BANK OF OKLAHOMA ZEROES IN ON UNDISCLOSED MORTGAGE LIABILITIES

CSC

Service Pinpoints Undisclosed Debts without Costly, Time-Consuming Manual Reviews

It's estimated that nearly half of all mortgage applications harbor some type of undisclosed debt activity, whether it is a balance increase, new credit account or an additional loan application that may affect the borrower's ability to repay.

The ability for mortgage lenders to ferret out these undisclosed liabilities has always been critical to control exposure to defaults and loan repurchases. However, the issue moved to the forefront in 2010 when Fannie Mae announced its Loan Quality Initiative (LQI) requiring lenders to establish processes for identifying all of an applicant's liabilities, including those incurred between the time of application and the closing of the loan.

While many lenders are still struggling to address undisclosed liability issues, Bank of Oklahoma worked with CSC Credit Services on the launch of an innovative service that allows its loan underwriters to find undisclosed liabilities with the push of a button — initiating an automated, custom report that is integrated into the bank's loan origination system.

Loan quality has always been a top priority at BOK Financial, a $24 billion regional financial services company that was the largest commercial bank to decline assistance under the Treasury's Troubled Asset Relief Plan (TARP).

"When Fannie Mae announced its Loan Quality Initiative, it was really just formalizing some requirements they had always had, and I think we reacted a bit more methodically than some other lenders because it was already on our list to do," said Darren Honegger, underwriting manager for Bank of Oklahoma Mortgage Group. "We wanted to maintain our low repurchase rate, and one of the top threats to that is undisclosed debt coming up in post-close audits. So rechecking of credit, even though it's suggested and not required, is really the only practical way to protect ourselves."

A Tailored Solution

To respond to the Fannie Mae undisclosed liability requirements, the bank's mortgage team turned to CSC, which is the exclusive provider of credit reports to Bank of Oklahoma Mortgage Group. Bank of Oklahoma was already planning a project to roll out Fannie Mae's Desktop Underwriter system and wanted to integrate a

CASE STUDY

- Implemented Streamlined Process to Identify Undisclosed Debts
- Reduced Exposure to Loan Defaults and Repurchases
- Quickly Complied with Fannie Mae Loan Quality Requirements
- Created a Customizable Solution to Identify Biggest Potential Risks

Bank of Oklahoma Mortgage Group

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Darren Honegger, Underwriting Manager

ABOUT CSC'S UNDISCLOSED LIABILITY REPORT SERVICE

CSC's Undisclosed Liability Report service is an automated workflow solution that offloads the extensive and time-consuming manual review process associated with meeting Fannie Mae's Loan Quality Initiative requirements. The system efficiently examines credit files and delivers a concise variance analysis to the lender.

credit recheck capability into this system. After assessing its needs, the bank chose to go with CSC's Customized Undisclosed Liabilities Report Service, which automates the process of accessing new credit data and comparing it to the credit report prepared at the time of application to uncover undisclosed debt activity.

"We preferred the soft inquiry with CSC's solution, which is less invasive than pulling a whole new credit report and doesn't impact the applicant's credit score," explained Honegger. "We also looked at whether pulling a MERS report was sufficient, but that basically just looks at real estate transactions."

Bank of Oklahoma wanted a customizable solution that would allow the bank to focus on the data that the bank identified as indicating possible repayment obligations. This involved working with CSC to tailor reports that automatically find significant changes in the use of credit over the normal fluctuations, using the bank's own thresholds.

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Rapid Implementation

Bank of Oklahoma went live with the Undisclosed Liability Report service in December 2010, just 9 months after beginning its initial discussions with CSC. Concerned that the new requirements might increase loan processing times, the bank worked with CSC on testing the impact of different variations in the process.

"CSC was able to tell us what the performance impact would be when we turned the product on based on which criteria we used in comparing the reports," said Honegger. Other undisclosed liabilities solutions flag all variances, whether critical or not, to investigate.

"After fine-tuning our procedures, we were able to save labor and time by focusing only on root causes that lead to repurchases and automating the review instead of manually pulling and comparing the reports," he said. CSC's research shows mortgage lenders closing 100 loans per day need three full-time QA people to manually check files.

In addition to helping identify undisclosed debts, the new service provides key documentation to defend against potential repurchases. CSC's analysis of client results from the Customized Undisclosed Liabilities Report Service indicates 50 percent of files show some credit variance between the time of the loan application and the note date, resulting in re-underwriting for 2 percent of notes — which would mean an indefensible repurchase position. For a lender performing 1,000 mortgage loans per month, that could generate a possible 240 loans to defend annually.

Honegger noted that the bank's loan processors embraced the system partly because of the seamless integration into their existing processes. "They had all these requirements dumped on them in the past couple of years and this was just one more step. But CSC helped us develop an approach that kept the amount of extra effort to a minimum," Honegger said.

"From a process standpoint, we incorporated the Undisclosed Liability Report with the verification of employment, which was an action they already had to take prior to closing, and with the Customer Identification Program," he added. "So the loan processors don't have to get up and fax the request in or log in to a different website. You literally push a button and the report is ordered."

Honegger was impressed with CSC's support and quick response times. "When we started pulling this together, it wasn't weeks after I had the first discussion with our long-time account manager Julie Linhardt at CSC — it was days. And they always follow up on questions right away."

For more information about CSC's Undisclosed Liability Report Service, call 800.345.7672, send an e-mail to inforequests@csc.com or visit csc.com/ulr.

CSC

Financial Services Group | 200 W. Cesar Chavez | Austin, Texas 78701 | +1.800.345.7672
CSC Headquarters | 3170 Fairview Park Drive | Falls Church, Virginia 22042
United States | +1.703.876.1000 | www.csc.com