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Using Technology to Manage Home Equity Lending Risk

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It's easy to take for granted how technology has changed the way the world does business. Consider what it was like going to the doctor a decade ago. Check-in was a matter of signing in with a pen. Most physicians were still operating with wall-to-wall, paper-based patient files and brought clip boards into examination rooms stuffed with documents detailing a person's medical history. Today, receptionists have you give your consent to treatment by signing on an electric pad with your finger, doctors carry tablets in and out of patient visits detailing their findings digitally, and they access their patients' medical histories from the cloud.

Not unlike health care and most all other industries, the impact technology has had on financial institutions and their lending apparatuses has been dramatic. Credit unions have reaped the benefits as well.

The Way We Were

Think about home equity lending and how the evaluation of applicants was conducted just 10 years ago. There were basically three components to report on a property: Title, valuation and flood. Back in the day, there were not very many counties that made titles available online. Automated Valuation Models were not always accurate. Databases simply weren't big enough. And, lending operations determined whether a property was in a flood zone by pulling out the FEMA flood maps manually.

Where We Are

Today, titles are more readily available online. AVM providers enhanced their models by increasing the size of their databases and digitizing them, making valuations now much more accurate. And, those constantly changing flood maps can be quickly re-digitized and are now accessible online, thereby ensuring greater accuracy.

Yet, despite these technological advances, credit unions still face some challenges when evaluating home equity loan applicants. First, the data necessary to approve or deny an applicant is often gathered via multiple sources.

This slows down the process as vendors must be vetted and response times can vary. Accuracy, too, can be an issue especially in regard to title searches. For example, let's say a lender orders a title search and when they close on that home equity loan, they are in second lien position. Then a year goes by and the person defaults on the loan and the lender then assumes the third lien position. This can be very costly. And, the accuracy of titles, while greatly improved, cannot be assured because they are recorded documents at the county level – so there is risk there. Not every county in the country is automated, despite that number increasing each year. Therefore, in some instances, manual searches are still necessary.

Where We're Headed

The good news is, just within the last year, technological advancements have been made that resolve these issues. Credit unions can now receive all the required information for home equity applicant evaluations – title search, flood certification, valuation and property information – in one comprehensive, instantaneous report provided from a single source. In addition, the accuracy of the title search is effectively guaranteed, as the report comes with $500,000 of A+ XIII rated lien protection insurance per loan. In other words, if there is an error, the credit union is protected from any potential losses.

Because this data is delivered in a matter of seconds, closing times are dramatically reduced from 40-plus days to less than 10 days. At the same time, the report helps cut costs by an average of 40% and reduces risk. And, by only having to vet and work with one single source, the evaluation process is streamlined – thereby saving valuable time and effort. In essence, this technological advancement can help credit unions streamline costs and close home equity loans and lines much more efficiently.

So, how does this technology impact or enhance the strength of a credit union's risk management infrastructure? First of all, the data is more reliable and trustworthy. From a risk management perspective, on title searches in particular, underwriters will be more willing to guarantee the information they are providing back to the credit union. At the same time, the more accurate the property valuation is, the more risk is minimized.

There is an enhanced security component as well. Technology providers today must have the necessary security protocols in place in order to comply with all the required security audits, thereby ensuring that credit data is protected to the highest degree. Credit unions using this technology, in turn, benefit from the heightened security measures their technology provider must adopt.

We've certainly come a long way in a relatively short time. Technology isn't, and may never be, perfect. But for credit unions seeking a way to improve the way they evaluate home equity loan applicants, the recent advances make for a faster, less costly and less risky process that translates to an enhanced member experience.

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