



the Mortgage Press

Keeping The Mortgage Professional Informed

Automated underwriting engines Take a look under the hood

By Linn Cook

Do you want to increase your loan submission volume? After using an automated underwriting system for two months, Home Capital Funding in San Diego saw its loan submissions grow by almost 50 percent.

Or would you prefer to reduce fall-out? Within weeks of implementing an automated underwriting system, Arlington Capital in Bensalem, Pa. decreased its fallout rate from 70 percent to 20 percent.

Or perhaps you would like to increase your overall volume. Within three months of using its automated underwriting system, All Fund Mortgage in Tacoma saw an estimated increase of 120 percent in volume.

To take your business to the next level, consider an automated underwriting system. There's no question that a good system has the potential to provide small- and mid-tier lenders the muscle they need to compete—even against big-name competition.

And no time is better than the present. "This is a real tough time in the industry," acknowledged Linda Bomar, president of Unprime Securities Corporation, based in Dallas. "Due to the current market, we all have to be more efficient. The margins are just too thin."

"Automated underwriting has allowed us to increase our bottom line," agreed Ray Scott, owner and president of Oaktree Funding Corporation in Upland, Calif. "We would not be in business without it. Using our automated underwriting system, our customers can apply for loans 24/7. Borrowers have come to expect the lightening-quick processing time that only an automated underwriting engine can deliver."

So what do you need to know before you venture into the world of auto-

mated underwriting? Let's pop the hood and take a look at some of the features built into today's automated underwriting engines.

Loan pricing versus underwriting

One of the first considerations in an automated underwriting engine is credit reporting. There are a number of systems, which are marketed as automated underwriting systems, that are basically no more than loan pricing engines, offering simple pre-qualification based on a given credit score. In comparison, a robust system will be integrated with numerous credit reporting agencies and can pull in and read a borrower's credit information.

Look for a system that is integrated with a significant number—as many as 200—of credit reporting agencies. This will enable loan originators to use the credit reports they have on hand. It can be a big barrier to utilizing a system if an originator is forced to pay for a new credit report every time he uses it, and it's an obvious disadvantage to the potential borrower as well. When the automated underwriting engine you purchase is integrated with a majority of credit reporting agencies, there's no need to purchase additional credit reports or put more dings in borrowers' scores.

"A lot of what I ran into when we were looking at automated underwriting engines [was] not comprehensive enough," agreed Bomar. "They were automated pricing engines—pre-qualification systems—which required that you manually input the credit score or purchase a credit report. The system we ended up buying actually goes out there and reads credit and makes credit-based decisions. It's superior to anything I've seen, and the accuracy is unparalleled."

Testing 1, 2, 3

Accuracy ... did anyone mention accuracy? For obvious reasons, nothing is more important than accuracy when it comes to automated underwriting. Look for a system that has a record for accuracy and is willing to prove it to you. See if you can arrange for a live demo so you can test the accuracy of the engine with real borrower information and actual investors. Then have your account executives, brokers and underwriters put the system through its paces.

"I was very hesitant," explained Scott. "Previously, I had purchased an automated underwriting system that never performed as promised. We weren't ever able to go public with it, and I was out thousands of dollars. When we started looking at other automated underwriting systems, I was definitely gun shy. But once we tested the engine we use today, it was clear this system was different."

Even then, however, Scott started out using the system behind the scenes. "We weren't sure if we could trust it completely," he explained. "But we were quickly impressed; we were amazed by the accuracy. In a few instances when we challenged the system on something, we found out it was right, and we were wrong. That's how good our system is—that's the level of accuracy you can expect today."

Investor relationships

Next, take a look at how the system sets up and maintains the investor products made available through its system. Where do they get their rules, rates, matrices and guidelines? What kind of relationships do they maintain with their investors? Some of the best systems on the market today have established relationships with their investors and automate their maintenance using robots to

read and update investor information on an ongoing basis.

"Our system, which provides complete pricing on a range of products with different rebates and pricing options, is maintenance-free on our end," said Scott. "The entire system is maintained on a continual and ongoing basis for us. We just use it."

Deployment timetable

You also should ask about the timetable for deployment. You want to get a return on your investment as soon as possible. And in fact, using the power of Web-based technology, state-of-the-art systems can be deployed in a week—two at most. "Our system was in place in a matter of days," said Scott. "We were up and running in less than a week."

Bottom line

And finally, what's it all going to cost? You may be pleasantly surprised. The systems available today are better, faster, more comprehensive and cheaper—yes, cheaper—than previously available. The use of Web-based technology is part of the reason behind the cost depreciation. Today's Web-based systems offer lenders the clout of multiple investor products customized under their own private-label brand. And, with the increase in users, the costs are spread over multiple lenders.

"Our automated underwriting system has exceeded our expectations," concluded Bomar. "It's truly been a turn-key experience. The servicing and support has been terrific. We have so many more solutions to offer our customers, and we've been able to decrease our operating costs."

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