SECONDARY MARKETING EXECUTIVE®

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When Change Is A Business Strategy, It's Time For Automated Underwriting

When competitive agility is required, a high-tech solution can provide much-needed support.

By Linn Cook

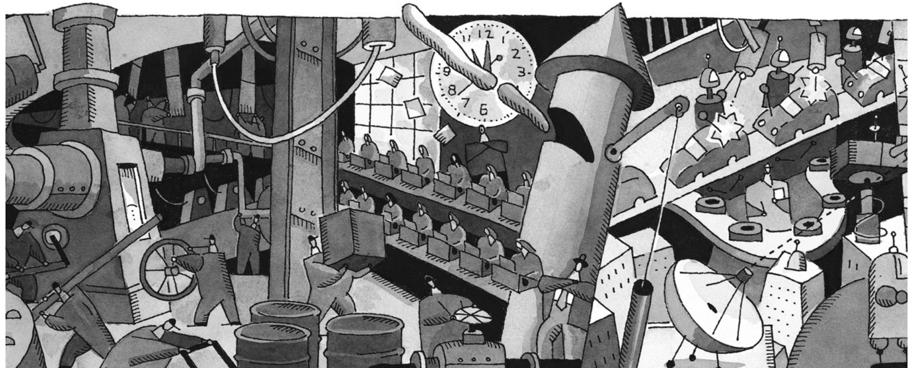
When business is going well and volume is pouring in, it's easy to bask in the sunlight of success. But what do you do when the climate suddenly changes, and the literal fate of your business is put into question? Reacting to market demand can provide a short-term lifeline.

But a more sustainable solution requires a shift in business strategy that emphasizes agility over everything else. Automated underwriting technology can help you realize the benefits of business agility and protect you from market volatility both now and in the future.

No one needs to be reminded of the business cycle that the mortgage lending industry is currently going through. Tightened underwriting guidelines and a market shift away from high-margin alternative lending products are forcing lenders to make adjustments to their portfolios. Existing products need to be updated while new products need to be brought in to replace those that have lost their flavor in the marketplace. It's a painful and necessary part of adapting to the realities of today's lending environment.

But more than just satisfying immediate needs, lenders must learn from the current business cycle and prepare themselves for the next major market swing. After all, real estate and mortgage lending are cyclical in nature, and those that remember the mistakes of the past will fare better in the future.

Business leaders need to look beyond a six-, 12- or 24-month horizon and plan strategically for the long term. This is where the concept of business agility comes into play.



By definition, business agility is the ability to sense and respond to opportunities in order to stay competitive in a turbulent and quickly changing business environment. An agile firm has the capabilities to respond quickly to unexpected environmental changes.

From a lender's perspective, agility can mean absorbing guideline changes and quickly distributing this information to originators. It can also refer to rapid additions or removal of loan products from their portfolio, as dictated by the demands of the marketplace. These types of shifts can meet short-term goals of recovering or maintaining loan volume.

But when poor market conditions extend beyond short-term horizons, lenders need to consider deeper changes to their organization that have a longer outlook. Current trends are a perfect example of this.

With increasing investor concerns over origination quality, lenders are focusing on tightening their control over the origination process. Third-party originations (TPO) are giving way to retail origination channels, where strict internal processes can detect and mitigate risk. Once investor concerns subside, lenders can resume their TPO channel business.

The common theme that resonates in these scenarios is the ability of a lender to change course. This concept does not imply business

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agility in and of itself, however. The key to agility is the speed at which a course correction can be made. The faster a lenders can adapt to market conditions, the more sustainable their businesses become. Taken to an extreme, the most agile lender can absorb market disruptions with nominal disturbance to their business.

Follow the agile lender

So, what is the secret to agility? How can a lender change guidelines, replace product offerings and flip origination channels at the drop of a hat? The answer is automated underwriting (AU) technology. This single tool has the potential to allow lenders to accomplish all of the above scenarios and more, with minimal effort. In some cases, the agility occurs without the lender even knowing it.

Take guideline changes as an example. Last March, investors reacted to a slew of negative performance data on nonprime loans by suddenly altering their qualifying guidelines. Lenders had to distribute these changes quickly throughout their organization in order to ensure that loans coming in met new underwriting requirements.

The difficulty here wasn't due to the fact an investor made large-scale guidelines changes or that it was released within a short time frame. The real problem for lenders was that practically every investor made changes to their guidelines at the same time. The ability of their staff to keep up with the changes was practically unmanageable, undermining their ability to maintain consistency and feasibility of their approvals.

An AU system can alleviate this problem because it is a computerized representation of investor guidelines. An AU system simply never forgets. New underwriting guidelines will be consistently applied as long as they are kept up to date, and an AU system will do so for as many investor products that the system supports.

Moreover, AU vendors that maintain guideline updates as a part of their service will perform the required changes without lender involvement. Think of it as a sports car with a chauffeur. Not only will it get you where you need to go quickly, but you don't even need to bother driving the car.

AU systems can replace defunct investor products with a virtual flip of a switch. When some investors pulled out of nonprime lending or shut down their correspondent divisions altogether, lenders were left with gaping holes in their portfolios. Certain AU systems that maintain large libraries of pre-built investor products are able to quickly fill these gaps by allowing the lender to select a new investor product and enable them within their system. In some cases, this process of adding a new investor product could be completed within an hour's time.

Again, because the AU system retains detailed and consistent knowledge of investor products, lenders aren't mired down with educating their sales and underwriting staff on new guidelines and matrices. The AU system bore the brunt of the transition, and the lender continued generating volume without missing a beat.

Changing origination channels is obviously a more labor- and resource-intensive task. The operational and managerial differences between supporting TPO business versus retail origination cannot be trivialized. But with many lenders, TPO and retail origination already exist side-by-side, so placing more emphasis on one channel versus the other is a matter of re-allocating resources. In any case, maintaining dual origination channels is a method of business agility itself.

Whether originations occur at a TPO or a retail level, investor guidelines and matrices remain unchanged and should produce identical AU eligibility results. The important factor is the ability to produce varying levels of margin add-ins, allowing lenders to provide different pricing results across different channels. This level of pricing flexibility allows lenders to freely transform their origination capabilities to leverage whichever channel brings them the highest rate of return.

Lenders need to embrace change itself as their core business strategy. By implementing AU technology and applying the concepts of business agility, lenders can ride on top of a wave of volatility and ensure their competitiveness, no matter how high the water rises. SME

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