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## Lenders eye high-tech path to 'emerging markets'

Among the options being weighed by lenders eager to find new sources of originations in a battered lending climate are the so-called emerging markets — those groups of potential mortgage borrowers who have limited or no credit history and therefore have traditionally been “underbanked.”

Although subprime lenders pursued many of these groups during the boom years, many consumers fell through the cracks because originators could not get their hands on enough traditional financial data to qualify them for loans. New technology tools, however, are helping lenders such as community banks clear those hurdles using non-traditional credit data and automated underwriting designed specifically to handle “out of the box” clients.

### Who's leading the charge?

Underbanked consumers seeking to buy a home have traditionally turned to non-profit counselors to prepare for homeownership. The role of that counselor is to bring borrowers along a path towards homeownership.

“Their ability to originate and produce mortgages in scale is an untapped potential,” said **John Brunson**, COO of Just Price Solutions, a subsidiary of the Neighborhood Housing Services of America (NHSA) that collaborates with originators and counselors to extend lower-cost mortgages to emerging-market borrowers. The company works with partners in a correspondent model, offering loan products, alternative credit underwriting, technology and optional back-office loan processing.

According to Brunson, as the mortgage market re-adjusts, historical symbiotic relationships between nonprofit counselors and local community banks means opportunities for lenders are growing.

“Going forward, as we see the herd of mortgage brokers thinning, community banks are in an opportune place to increase their mission in regards to serving emerging-market borrowers within their local footprint,” Brunson said.

“We feel these on-the-ground relationships can be sourced by a combination of the non-profits who are finding these people on the grassroots level and are responsible for getting them ready for homeownership.”

### Opportunity knocks

In 2006, there were more than a million loan applications taken without a FICO score, Brunson said. Those consumers were interested in homeownership but did not have enough reported credit for the three credit bureaus.

“In 2006, it was still a high-volume atmosphere. A lot of those loans just didn't get worked on because they didn't meet your classic rules matrix,” Brunson said.

“Through technology, that million in applications can now be very relevant, and a good portion of them could turn into a successful mortgage.”

### 4 keys to emerging markets

Just Price Solutions' **John Brunson** shared several critical tips to entering emerging markets and serving borrowers responsibly:

-Don't over-estimate the technological hurdles. “We're no different than dealing with Fannie Mae's or Freddie Mac's automated underwriting system,” Brunson said of Just Price Solutions' technology. “If you can talk to them, you can talk to us. ... We've got rate locking and pipeline management. We're no different from any of the big e-commerce providers you may have been aware of in the mortgage space.”

-You have to be an originator that wants to support the first-time homebuyer. Recognize the difference between that goal and selling three loans to someone with equity over three years. Just Price wants to focus on partners that are in the business of first-time homeownership and have a dedicated network of real estate agents and builders.

-If a lender is in a footprint where they're dealing with a workforce consumer, they're in the right place, according to Brunson. “Our technology is perfect for them,” he said.

-There's an opportunity for community banks to pick up the right talent as mortgage aggregators and brokers go out of business. “There's some very good talent that knew how to build relationships on the ground and how to network. There's an opportunity to pick up personnel that's used to dealing with technology that, in lieu of doing one or two loans a month, can do 10 or 15 loans as a result of their skill set,” Brunson said.

Just Price's technological solution to the problem includes a combination of First American Credco's Anthem alternative credit score and Just Price Solutions' automated underwriting technology.

The beauty of the Anthem score, Brunson said, is it gives the GSEs — both of whom have approved it — standardization for these borrowers.

"There were able not only to take into consideration credit analysis through Anthem — we're looking at the holistic mortgage decision, which includes debt ratio, property value, assets, etc.," Brunson said.

The lending decision is streamlined with Just Price's Web-based automated underwriting system, a multi-decision engine that digitally connects NHSA's loan products and borrower support system with alternative credit analysis and validation and centralized back-office processing. The vision behind the system is to change what was once a manual transaction to a more streamlined solution.

The platform offers automated underwriting for borrowers that need to establish credit scores using alternative trade lines such as rent, utilities, insurance payments or child care, for example. It also lets originators evaluate multiple layers of subordinate financing and combine funding sources to customize solutions for borrowers.

"Lenders eliminate the hours spent determining eligibility, combining products, establishing credit and manually underwriting the transaction," Just Price's Web site states.

### **Reaching out to emerging markets**

Community banks that want to reach out to emerging markets can follow several steps, according to Brunson.

They can start by signing up as a correspondent with Just Price and entering into a buy-sell agreement. Just Price would then train originators and back-office staff on its system and learn how to use the new tools.

"It's no different than a regular mortgage you would bounce against DU," he said.

The automated underwriting engine takes the digital 1003 and integrates credit information. The originator enters the trade line information into the system. For example, if it's the L.A. Department of Water and Power, he would enter the name, address and length of trade history. That digital information is included in the upload of the 1003 and shipped to Anthem's verification systems.

"That information is put in just like you would integrate a trade line from Equifax or a TransUnion bureau into the 1003. Our engine goes against rules, taking into consideration the absence of a FICO score, and looks for the necessary history of the non-traditional credit lines. It factors in the other holistic elements of underwriting and comes to a conditional loan approval," Brunson said.

Anthem analyzes and validates the alternative trade lines to capital-markets requirements.

### **Making a go of it**

After the right tools and technology are in place, Brunson said, the critical step is for the community bank to take that capability and capacity and find the borrowers. They might look to the top subprime producers from recent years for insight.

Subprime originators and aggregators were aggressive in going after emerging markets, and there's a lot of knowledge in how they went after those markets. In many cases, a sales force and cultural points of trust are established, as well. Brunson noted that cultures will vary on where they turn for lending options. For example, Hispanic borrowers might look for a trusted advisor to point them toward an appropriate place to get a loan.

Lenders can also tap the weight of government as part of their outreach, Brunson said. To promote first-time homeownership in their market, they might work with municipalities to include loan offers with a utility bill, for example.

To help client break into markets and get marketing initiatives off the ground, Just Price is talking to marketing vendors to provide kits to lenders interested in serving these borrowers.