

Another industry solution involves the employer and IRS delivering employment and income verification data directly to a third party, where the information can be stored and accessed upon request by financial institutions. While this type of solution offering delivers a more comprehensive view of borrower risk, lenders still face drawbacks including lack of automation, slower processing times, and increased potential for fraud. For some servicers, estimators that

approximate income based on aggregate national survey data rather than actual information represent another alternative.

With various options available, servicers may not realize that state-of-the-art tools exist to cost-effectively provide employment and income data. What's more, the data is updated every single pay period. This makes it easily accessible and practical for pre-emptive loss mitigation strategies, a valuable resource for navigating turbulent market conditions. With rapid, automated access to employment verification data, servicers can

engage borrowers before they find themselves in a default or foreclosure situation.

Putting New Data to Work

The answers are out there. Today's market offers a number of proven strategies that mortgage loan servicers should consider in order to minimize the number of delinquent loans on their books. One of the most obvious solutions involves quickly detecting borrowers' loss of employment while monitoring account/loan payment status to determine the most effective collection strategy. Equipped with this insight, servicers might suggest a modification of a borrow-

er's existing loan or conversion to a new loan product, depending on the circumstances. Regardless of the approach, it is more likely that the strategy presented the first time will be the right one for the individual borrower as it will be based on the most up-to-date information available.

On the bright side, the industry recently has experienced considerable success in preventing foreclosures. According to industry reports, nonprofit organizations such as the HOPE NOW Alliance prevented 225,000 foreclosures in October 2008—13,000 more than the record set in September. This demonstrates that the right employment and income verification data will be crucial in helping servicers achieve even higher success rates and ultimately survive the current crisis.

Advantages of Verifying

For the first time, recent Equifax payment hierarchy research has shown that more and more borrowers are prioritizing their auto and credit card payments over their mortgage payment. As a result, financial institutions require greater transparency when evaluating their mortgage and auto loan portfolios, which is where real-time employment and income verification data can play an integral role. Insight into individual borrowers' current loan obligations and income verification offers servicers a clear view into their clients' debt-to-income ratios, helping them make future underwriting much more productive and efficient.

Timing Is Everything

The clock is ticking. With the deterioration of our global markets, there is no time to waste when it comes to jump-starting mitigation tactics in order to curtail default risk. This is why timing is one of the most critical components of an effective loan mitigation program. If a servicer has early knowledge of a potential default situation, there are simply more opportunities to identify and implement alternative solutions with the borrower.

Servicers that enlist a provider of income and employment verification data have the option of receiving automatic updates on borrower employment and salary changes on a weekly or monthly basis—whichever schedule they prefer. This enables servicers to track borrowers who have traditionally paid on time, but may be adversely affected by the current economic downturn and turbulent market conditions.

A New Chapter

There's no doubt that struggling credit markets, job losses, and tighter credit conditions have cast a dark cloud over the economy. Despite these challenges, however, the industry continues to put up a good offense and innovate, bringing new data sources and technology to the market. Our ability to navigate these uncharted waters depends on our ability to leverage these tools in order to better understand risk and manage data through tougher loss mitigation strategies.

The tools are there for servicers who choose to utilize the latest employment and income verification data. Those who choose wisely will be better positioned to survive and prosper—both in these tumultuous times and in the long term. ☐