Real-time Mortgage Verification Services

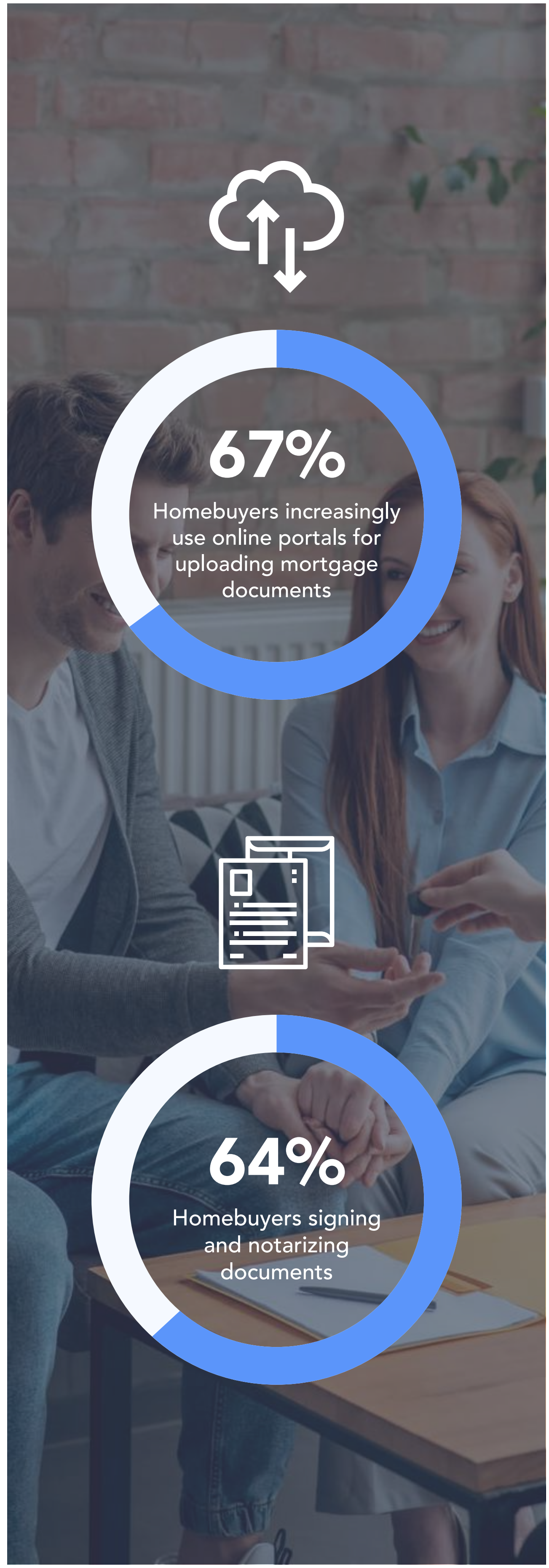
Maximizing the power of data to empower borrowers and make smarter lending decisions

FINLOCKER®

Homeownership is more competitive than ever. Both consumers and lenders face challenges in a rapidly changing market. Homebuyers compete on properties and struggle to have their offer accepted by choosy sellers. Meanwhile, lenders see more demands from homebuyers who are used to the convenience and easy comparisons offered by online shopping.

To stay competitive, mortgage lenders use every marketing tactic to attract purchase loan applicants. They also explore ways to optimize their end-to-end loan process in order to reduce loan production expenses and streamline the consumer experience.

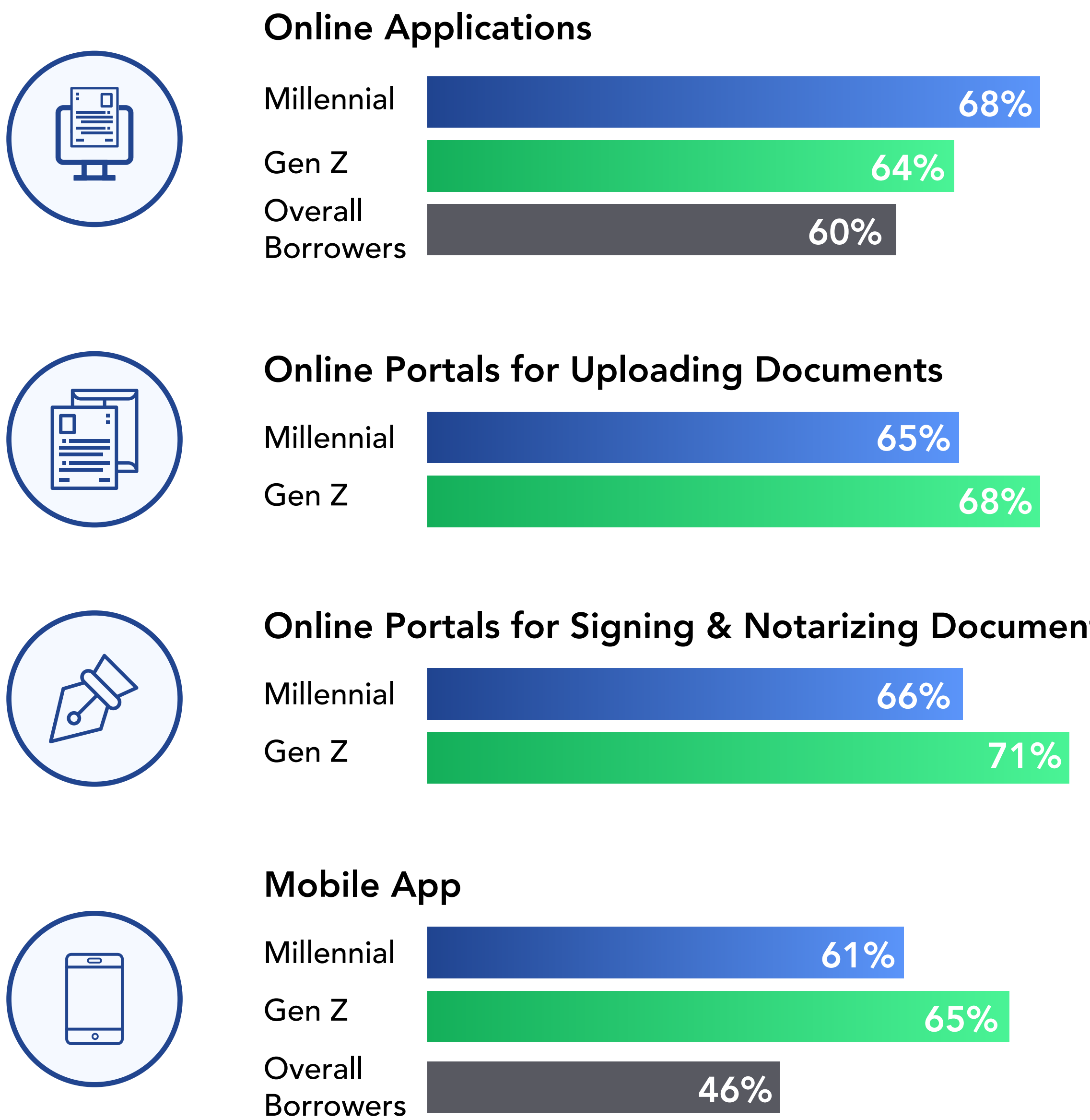
Even before the pandemic, a digital mortgage application was considered entry-level table stakes for mortgage lenders, particularly to attract first-time homebuyers. Homebuyer demands have further evolved since the market shifted in March 2022. Homebuyers increasingly use online portals for uploading mortgage documents (up 11% since the pandemic to 67%) and signing and notarizing documents (up 10% since the pandemic to 64%), according to the 2022 Borrower Insights Survey by ICE Mortgage Technology.



When selecting a lender, Millennial and Gen Z borrowers were most strongly influenced by digital offerings – online applications (68% and 64%, respectively), online portals for uploading documents (65% and 68%) and online portals for signing and notarizing documents (66% and 71%).

More notably, for Millennial and Gen Z borrowers, mobile apps were just as big an influence on the choice of a lender. 61% of Millennials and 65% of Gen Z borrowers said mobile apps influenced their choice – far higher than the 46% figure for borrowers overall.

Gen Z and Millennial borrowers were strongly influenced by digital services when selecting their mortgage lender



2022 Borrower Insights Survey, ICE Mortgage Technology

As loan production costs increase (up 12.3% in the first quarter of 2022, according to the Mortgage Bankers Association) and the mortgage market cools, mortgage lenders must re-align their business practices to remain competitive. Investing in technology to streamline, digitize and automate tasks in the loan process end-to-end can help lenders quickly scale to be more efficient in boom times and reduce the need to cut overhead during down cycles.

Identity, income, employment, credit, asset, and liability data is essential for loan decisioning. Yet, despite decades of technology investment across the mortgage industry, the gathering and analysis of this data remains mired in outdated manual procedures.

> *"Using Fintech has been instrumental to balancing success in today's industry. Regardless of the amount of volume funneling through portfolios, Fintech not only allows us to streamline, what has historically been a very labor-intensive process, to a process now built on the confidence in the quality of the output.*
>
> *Human error can be devastating to profits in any industry and human error in the lending industry can be bone crushing to financials. Lending itself is a process designed to have multiple layers of tasks and risk assessments completed by different people at different segments throughout the process. Mistakes by just one person can have serious consequences to a company's profits, reputation and corporate growth.*
>
> *Fintech for Delmar has not only streamlined the process to decrease the cost to originate a loan, but it has significantly enhanced the confidence of the quality and quantity of the loans we originate. Fintech has been a very stable bridge between quality and profits which has been the driving force to establishing Delmar's growth and trajectory."*
>
> ***-Todd Solomon***
> ***Executive Vice President, Delmar Mortgage***

Lenders who fail to adopt automated verification services face added risks, while lenders who do integrate these services can:

(i) provide better inclusion and support for self-employed,

(ii) establish creditworthiness using rental and alternative forms of payment histories,

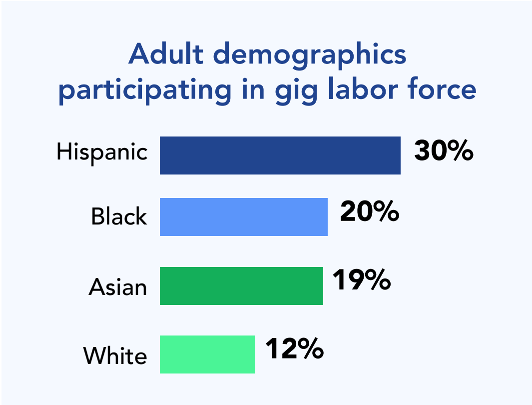
(iii) reduce fraud,

(iv) improve certainty and experience for the consumer and,

(v) lower cost of originations for the lender.

Benefits of using digital services to modernize verifications

Help more gig workers to get approved



The gig economy has been gaining momentum steadily over the past decade, and the pandemic certainly accelerated this trend. According to [Pew Research](), Americans with lower incomes are more likely than those with middle or upper incomes to have ever earned money through gig economy employment, defined as contracted or independent work. Gig platform workers who do not identify as White are more likely than those who are White to have earned money via multiple types of gig jobs (48% vs. 30%). Hispanic adults stand out for participating in the gig labor force: 30% have ever earned money in this way, compared with 20% of Black adults, 19% of Asian adults, and 12% of White adults.

This workforce remains largely invisible to the U.S. mortgage housing industry. Many automated underwriting processes are geared toward borrowers with steady paychecks who receive annual W-2 statements. Further, most mortgage lenders impose stricter rules for self-employed borrowers than for those who are salaried. The perceived unpredictable nature of gig, freelance, and contract work puts the income of these workers more at risk of being unable to be verified than traditional employment.

Easier to identify on-time rental payments

Rent is often the highest monthly household expense for individuals and families. To expand access to credit to qualify for homeownership, Fannie Mae (since September 2021) and Freddie Mac (since July 2022) have begun purchasing residential home loans when mortgage lenders consider on-time rental payments in their underwriting calculations.

Since Fannie Mae began purchasing residential loans from lenders who consider on-time rental payments when assessing mortgage applications, it's been reported that 2,000 mortgage applicants have become eligible for loans that, in any other case, would not have been. Of those, roughly 41% of the debtors recognized themselves as Black or Latino/Hispanic.

Obtaining records of the previous 12 months' on-time rental payments is burdensome on the borrower, who is required to provide the lender with their bank statements, and the lender, who must review and verify the bank statements and enter the data into each government entity's underwriting system.

Mortgage lenders who provide prospective homebuyers with their private-labeled FinLocker to prepare for homeownership have the advantage of collecting rental payment transactions and other financial data quicker than their competitors. Consumers using FinLocker can easily share their bank transaction statements and other financial data and documents directly from their FinLocker app with their lender or originator to start their mortgage application. This shared consumer-permissioned data essentially prefills the 1003 mortgage application in the lender's loan origination system (LOS) by creating a Day 1 Certainty Assets report with a PDF of the borrower's documents.

Minimize delays and paperwork friction

Gathering and submitting the paperwork was identified as the second most difficult step of the homebuying process, after finding the right property, by 18% of all homebuyers in the National Association of Realtors® 2022 Home Buyers and Sellers Generational Trends report. While 20% of the youngest segment of homebuyers surveyed (aged 23 to 31) found paperwork difficult, even previous homebuyers still identified paperwork as a significant pain point.

Verifying assets is often a labor-intensive, manual process that requires borrowers to submit account statements and tax returns for liquid assets and an appraiser's report for property, collectibles, and other non-liquid assets. While gathering and submitting financial documents has often caused friction for borrowers and lenders, the process has become more time-consuming since the pandemic. It's not uncommon for loan processors to take four days to gather documents from each borrower. If the underwriter is unable to verify the assets are properly sourced and seasoned in their initial manual review, additional phone calls and emails requesting more documentation can delay loan decisioning and closing.

Maximize efficiency

With a significant number of company human resource departments continuing to work remotely, the days of loan processors being able to verify employment with one call are long gone.

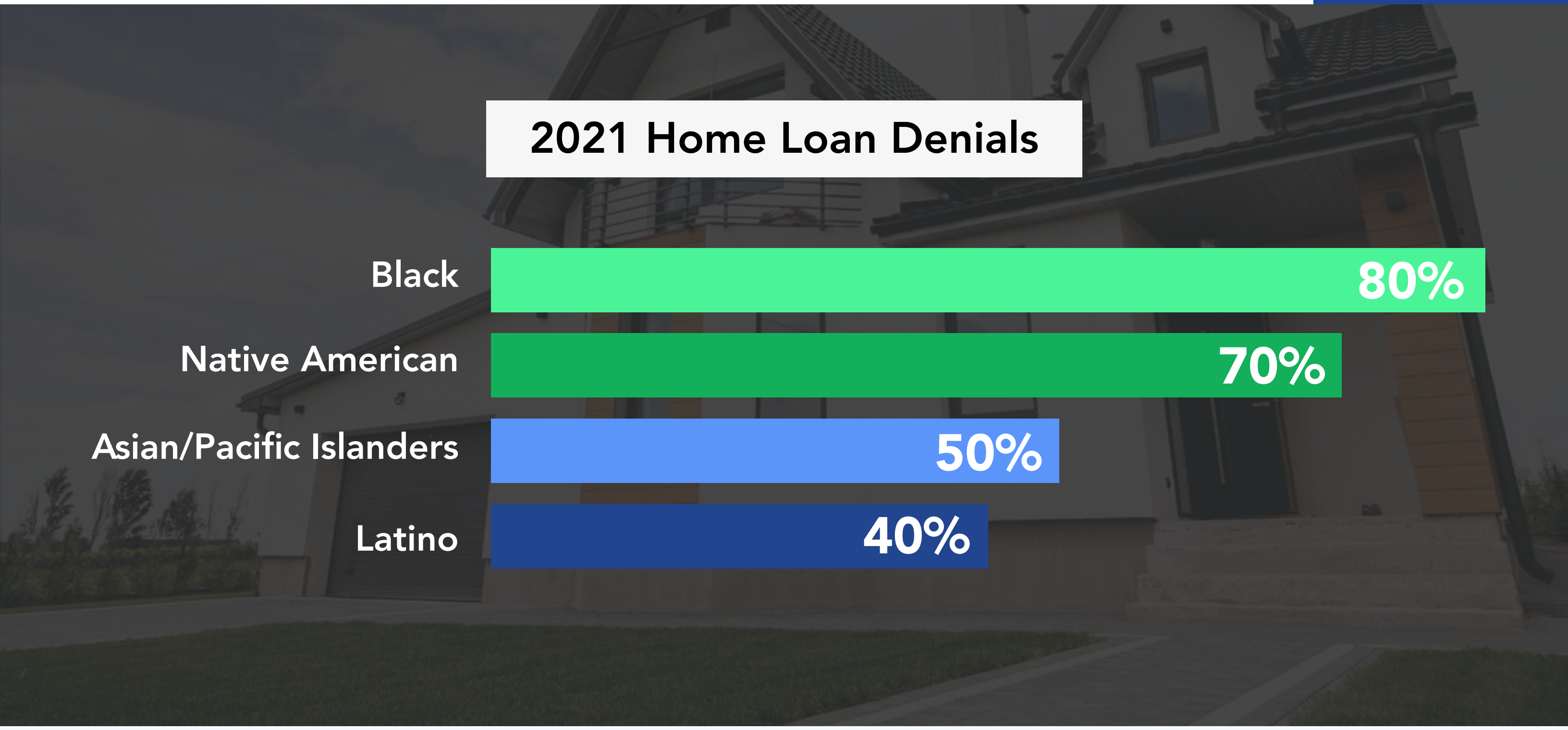
> *Today, loan processors often play phone tag over multiple days before they can confirm the employment and income of each borrower and co-borrower.*

As verification of employment must be completed a second time within days of the scheduled loan closing, loan closings risk being delayed if employees tasked with verifying employment call the wrong number, or commit errors in transcribing the information, or the authorized HR representative is on vacation, attending an industry conference or has been recently replaced with a less skilled worker.

Lenders who leverage an automated or third-party system that updates each time payroll is run can streamline the task of verifying employment and income, freeing loan processors and underwriters to focus on more challenging files.

Reduce inherent bias in mortgage loan approvals

Although the U.S. Equal Credit Opportunity Act prohibits discrimination in mortgage lending, minority homebuyers and refinancing homeowners whose mortgage applications have been unfairly denied or have been offered higher interest rates in comparison to white mortgage applicants continue to be reported.



According to The Markup, in 2021, mortgage lenders were more likely to deny home loans to Black applicants (80%), Native American applicants (70%), Asian/Pacific Islanders (50%), and Latino applicants (40%) than white applicants with similar financial characteristics. Depending on where the lender is located, the disparity is wider. While the research found disparities in 90 metropolitan areas in the U.S., lenders were 150% more likely to reject Black applicants in Chicago and more than 200% more likely to reject Latino applicants in Waco, Texas, than similar white applicants in their respective cities.

Fintech algorithms have been reported to discriminate one-third less on average than face-to-face lenders in loan pricing, yet bias is still prevalent. A UC Berkeley study identified, Latinx and African American borrowers pay interest rates that are 7.9 basis point higher for purchase mortgages and 3.6 basis points higher for refinance mortgages. In addition, Latinx and African American borrowers face higher hurdles in being accepted for a mortgage. The study also suggests that at least 6% of Latinx and African-American applications are rejected, but would have been accepted had the applicant not been in these minority groups.

When prospective homebuyers can independently obtain their credit score, review their credit report, and see a clear picture of all their assets and liabilities, they can verify their data is accurate, research their eligibility for mortgage products, and be better prepared to have the loan conversation with their lender.

Reduced risk

Earlier this year, Fannie Mae's Mortgage Fraud Trends Report identified that the majority of fraud findings involved potentially fraudulent employment, income, liabilities and/or assets. To support employment and income, fraudulent actors have created fake pay stubs to support artificially high incomes and fictitious company names, complete with working phone numbers and websites that appear to be legitimate. Fraud for housing is still a real risk in the industry, to which all lenders are vulnerable. Unscrupulous actors will go to great lengths to provide intentionally misrepresented data on loan applications.

Income fraud has been trending higher since 2018, with a growing number of fake employers having listings on yellowpages.com or other professional reference services. An unsuspecting underwriter or processor may have difficulty validating the authenticity of the employer without extensive research, costing the lender more time and money.

Fannie Mae, Financial Crimes team, May 9, 2022

Human error also poses a significant risk at every manual stage of the mortgage process. Mortgage originators, loan processors, and underwriters can accidentally transpose numbers, misplace documents, forget to send emails, or make phone calls.

To connect all these disparate data sources, lenders can connect their loan origination system (LOS) to an automatic verification system or empower borrowers to directly share their financial data and documents via a secure website or app that transfers the information directly into the LOS. Doing so allows the lender to save time, money, borrower friction and ultimately increase loan pull-through rates and loan volume by modernizing their verification strategy.

Empowering consumers to present themselves as verified borrowers

Verification of identity, credit, employment, income, assets, and liabilities is crucial for mortgage lenders to underwrite and decision mortgage applications. As we've established, and mortgage lenders often acknowledge, gathering and analyzing this data is time-consuming and exposes lenders to fraudulent activity and mortgage applicants to bias.

FinLocker integrated with the Argyle platform to verify the employment and income data of consumers using the FinLocker financial fitness app. Argyle's integration with FinLocker enables consumers who have registered for the FinLocker product – or one of its private-labeled versions - to securely connect their payroll data from 500,000 U.S. employers and add it to their financial profile hosted on the FinLocker app. The supported employer base includes 68% of Fortune 500 companies, 69% of payroll platforms, and over 50 of the most popular gig platforms. This service can eliminate substantial friction in gathering and reviewing documents and making employment verification phone calls. That means shorter turn times, instant verifications for over 70% of the U.S. workforce, and dramatically reduced overall verification costs per loan for mortgage lenders.

Argyle recently joined the industry standards body Financial Data Exchange (FDX) to help shape industry standards for how banks and data aggregators format, authenticate, and transmit user-permissioned consumer payroll data. This commitment to standardizing real-time payroll data will provide consumers with transparency of how their financial data is used for a lending decision and give banks and lenders a clearer picture of a consumer's ability to repay loans.

argyle

Argyle Supported Employer Base

When prospective borrowers can independently verify their credit, employment, income, and assets, it will provide them with greater certainty of their mortgage readiness and empower them to present themselves to their lender with their creditworthiness identified. They can also correct any anomalies and save money by having their credit unnecessarily pulled when it may not be sufficient for mortgage pre-qualification or application.

FinLocker's verification service provides mortgage lenders, banks, and credit unions with the applicant's verified identity, employment, income, credit, assets, and liabilities. This single-sourced, user-permissioned data will empower all FinLocker users to present themselves to their lenders as verified borrowers by sharing their data package directly from their FinLocker app.

Ready to see the future of borrower verification services? Schedule a 1:1 demo to see how FinLocker can streamline your verification process and the high tech and personalized touch that the new generation of homebuyers are seeking.