



Reaching Out to the Unbanked

Technology and initiative can dramatically expand market opportunities among borrowers with thin credit files.

IN THESE TIMES OF MARKET CONTRACTION, every lender is searching for qualified new market opportunities. Imagine then, tapping into a market of more than 52 million potential borrowers, and that by serving their mortgage needs, not only would your organization drive new business, but also meet its Community Reinvestment Act obligations and fund safe, responsible loans.

If you look closely at this market you will see hard-working, bill-paying Americans who have thus far been unable to fulfill their dream of homeownership. Many are first-time homebuyers or have thin credit files and need to use alternative trade lines to establish their creditworthiness. They represent an essentially unbanked segment of the population, but not necessarily a credit risk.

Yet their options have long been limited to high interest rate products. Their circumstances have too often placed them at the mercy of predatory lenders and limited the options community-minded lenders could offer. And as the subprime fallout has shown, any damage to the borrower also exacts a significant cost on the market – and economy – at large.

There are probably lenders reading these words who have tried to reach this market and experienced a very poor return on their efforts. They might be thinking: We have been doing our CRA-mandated outreach, and it's an exhaustive and, more often than not, losing proposition. Historically, this has been the case, due in no small part to the complexity of these transactions and the limitations of conventional lending technology. For every 10 paper-based files developed on these potential customers, perhaps one actually results in a loan – hardly a winning ratio. But that ratio is about to change.

New technological and process developments are making it possible for lenders to not only meet CRA obligations and do the important work of helping build the communities in which they do business, but to benefit from the capture of

a huge new share of the market. For the last three years, Just Price Solutions has worked to create a solution for mortgage lending that keeps the best interests of the individual borrower at the center.

It began with a request from Federal Reserve Gov. Edward Gramlich. For years before his death in September 2007, Mr. Gramlich had been warning of the potential for a crisis spurred by the riskier subprime products that had risen in popularity and was actively seeking solutions. Charged with creating a way to reduce the burden that subprime lending practices put on the consumer.

The answer is to create a system that divided the mortgage transaction into component parts and built new processes around consumer needs rather than busi-



ness needs. The mortgage process is a complex affair for most homebuyers, and particularly so for this homebanked population. Many of these borrowers come from environments with no history of homeownership. Some of them face language barriers as well.

After educating the consumer as to the process, requirements and responsibilities of mortgage borrowing, the nonprofit counselor pulls a single-bureau credit report to get an overall understanding of where the consumer fits in the credit scale. If the consumer is not ready to take on a mortgage, the counselor works to develop a plan to increase creditworthiness.

But a great many of these consumers are able to qualify; some for traditional GSE-sponsored products, others for more complex transactions including multilayered financing (combining first mortgages with seconds, community grants, etc.). The important part of this process is that the consumer is presented with the most cost-effective possible solution for their needs and capacity. To accomplish that goal you need best-fit technology, which automatically identifies each individual's best option giving preference to a conforming traditional loan, if at all possible.

For those consumers who are ready to move ahead, the next step is gathering more information for origination and underwriting purposes. Origination can begin with nonprofit organizations that have achieved proper licensing requirements in their respective state and spent the \$750 to purchase a loan origination system, essentially making them loan brokers in their own right. Data gathered using best-fit technology can be used to help populate the loan origination system. If the nonprofit doesn't carry out those activities, borrowers can be connected with an approved private-sector lender.

Given the historically complex transactions and intensive manual processing necessary to serve this constituency, creating digital data on initially qualified

borrowers is extremely valuable. It substantially shortens the time and resources needed to process the loan.

Like the conventional model, credit is initially analyzed using the tri-bureau report. However, often the borrower has little to no credit history to rely on. And this is where technology changes the outcome for many borrowers. If the borrower is not eligible for a conforming agency-sponsored mortgage the originator will then ask the borrower for alternative trade lines to establish credit, one of which must be rent. Three additional trade lines are gathered from at least 15 possible

// The underserved consumer can finally
... realize their dream. //

sources - utility payments, unreported consumer credit, etc. - and captured electronically.

From there an alternative underwriting engine can use that data to underwrite the transaction in minutes instead of relying on the labor-intensive manual process that had traditionally taken days. The system then renders a decision to verify the borrower is qualified for the particular loan product identified with the best-fit technology. Due to the customer-focused approach and the combined technologies, the system will usually return a conditional loan approval even for complex transactions that require as many as seven layers of financing. Within 48 hours, a third-party validation service investigates and validates the alternative trade lines, with the results returned as electronic data. Now, the borrower has been qualified to own a home.

If the originator is a nonprofit organization, chances are it won't have back-office fulfillment capabilities. That being the case, there are two possible paths for the loan to take from here.

The nonprofit can turn the loan fulfillment and funding over to a local bank,

with the AUS transmitting the underwriting specifications electronically to the lending partner. Alternatively, the loan fulfillment process can be outsourced to a centralized fulfillment center for processing, giving the nonprofit or local lending partner the opportunity to fund a completed loan. After funding some vendors, like us, are prepared to purchase the loan and deliver it to long-term investors.

This horizontal model is uniquely suited to serving this particular constituency, as opposed to the traditional vertical models that are overwhelmingly designed to handle standard A and alt-A paper.

The prime benefit is that the underserved consumer can finally safely and fairly realize their dream of home ownership and positively impact their communities. Nonprofits can more effectively help more people, while generating revenue to further fund their efforts. Local banks gain quick and easy access to qualified borrowers, reaping substantial benefits with minimum cost. **MT**

Brian Cosgrove is president of Just Price Solutions, a wholly owned subsidiary of Neighborhood Housing Services of America, where he has directed the creation and development of NHSA's e-commerce initiative as well as its targeted loan programs. Mr. Cosgrove also manages the assets and liability of NHSA and works directly with investors on programs and technology to produce end-to-end automated affordable housing solutions that benefit consumers, investors and the communities serviced. He brings more than 30 years experience in the financial services industry managing the creation and development of new financial products and markets with emphasis on the financing of new initiatives and the application of computer technology in the delivery of information and service