CUSTOMER TACTICS

Rebuilding Trust in Mortgage Lenders

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By John Adams

The bad times that remain in the consumer lending market are partly born of a sense of betrayal - secondary market investors simply no longer trust lenders.

Dain Ehring, CEO of enterprise lending tech firm Dorado, says automation can play a role in restoring that trust, as standards and electronic transparency provide added comfort in the credibility of risk management.

BTN: What's the biggest credit-related problem still affecting consumer lending?

Dain Ehring: Most people in the market are talking about the kinds of models that are being used to measure credit risk. Or they're talking about the new regulations that are changing the way in which risk is managed by financial institutions. But the crisis is really about the data that's going in to the models and algorithms. People have to trust that data, and right now they don't. It was apparent that the data that was going into the risk models wasn't always valid. Everybody in the industry that I know is now looking at getting the customer data and information correct and how to make it transparent through the lending cycle. There has to be trust to get credit flowing again, and there's a lot of pressure on institutions to make that happen.

Is the problem fraud, or are mistakes being made because parts of the lending process are still manual and paper-based?

There's a lot of fraud. I can't believe that people would lie on a mortgage application. But it's much more prevalent than you would think, and frankly I'm amazed when I'm told by bankers how much fraud there is on applications. The FBI, for example, said banks were frauded out of $2 billion in 2007, and that was before things really started getting bad in the mortgage market and the economy. Banks do predatory lending, too. So it works both ways.

But I've been told of people who have gotten home equity loans from five different banks, for example, because lenders weren't collaborating to fight that kind of fraud. But lenders are starting to cooperate and share information on things like fraud now, and newer authentication technologies do 'flag' this kind of [repeat home equity or second mortgage] fraud.

How can trust be returned to the mortgage lending system?

Technology can play a role, particularly in creating a sense of transparency and authenticity of the data and information that's attached to a borrower. It's one thing for a lender or a borrower to say 'here's my data.' But it's another thing to know that the data is correct, and that everything is right and that the borrower is truly credit worthy. A lot of this verification would be done by hand or manually, but that's not really tenable anymore given the amount of vetting of information that needs to be done.

You have do this vetting of information outside of the four walls of your institution. And you want to get multiple verifications of information such as income or employment from multiple sources. Once you get a piece of information that may be suspect, you can go to additional sources to verify further. And you can deploy technology that creates a model to do all of this automatically. There are a number of databases that you can access in an automated manner to verify employment, for example.

What kinds of technology are enabling this automation?

Adoption of XBRL (extensible business reporting language) can help. It's creates a standard for data so that no matter how many times a group of loans changes hands, there will be standardized tags on borrower data that are recognizable by whoever is handling that data. It can solve a lot of the credit risk problem. And it's free.

Do you think this increased emphasis on consumer vetting is causing loan closing times to lengthen to an undesirable level, despite the addition of technology?

The closing times are increasing, and we're in the middle of a project right now with one of the top three originators to address the speed issue. Part of it is digitizing, or increasing the amount of research and vetting that is done electronically. Some of the vetting is still done manually.

Can the maturing of Web services also play a role in reducing closing times?

Web services gives you speed because it allows you to quickly and seamlessly access data from hundreds of different sources. For income and employment, you can go to databases at the IRS, H&R Block or myriad other sources. It can be expensive to do this of course. You don't want to do all of these checks for every loan. But you can deploy an engine that tells you if the data's not 'matching up' based on early checks with a few sources.

And then you can go onto additional checks if you want. Web services also allows you to access more kinds of data, or prioritize what information is more important to you as a lender. You might look for things for one loan that you wouldn't for another loan. There's even stuff like [Google Earth] to verify addresses. You can look up an address to see if there's a house there. You couldn't do that five years ago.

But Web services and early forms of electronic vetting were available five years ago. What held lenders back from adoption?

It was party a case of inertia. But every bank I know and ever CEO that I know is now looking at Web services and other forms of credit risk automation and electronic vetting. The industry was just beginning to 'get it' when the crisis hit.

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