The Transparency Triangle: Credit, Employment & Income Data Lend Predictive Power

Stacy Simpson, President of The Work Number®, Equifax

January 2009
Table of Contents

The Old Way ................................................................. 1
Out with the Old, In with the New ................................... 2
The New Age of Employment & Income Verification .......... 2
Lending New Power for the Future ................................... 4
About the Author ............................................................ 4
Contact Information ......................................................... 5

Legal Disclaimer

Equifax is pleased to provide this information for your convenience; however, it is provided with the understanding that Equifax is not engaged in rendering legal, accounting, security or other professional advice. The information contained in this document is believed to be reliable at the time it was written, but it cannot be guaranteed insofar as it is applied to any particular individual or situation. No endorsement of Equifax or any Equifax product is expressed or implied by the mention of any third party in these materials and, likewise, Equifax makes no endorsement of any third party or third-party product by the mention of such third party or product in these materials. Please do not copy or reproduce any part of this document without expressed written authorization from Equifax.
Introduction

It’s been called many things. An economic meltdown, a watershed event, a deep recession. Regardless of the label, the storm has reached across industry and geography – leaving few in its path untouched. The impact upon financial institutions and lenders is unprecedented, as many struggle to recover from losses due to delinquent loans and massive write-offs. According to Equifax research, first mortgage lenders experienced a dollar delinquency rate increase from 5.17% in September 2008 to 5.83% in November. For lenders, this translates into untold dollars at risk due to delinquent loans.

Looking beyond the statistics, one thing stands out: the need for transparency – and a lot more of it. To weather today’s credit crisis, financial institutions must achieve greater transparency into their portfolios and loan data. A deeper view of their customers and an understanding of not only a borrower’s propensity to pay but also their capacity to pay will be essential to withstand market dynamics and better manage risk. Achieving this deeper view will mean adopting an “out with the old, in with the new” approach to the mortgage lending process.

The Old Way

In the past, lenders focused primarily on convenience and speed when originating loans. While expediency and rapid application processing are important, things can easily go awry – as evidenced by the statistics above -- when they are embraced at the expense of due diligence.

Much of the due diligence sacrificed in recent history relates to lenders often making decisions by relying solely on credit scores and data. While a credit score is a useful tool in evaluating the creditworthiness of a borrower, there are other important factors lenders must consider to have the full picture of borrowers and their portfolios as a whole.

One key factor that has been often skipped is employment and income verification. This data, which indicates a borrower’s ability to meet loan commitments based on their most current income, can be difficult to obtain without the right tools and is not always current. Lenders who have used this data have typically relied on manual processes to get it, resulting in laborious, time-consuming and inefficient processes.
What’s more, in an uncertain lending environment, trusting strictly paper-based employment and income verification puts lenders in a vulnerable situation. It is far too easy for unscrupulous borrowers to tamper with, inflate or even falsify employment and income documentation. The entire mortgage process can take several weeks, and in today’s economy, it is very possible for a borrower to become unemployed or to change jobs during the mortgage process - and not disclose the employment changes to their loan originator.

Out with the Old, In with the New

The old way of doing things has had numerous impacts for mortgage lenders. For one, reliance on relaxed lending practices has resulted in lenders granting loans to consumers who did not truly qualify for mortgages, especially at exotic rates and generous loan terms. In addition, more and more loan products were developed that enabled lenders to bypass fundamental underwriting steps such as employment and income verification. While more loans were approved at a much faster rate, the success came at a much higher price as lenders lacked critical transparency across their portfolios and financial products.

Gone are the old days – and the old ways – of relying solely on credit data and scores to make lending decisions. In the coming months, financial institutions will need to fortify the infrastructure of their decisioning systems with tools and data assets that can better align them with today’s market needs. The good news is that there is a new way. This is where automated employment and income verification comes in.

The New Age of Employment & Income Verification

Today’s automated employment and income verification processes give lenders a key advantage in gaining the transparency they are seeking. This advantage is a 360 degree view of a financial institution’s customer base. With a deeper view of their customers, lenders gain the insights they need to better manage all aspects of the lending process. Using a third party for automated employment and income verification benefits many areas, including:

- Account origination: Lenders can better meet underwriting requirements by reviewing a borrower’s employment status and income data. With greater transparency built into the loan origination process, lenders can determine how to help
their borrowers and put them in appropriate products, thereby reducing the number of bad loans.

- Portfolio management: With employment and income data, lenders also gain more transparency into their current loans and the risks or opportunities associated with their portfolios. For example, they can better determine their level of exposure and assess how close they are to having outstanding loans. Lenders also can gain insight into a borrower’s ability to pay and confirm if late payments or pending foreclosure are a temporary employment-related situation that can be addressed differently.

- Risk management: Lenders not utilizing an automated employment and income verification solution run the risk of originating an increased number of fraudulent loans. Without the most up-to-date information, their ability to confirm the truthfulness of an application becomes much more limited. Couple that with the fact that in many cases, a borrower’s employment status and salary history have changed, and the opportunity for a financial institution’s exposure to financial loss can increase significantly.

- Compliance: With an automated solution, an organization also improves general consistency and compliance internally. Because loan processors might use different methods and ask different questions of the applicant, an automated system ensures that a pool of loan processors applies consistent criteria to gather loan documentation. This helps ensure standardization of data gathering techniques while alleviating the pressure for sales staff to manually verify both employment and income data. On the risk side, potential for default and loss decreases as lenders are less likely and able to cut corners when using an objective, third-party automated solution.

- Process improvement: Enabling lenders to verify employment and income data in real-time provides many benefits. Previously, most lenders confirmed this information using a tax transcript, which in some cases is sufficient. However, if a loan processor underwrites a mortgage in October using a tax transcript from the previous year, the data is no longer current. To avoid increased risk, the lender has little choice but to contact the borrower or employer for updated employment and salary information.

In addition to all of these factors, having access to automated employment and income data also helps lenders with customer relationship management. With this insight, lenders eliminate the
need to go back to borrowers over and over again to verify
information – an often time-consuming and inefficient process.
Ultimately, this data provides new intelligence into what
customers want and need, empowering lenders to better manage
their customer relationships.

**Lending New Power for the Future**

With unemployment numbers projected to increase, having access
to up-to-date employment and income data becomes more
important than ever for financial institutions as they seek to
minimize default risk. According to a recent government report,
over 1.9 million jobs have been lost in 2008, with even more cuts
expected in the future. For lenders, a lack of current employment
and income data could mean the difference between loan
transparency and opaqueness, or in other words, between smart
decisions and massive write-offs.

Most of all, the ability to overlay income and employment data
with credit data gives lenders the predictive power they need not
only to comply with increasing regulations but also to manage risk.
And, as today’s lenders know, risk management is everything.

**About the Author**

Stacey Simpson is President of The Work Number at TALX
Corporation, an Equifax business unit. She manages all aspects of
this business area, including the service’s operations, sales, client
relationships and product direction. Ms. Simpson joined TALX
Corporation in 1997 and has held a number of leadership
positions over the course of her tenure at the company. In April
2004, she became Managing Director of the Verifier Services
Division of The Work Number overseeing the strengthening of
relationships with the company’s verifying community. In
October 2005, Ms. Simpson became President of The Work
Number. Prior to joining TALX, Ms. Simpson was adjunct faculty
at Arizona State University teaching organizational
communication.
Contact Information

Equifax empowers businesses and consumers with information they can trust. A global leader in information solutions, we leverage one of the largest sources of consumer and commercial data, along with advanced analytics and proprietary technology, to create customized insights that enrich both the performance of businesses and the lives of consumers.

Customers have trusted Equifax for more than 100 years to deliver innovative solutions with the highest integrity and reliability. Businesses — large and small — rely on us for consumer and business credit intelligence, employment/income verification, portfolio management, fraud detection, decisioning technology, marketing tools, and much more. We empower individual consumers to manage their personal credit information, protect their identity, and maximize their financial well-being.

Headquartered in Atlanta, Georgia, Equifax Inc. employs approximately 7,000 people in 15 countries through North America, Latin America and Europe.

Equifax Inc.
1550 Peachtree Street, NW
Atlanta, Georgia 30309
1-800-879-1025
www.equifax.com/mortgage
This publication contains many of the valuable trademarks, service marks, names, titles, logos, images, designs, copyrights and other proprietary materials owned, registered and used by Equifax Inc. and its affiliated companies, including but not limited to the registered mark “Equifax”; any unauthorized use of same is strictly prohibited and all rights are reserved by Equifax Inc. and its affiliated companies. All other trademarks and service marks not owned by Equifax Inc. or its affiliated companies that appear in this publication are the property of their respective owners.

Copyright © 2008, Equifax Inc., Atlanta, Georgia. All rights reserved.