

# Technology to Keep Subprime Loans Compliant

BY ANTHONY GARRITANO

**W**hen dealing with nontraditional credit and nontraditional borrowers in floating subprime loans, lenders need to be clear and consistent in their decision to avoid being accused of predatory lending. Technology like automated decisioning can be a big ben-

efit in this area.

Recently, lenders that operate their lending channels as silos have been accused of predatory lending. A unified decisioning tool that crosses all channels can be a differentiator in proving out that no predatory actions have been taken.

"When doing a subprime decision there is no reason not to include conventional loans

that the borrower may qualify for," explained Ed Jones, founder and CEO at AU vendor ARC Systems, Austin, Texas. "From a predatory standpoint the biggest issue is a lack of credit information. Subprime uses a much deeper slice of credit to make a decision, which is difficult for a non-conventional borrower.

"Lenders tend to work in silos that specialize in a type of loan product that doesn't overlap. If you have a lender with these silos you run into problems," he noted. "Lenders are looking to provide a unified platform to provide value to the customer regardless of ethnicity."

The difference in decisioning a subprime loan vs. a conventional loan lies in the depth of analysis. "When you get into subprime you can pull over 3,000 attributes to make a decision," pointed out Mr. Jones. "That may sound excessive, but it depends on how the lender pulls it together to create their secret sauce. In the conforming world you have a set number of doc types, but that's not the case in subprime.

"The key is finding an automated underwriting engine that's flexible enough to handle a lot of products. The system also needs to bring in the data from nontraditional borrowers to make a decision," he said. "A conforming platform probably isn't robust enough to handle these types of borrowers. You need to take the borrower's info in and let the system make the call on the loan product and not the loan officer in order to make an objective decision for that borrower."

"AU engines have a positive impact in reaching more borrowers and putting them in appropriate loan products," added Pete Maselli, chief marketing officer at decisioning vendor Overture Technologies, Bethesda, Md. "The AUs take in a lot of info and put the borrower into products that loan officers themselves might not even know about or understand. LOs tend to focus on five or six products, so an AU is great for dealing with underserved markets in particular.

"Also, an AU engine can allow the lender to apply rules in a customized way. For example, if I use a high-cost analyzer by Clayton I can have the AU customize that to further filter out loans that don't fit the lender's internal policies to be even more compliant.

"Any good subprime AU has to be able to deal with credit guidelines effectively," said Mr. Maselli. "There is a lot of differentiation between how subprime lenders view credit. Also, it needs to integrate pricing. It needs to integrate rate sheets effectively. Lastly, it has to be easily changeable. Subprime products evolve over time. The products change over time. It's a competitive space where lenders try a lot of new things.

"These engines expose borrowers to more products," he said. "If I'm a subprime lender I want to look at nontraditional credit to get people into loan products that the typical LO wouldn't be able to do without a subprime AU."

If lenders don't impose these practices on themselves, most think future legislation will demand safety protocols like instituting an AU engine. "The lender will have to say that they did a complete check of all their loan products before placing the borrower into a subprime loan at some time in the future," said Mr. Jones. "In the next 18 months I think you'll see some legislation requiring the lender to certify that they performed so many tasks for a certain type of borrower before they place him into a subprime loan."

**ED JONES,** Founder and CEO at ARC Systems, believes, "Lenders are looking to provide a unified platform to provide value to the customer regardless of ethnicity."

