EFFICIENTLY LOCATE AND VERIFY ASSETS TO IMPROVE HOME LOAN ORIGINATION, QUALITY AND CUSTOMER EXPERIENCE.

The role of collaborative bank intelligence to systemically verify liquid assets to improve the loan process for borrowers, lenders and Government-Sponsored Enterprises.
INTRODUCTION

Historically, the loan origination process has included a number of slow, resource intensive, manual, paper-based underwriting steps that not only make it difficult for borrowers, but also represent risk for lenders and Government-Sponsored Enterprises (GSEs). Particularly when it comes to liquid asset location and verification, relying on borrowers to furnish accurate information can undermine the quality of the loan, resulting in consequences throughout the loan lifecycle.

Financial institutions that rely on manual processes to verify assets must be cautious to prevent compliance issues with regulators and investors. Now, through collaborative bank intelligence and automated asset verification, loan risk can be reduced, operational efficiencies and quality assurances can be realized, and the borrower experience can be greatly improved.
THE WEAKNESSES OF A MANUAL, PAPER-BASED PROCESS

MORTGAGE FRAUD

When lenders rely on borrowers to provide asset verification, the risk for fraud escalates. Mortgage fraud schemes that use false documentation to secure loans are unfortunately all too common.

Consider three instances reported by the FBI¹ just in April 2016:

1. In Sacramento, California, a real estate agent was sentenced to 14 years in prison for her part in a mortgage fraud scheme that secured more than $30 million in residential mortgage loans on more than 30 homes. The agent created fraudulent loan applications that contained materially false information as to the straw buyers’ income, employment, assets, and intent to occupy the residences. A straw buyer is someone whose credit is used in place of a real buyer who would otherwise not qualify for the loan.

2. In Baltimore, Maryland, a man was sentenced to five years in prison for buying 36 row houses for $3.6 million using straw buyers. The man admitted that he falsely represented in the loan applications the straw purchasers’ assets and earnings and then provided fraudulent earnings and bank statements for the purchasers to document the false information.

3. In Kansas City, Missouri, a homebuilder was indicted for mortgage fraud involving 61 houses that cost banks and/or mortgage companies approximately $4.5 million dollars. With the participation and aid of real estate or mortgage brokers, the buyers caused false sales agreements, false loan applications, false supporting documents, and false settlement and closing documents submitted to the mortgage lenders.

In all of these instances — and in many more happening all over the country — collecting asset information from borrowers instead of getting information directly from financial institutions costs banks and lenders millions of dollars.

Loosening credit guidelines and a recovering purchase market are expected to increase the opportunities and motivation for origination fraud, particularly through inflated sales prices to cover down payment misrepresentation. CoreLogic predicts that 2016 could reach the highest mortgage fraud risk since 2010.²

² CoreLogic, 2016 Could Reach Highest Fraud Risk Since Crisis, December 2015.
INEFFICIENCIES

A process that depends on borrowers for information costs lenders time and resources as they collect, enter and verify that information. This manual aspect slows down the origination process and presents a potential roadblock for selling into the secondary market.

68% of customers provide additional documents after completing the application process.

48% of customers were asked to provide the same document more than once.

These kinds of inefficiencies drove personnel expenses to an average of $5,131 per loan in the fourth quarter of 2015, versus $4,674 per loan in the third quarter, according to the Mortgage Bankers Association. In that same timeframe, loan production stalled at 2.4 loans originated per production employee per month.

Increased regulation is driving these costs, and there is no end in sight to stricter standards from regulators. Last year, lenders adjusted their operations to comply with the Truth In Lending Act – Real Estate Settlement Procedures Act (TILA-RESPA) Integrated Disclosure rule and 2016 will see more of the same as institutions gear up for compliance with the Home Mortgage Disclosure Act, which will require additional reporting requirements starting in 2018.

Independent banks saw their production profits drop by over 60% in the fourth quarter of 2015, compared to the third quarter. Mortgage bankers saw their total loan production expenses climb to $7,747 per loan, from $7,000 per loan in the same quarter in the year prior.

In a tight regulatory environment, lenders who want to thrive need automated, compliant processes that minimize risk and maximize their employees' time.
WHAT HOMEBUYERS WANT NOW

The Millennial generation - those between ages 18 and 34 - number 75.4 million, and their preferences are already changing the landscape for financial institutions that want to attract them as customers. Accenture’s 2015 North America Consumer Banking Survey revealed some of the ways these potential homebuyers are different from generations before them.

For instance, the survey found that:

• 22% of Millennials purchased or signed up for mobile banking software/apps in the past 12 months, compared to just 13% of 33 to 54 year olds and 6% of those 55 and older.

• 18% of Millennials switched primary banks in 12 months, compared to 10% of people aged 34 to 54 and only 3% of people 55 and older.

• When choosing a bank, online banking services is a key factor for Millennials, and they report that they are most likely to stay with their current bank if online banking services are good.

• Millennials desire a “seamless omni-channel experience with personalized, proactive interactions”.

“Banks that try to retain Millennial customers by serving them like they have served their parents and grandparents do so at their own peril. Millennials are a wholly new kind of banking customer” the survey stated.

NEGATIVE CUSTOMER EXPERIENCE

Borrowers clearly prefer a fast, digital process that requires little of their time or effort. Having to fax, scan or print asset documentation to their lenders is often time-consuming and frustrating for consumers.

A 2015 Bain & Company report on Customer Behavior and Loyalty in Retail Banking found that “Experiences that are easy, reliable and efficient create stronger loyalty.”

Consumers increasingly expect financial institutions to provide the same kind of digital experiences they are used to in other areas of their lives.

HousingWire Magazine detailed the shift in customer expectations in a May 2016 story on digital disruption. One of the consumers they interviewed was Sandya Swamy, director of global eCommerce at Walmart and a recent online mortgage applicant. “If I get paper in the mail, I get annoyed. If I have to go to multiple sites, I get annoyed. If I can’t see it in a simple format, I get annoyed,” Swamy said in the article.

Swamy, who is 34, is far from alone in her sentiments. As purchasing power shifts towards Millennials, more transactions will occur in digital channels that utilize data and automation to make the customer experience easier (see sidebar). In a 2015 digital banking survey, Accenture reported that 23% of borrowers who purchased a mortgage in the previous year had done so through the Internet or another online channel, while the number of those who applied through a branch fell 25%.

“Borrowers increasingly want to interact with mortgage lenders—from application to close—through online channels,” the Accenture survey states. It advises lenders to: “Develop online and mobile tools and channels that allow borrowers to conduct research, apply for loans, submit documents, track status and electronically close.”

Rather than expect the borrower to do the work of gathering and sending asset information, lenders can improve the experience for the borrower with a process that gathers and automates asset information directly from financial institutions.
A process that uses paper-based evidence of assets is not only time-consuming and offers an opportunity for fraud, but it also makes it harder for investors to determine loan quality when they look to buy the loans. Given that 85% of the approximate 8.7 million loans originated in the U.S. are later purchased by GSEs, this outdated process poses increased risk and can hinder available capital for lending based on representation and warrant relief requirements.8

Neither lenders nor investors are well served by loans that later have to be repurchased. Paper documents are much more easily forged with the technology available today at criminals’ fingertips. Putting the onus on the borrower prevents the lender from having complete confidence in the asset and identity data they receive, leaving them at higher risk for fraud and financial misrepresentation.

THE SOLUTION: COLLABORATIVE BANK INTELLIGENCE TO FIND, AUTOMATE AND VERIFY LIQUID ASSETS

The weaknesses of a manual, paper-based asset verification system can be overcome by automating the validation of liquid assets through shared bank intelligence.

Early Warning uses a collaborative business model to systematically locate and verify assets for financial institutions through its Asset Search and Verification℠ Service for Home Loans (ASV). The company leverages its National Shared Database℠ Resource to provide account locations, status of ownership and balance history on borrower accounts. Using this verified data allows loans to travel seamlessly through the origination process and into securitization.

This collaborative database includes bank-contributed checking, savings, money market, CD, and IRA account location, status of ownership and up to 90 days of account history from financial institutions across the country. This data is updated daily, providing the current status of any borrower assets, rather than relying on a static and risky screen-scraping approach.

“Our Asset Search and Verification Service for Home Loans is the only solution available today that provides financial institutions and GSEs an automated means to search and systematically-verify borrower assets in a safe and secure fashion. We can see assets across institutions,” said Jim Mortensen, vice president of identity solutions for Early Warning. “Our information is directly contributed by financial institutions versus being aggregated, screen scraped or asking for consumer banking credentials and it is disclosed in a completely transparent fashion under the FCRA.”

Leveraging Early Warning’s verification service means that once borrowers give their authorization, their part in the asset verification process is done. Lenders provide only a person’s name and Social Security number to Early Warning — bank account numbers aren’t needed since Early Warning can locate all relevant accounts and verify the assets within them, removing the potential for human error or fraud.
EARLY WARNING BENEFITS

Early Warning’s Asset Search and Verification Service for Home Loans improves the loan process for lenders, GSEs and borrowers.

FOR LENDERS

Lenders achieve considerable improvements using the Asset Search and Verification Service for Home Loans. The automated data gathered from financial institutions reduces the possibility of fraudulent documents and accelerates the underwriting process that accompanies a manual, paper-based approach.

ASV for Home Loans generates an accurate asset report in minutes, eliminating the need for underwriters to go through paper bank statements to compare numbers and establish assets. The solution also generates an Asset Response ID for every loan, making it easy for investors to find this asset report later in the loan lifecycle.

In addition, because the service systematically verifies assets, mitigates bank statement fraud risk and removes manual steps for validation, the GSEs may grant representation and warrant relief and documentation waivers to lenders using the automated system. These waivers are a significant advantage for lenders and efficiently speed loans to market.

Lenders are also capitalizing on ASV for Home Loans to distinguish themselves in the marketplace with a key segment of borrowers.

“We see lenders using this as an opportunity to differentiate their service to high-net-worth customers who may have a lot of assets,” Mortensen said. “Lenders can offer them an expedited process through a streamlined, systemic verification of assets.”
FOR GOVERNMENT-SPONSORED ENTERPRISES
The accuracy of Early Warning’s verification service provides certainty to GSEs as they consider loan quality. By automating the location and systemically verifying borrower assets in a safe and secure fashion, Early Warning’s solution frees up capital for additional lending to drive revenue growth.

“Government-Sponsored Enterprises recognize the value of digitizing asset verification information and processing it in a systemic manner. They see the value of what we’re offering, and they are ready to provide additional benefits to lenders if they use systems like Early Warning,” Mortensen said.

The Asset Response ID that travels with loans into securitization creates a clear view into the loan quality without using additional resources to look through paper documentation.

“Solving the asset-risk verification process improves the entire loan cycle, because the GSEs that are buying these loans don’t have to develop an additional manual process to validate and QC them,” Mortensen said. “It saves them from having to re-validate the information that the lender has already spent time validating.”

FOR BORROWERS
Borrowers are looking for a simplified process to provide asset information and Early Warning’s solution relieves the burden from borrowers by sourcing information directly from financial institutions, greatly improving the customer experience.

ASV for Home Loans provides an automated solution for responding to asset verification inquiry requests so consumers do not have the responsibility of manually locating account numbers, bank statements and other documents and saves them the hassle of transmitting those documents to the lender. The service also allows for faster closing, since the documentation that would take an underwriter weeks to sift through and evaluate is now delivered in minutes.

“We can solve that entire problem for consumers because our coverage is significant,” Mortensen said.
CONCLUSION

Early Warning’s Asset Search and Verification Service for Home Loans solves a multitude of pain points for constituents in the mortgage loan process, including:

- Reducing cycle-time and labor costs
- Freeing up loan capital with a faster quality control process
- Minimizing the risk of fraud
- Potentially providing representation and warrant relief
- Enabling a better consumer experience

Utilizing the National Shared Database Resource, ASV for Home Loans simplifies the mortgage origination and securitization process for stakeholders throughout the process. Early Warning provides a safer, easier and more compliant method of verifying assets to foster growth across the industry.
ABOUT EARLY WARNING

Early Warning is creating the future of payments by delivering innovative payment and risk solutions to financial institutions nationwide. For over 25 years, Early Warning has been a leader in financial technology that protects and advances the global financial system. For more information, please visit www.earlywarning.com.