



For the Benefit of Consumers

THERE'S A LOT OF PUBLICITY GENERATED every time a company in our industry does something good for the consumer, and rightfully so. There are many political and consumer organizations constantly pushing our industry to do even more for the consumer. Organizations like AARP, Washington, D.C., and the Commercial Finance Association (CFA), New York, and many others lobby Congress to further protect the interests of consumers. These same organizations work with individual companies in our industry, and together the industry and consumer groups have made the real estate finance business more consumer-friendly.

We've made great progress in making the world of mortgage finance better for all Americans. Today many Americans own homes because of our significant innovations over the past two decades. Still, there's more that can be done.

I suggest we look more closely at underwriting. The adoption of technology into the underwriting area has had major implications, one of which is that more borrowers are approved today than ever before. The industry has done a great job in automating the underwriting process.

While this didn't occur until the mid-1990s—well after the technology was available—it did deliver on all of its promises. Now that the vast majority of loans enjoy the benefit and efficiency of automated underwriting, perhaps it's time we move to what I see as the next phase.

Today when a consumer walks into a typical loan origination office, his or her information is fed into an automated underwriting system (AUS). A decision is then rendered and the consumer is offered loan products for which the given AUS indicated the borrower would be approved. At that point, the consumer is elated to be approved. Still,

I propose that various questions need to be answered after the AUS renders its findings.

First, was the consumer's information put through more than one AUS? I would guess that about 90 percent of all loans were analyzed by only one AUS. Isn't it possible that the consumer could have obtained a lower rate had he or she been reviewed by other AUSes? It's even more important when the consumer is not approved for a conforming "A" credit loan. I know for a fact that in at least some cases, a different AUS would not have placed that consumer into the subprime category. A similar issue is that the industry is dominated by two AUSes. Wouldn't it be better for the consumer if perhaps dozens of AUSes could review each and every loan?

Second, did the consumer and mortgage originator find the lowest rate? There are many reasons why consumers don't apply to multiple lenders for a loan. For instance, it's a long process, they only want to work with someone they can trust and there's a perception that multiple hits to the credit repository can lower their credit score. We know that consumers might rate-shop initially, but once an application has been placed through an AUS there is often very little rate-shopping.

With the increased use of risk-based pricing, we know that different AUSes could result in different interest rate quotes to the consumer. I believe consumers would fare better if they had multiple AUSes offering decisions and if the loan originator could quote different products and rates based upon those findings.

For the benefit of the consumer, I think it's important that we allow multiple AUSes to review each and every loan. From a technology standpoint, this is an easy accomplishment, and existing technology can more than handle such a feat.

To start, we could post the consumer data to a single repository (sort of like Vienna, Virginia-based MERS). Then a single credit report would be pulled and placed into a standard Mortgage Industry Standards Maintenance Organization (MISMO) format. Any number of AUSes would then use this information for their decisioning engines. All the responses would be returned to the loan originator in the form of a Web page that would list each AUS and its respective decision. The loan originator could then drill down on each AUS decision to see all of the specifics related to each decision.

Of course, there are other ways this process could be accomplished as well. The important point is that there are many ways to build this fairly simple system.

There are some potential hurdles, of course. The developers of the AUSes must be willing to work in an openly competitive environment. They must also accept industry standards such as those developed by MISMO. By combining loan origination systems with the Internet, MISMO and all the AUSes, we could complete the next revolution in automated underwriting.

For this to occur, the industry would need to rally together to advocate for such a solution. It's my view that not only would it be better for the consumer, but it also would be better for the majority of loan originators. These hard-working individuals would relish the ability to offer the consumer the best loan at the best price. This is one of those solutions that, if developed, would be better for both the consumer and the industry.

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