The Verification Process

One of the more significant aspects of processing a loan is verifying employment and deposits. Despite the advent of the Internet and a whole host of other technology advancements, this process remains about the same as it has since mortgage loans became prominent decades ago. So why does this process remain so antiquated and what's on the horizon to change it?

In the 1990's, we started to see some changes in that certain lenders were excepting pay stubs and W2's in lieu of the written Verification of Employment (VOE). Still, most mortgage companies prefer the traditional mailed VOE simply because it works for all loan products and all lenders. When the moving vans are at the house, originators are assured that any last minute changes in the loan program won't cause a problem when using traditional VOE's. Still, paystubs and W2's are slowly growing in their usage. There are several changes on the horizon that help verify employment

One company is aggressively pursuing a better method for verifying employment. The Work Number (www.theworknumber.com) has compiled the employment records for 27 million working Americans by obtaining listing agreements with major employers. Through a phone call or by accessing their web site, a lender with permission from the employee can verify all the needed aspects of employment. Obviously, they hope to become the central clearinghouse for all employment verification. This is certainly a difficult task though, given how many people work for very small businesses. For them, there is no easy method to electronically and efficiently obtain the employment information. Thus, The Work Number will never have 100% of the solution. Still, having this information accessible electronically will be very useful. Tying such a database to processing and closing systems will help insure that the borrower is gainfully employed right up the pay period prior to closing. Further, such a system will have a significant impact on reducing fraud, which helps us all.

Another company that's also obtaining employment records is taking a different tack. VIE (515-221-5503) can instantly report back to an originator up to four years of income history. They are working with each State to obtain employment records directly from each States taxation system. As one would expect, gaining such access is no easy task even though borrowers are usually willing to authorize such access. Lawmakers are very reluctant to open up such a database for fear that it might fall into the wrong hands. VIE must lobby 50 different states and it will take years before a majority of the states would allow access to their employment records obtained from the tax collection process. If they were successful they would then compete with The Work Number for providing general employment verification.

One question that mortgage technologist are faced with is where should such a system be used during the loan origination process. Most likely, any electronic verification solutions should be tied to the processing systems and the charges billed to the loan originator (who might pass on such fees to the borrower). Some might contend that the automated underwriting systems should be the point of access for such systems. However, we are moving to a point where an originator can submit information to a single system which would return many automated underwriting decisions. Because accessing these verification solutions and even credit reports must be done for each underwriting system, the access costs would be multiplied each time an automated underwriting system is used. To prevent multiple charges for the same data, it makes sense that the processing system verify all borrower related data and then to pass that information to the automated underwriting systems.

Deposit, asset and existing mortgage verification is an area that has been slower to evolve. Unfortunately, there's little going on here that could change the process. It's amazing that I can go to almost any ATM of any bank and obtain my account balances and yet, originators must still mail

Verification of Deposits (VOD's) the old fashion way directly to the specific bank. The only help in this process is a small company called Arrow Resource Corp. (www.arrowresrouces.com) that has a complete database of where to send such verifications. Another company is The Lane Guide (www.laneguide.com). Some banks require VOD's to be sent to local, regional or national centers. Knowing where to send the VOD is a significant task. Further, some banks will charge a fee to complete these. Not knowing this information up front will slow the process.

As you can see, there are some bright spots on the horizon for the antiquated process of verifying employment and assets. The sooner these solutions come to market, the sooner we can realize the benefits and speed of a paperless loan.