

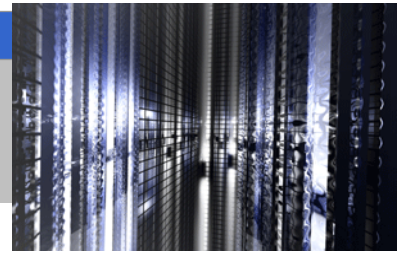
Merely an Eligibility & Pricing Engine...or a True Automated Underwriting Solution?

- What You Need to Know -

The term “automated underwriting (AU)” is used loosely by mortgage technology vendors making misrepresentations to lenders about system capabilities. In a sea of vendors who all seem to be singing the same tune, how is a lender to know the difference until a deal is inked and they later learn of solution limitations? It’s actually fairly simple. You need to ask some tough questions of your prospective vendor before you engage. Before signing on the dotted line, all lenders should ask the following questions to determine if a vendor actually has **true** automated underwriting or merely has an eligibility and pricing solution that only performs a cursory, rudimentary credit analysis.

- **How many credit parameters does the system take into account when performing its analysis?** Some product and pricing vendors lay claim to having the capability to evaluate credit, but the number of fields they are able to review is minimal. If the vendor is not able to run deep, complex credit analysis on every single credit parameter, then it’s not a true AUS. To have an actual AUS, it takes the evaluation of numerous credit pieces to render a trusted AU approval that adheres to investor guidelines.
- **Is the vendor able to parse the borrower’s credit report into XML, and then interpret that XML and pass it into a tri-merged credit report containing all individual trade lines?** This is critical to properly rendering an accurate AU decision.
- **Can the vendor drill down and analyze each of the borrower’s individual trade lines?** Trade lines are crucial to evaluate. If even one trade line is not reviewed, then the loan could be a risk for buyback.
- **Ask the vendor to allow you to run 100 loans through their system in front of you.** Many vendors claim to be accurate, but are not. Tell them you want to see it with your own eyes. Tell them you want to compare the results side by side with what the investor says. Chances are they will decline. Once they do, walk away.
- **How many borrowers can the system evaluate?** Sometimes, more than one or two borrowers purchase a home. If the vendor is unable to review and incorporate these findings into the decision, then it’s light and inadequate.

AUS Questions You Should Ask Your Vendor



- **Are detailed conditions/stips returned along with a Pass or Fail as it directly correlates to the investor's guidelines?** This must be rendered to sufficiently assess risk and loan salability.
- **Does the vendor make available the option to us a rules editing application to make changes to products, pricing and underwriting guidelines.** The ability to choose between a Managed Services model and a Self-Hosted model is key. If they do not offer this choice, then they are simply an eligibility-pricing engine that pushes managed content services and alleges to perform *true* automated underwriting.
- **Can the vendor underwrite products of all types?** Performing AU for more complicated loans such as subprime, At-A, seconds, and HELOCS is much more intensive than conventional loans. Force your vendor to run through these complex scenarios.
- **Does the vendor have a multi-layered risk model functionality that is capable of evaluating and incorporating the results from other AUSs such as DU, LP, FHA TOTAL Scorecard, etc.** Direct, seamless connectivity to these systems that have the ability to incorporate the results into its own AUS is paramount to having a true AUS. Product and Pricing vendors simply connect to these systems but do not marry the results into its own AUS. Thus, they are not a *true* AUS vendor.

The Bottom Line

You should not only ask these questions, but **force the vendor to show you**. In fact, don't let the vendor drive the demo, but instead request that you take control and perform the functions yourself as if you were actually running the application in your own business environment. If the vendor declines, then they have something to hide. **Red Flags** such as this should force you to end further discussions and walk away.