

Using Credit Wisely

Every mortgage originator must order credit reports but with today's automation, when and how you order credit is more confusing than ever. Years ago, an RMCR (Residential Mortgage Credit Report) would be ordered on every new loan application and you were done. Today, credit reports can be ordered from within the Loan Origination System (LOS), within the automated underwriting systems, the credit vendors own software solutions, the credit vendors web site or the wholesalers web site. To make matters even more difficult, allowing credit to be ordered from more than one system can result in a "dual-pull" where a borrowers FICO score can be affected. Thus, originators must be very careful in how they use the various automation solutions in the industry to avoid pulling credit from more than one system. Finally, what type of credit report you should order is also confusing since you have a choice of a RMCR, "Triple Merge" or a single report. Freddie Mac recently announced that in some cases, a credit report from a single repository might be all that's needed. All of these changes were driven by technological changes in the industry so it makes sense to analyze this dilemma from a technological standpoint.

For many years, an RMCR was ordered on all loans because it was the most common demoninator. It was a report that all lenders and underwriters would accept and it still is today. If you order an RMCR, you are safe and never have to worry about not having everything you need. Still, the industry has moved away from this report because of the automated underwriting systems since they rely on the data from a Triple Merge to make their decisions. It's safe today to not order an RMCR for the vast majority of loans. On the rare occasion where a lender requires one, it can be ordered on a special case basis. Defining your procedures for credit report ordering is important for your company.

I believe ordering a single credit report is out of the question today. While the industry might eventually move in this direction it is a tiny volume of loans that can use such a report. Thus, it's far easier to order the Triple Merge and be safe and secure in knowing you ordered a report the first time that covers almost all cases. Besides, the cost difference between a single pull and a Triple Merge is insignificant (around \$10) when you consider the total costs of originating a loan (in the thousands of dollars).

With the Triple Merge being the default report to order, the question now becomes when should it be ordered and in what technological solution? I believe the credit report should be ordered right up front – perhaps at the point of sale. The sooner you know what kind of borrower you are dealing with the better. In addition, you must see the credit report prior to using any one wholesaler or specific underwriting system. What's on the credit report will help determine what type of loan you'll need and what

lender you may want to use to fund the loan. Thus, your office procedures should place an emphasis on ordering the report prior to selecting a lender and thus which automated underwriting system you might use (or even if you'll use one at all since often, it's easier to just let the lender do this for you). For mortgage brokers, maintaining your independence is defined by your ability to choose among wholesalers at anytime.

As mentioned above, the Triple Merge can be ordered in a wide variety of systems. However, we need to see the credit report prior to selecting the lender and this rules out ordering credit from either the wholesaler solutions or the automated underwriting systems. This leaves using the LOS or the credit vendors own software/web site to place the order. It's crucial that the debts and liabilities import back into your LOS and fortunately, all of these remaining solutions support this. It then becomes a question of ease of use and how good the integration is. You'll find the newest generation of LOS's will bring you two click ordering solutions. In addition, because credit report ordering is now tightly integrated into the LOS, all of the data flows perfectly to optimize the efficiency of loan officers and loan processors. The solutions from the credit vendors typically require special steps to import and export the data where the LOS solutions do this automatically behind the scenes.

Perhaps the biggest reason that you should order the credit reports within the LOS is that the report can then move to any of the other systems. Each credit vendor produces a Credit Report Reference ID# that when passed to all others systems, moves the data seamlessly. For example, when you order the credit report inside the LOS, the ID# is stored with the borrower loan file. If you then use an interface to the automated underwriting systems, the credit report ID# will move over to these systems. Likewise, a wholesaler with good automation in place will accept this ID# as well and can pull the same report from the credit reporting vendor. In some cases (depending on the credit vendor), the originator or wholesaler may be charged a minor "repull" fee of about \$1. This is insignificant compared to the advantages of avoiding a dual pull or paying for two credit reports.

On a long-term basis, many systems will be quickly evaluating your loan in hand to give you risk based pricing (similar to Indy Macs eMITS solution). In order to do this, they all want to access the original credit data from the credit vendor. Once again, the LOS storing this ID# solves this problem entirely and allows many different systems to access the same data from it's original source. This maximizes the ability for the originator to place the loan with different lenders and to allow different solutions to use the data. For example, an originator could order a credit report from within the LOS and then submit the loan to Loan Prospector, Desktop Underwriter and eMITS without incurring a dual pull situation.

It's crucial that originators retain all the possible options for funding a loan and to be able to use all the systems the industry has to

offer. Ordering credit reports within the LOS offers the best long-term solution for the industry and originators. Thus, it should become the standard procedure for your loan production office and your staff.