

WHITEPAPER

It's Time to Take a New Look at Income and Employment Verification Tools

A growing marketplace offers opportunities for cost efficiencies and a better customer experience



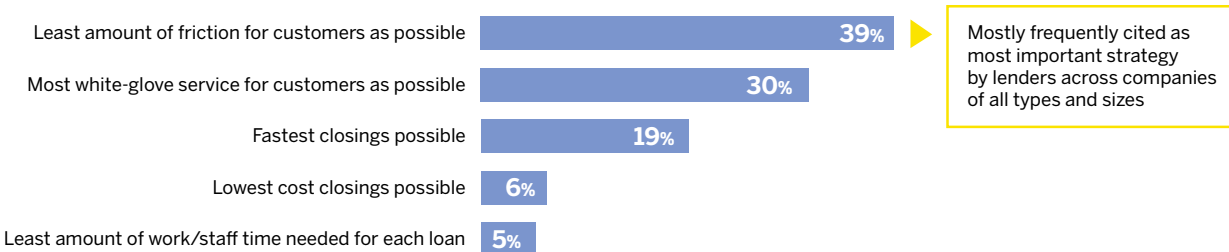
Verifying income and employment information is such an integral part of mortgage lending that lenders can easily overlook it as an area ripe for improvement. Dramatic recent changes in the verification marketplace are bringing new options to a process long dominated by a very short list of solutions. By stepping back and reconsidering exactly what they want from their income and employment verification methods, lenders may be able to find new tools that yield significant business benefits, including more transparent pricing and greater operational efficiencies.

In September 2024, Arizent Research — parent company of National Mortgage News — surveyed mortgage industry professionals from a mix of nonbank originators, servicers, banks and credit unions. The research was conducted to better understand income and employment verification methods used during the loan approval process, particularly key factors driving adoption, as well as pain points and preferred methods. The results suggest that addressing common pain points lenders experience when they verify applicants' income and employment data could improve the customer experience and generate cost efficiencies throughout the loan production market cycle.

Instant verification offers benefits for customers and lenders alike

Consumers encounter low-friction customer experiences regularly across industries. Lenders understand the importance of meeting customer expectations, especially in the early stages of the customer journey. To differentiate themselves in the marketplace, 39% aim for a customer experience with the least amount of friction possible. Another 30% say they try to provide the most white-glove service they can for their customers (see Figure 1).

Figure 1: Reducing friction and white-glove service are lenders' top strategies



Source: Arizent/National Mortgage News, 2024

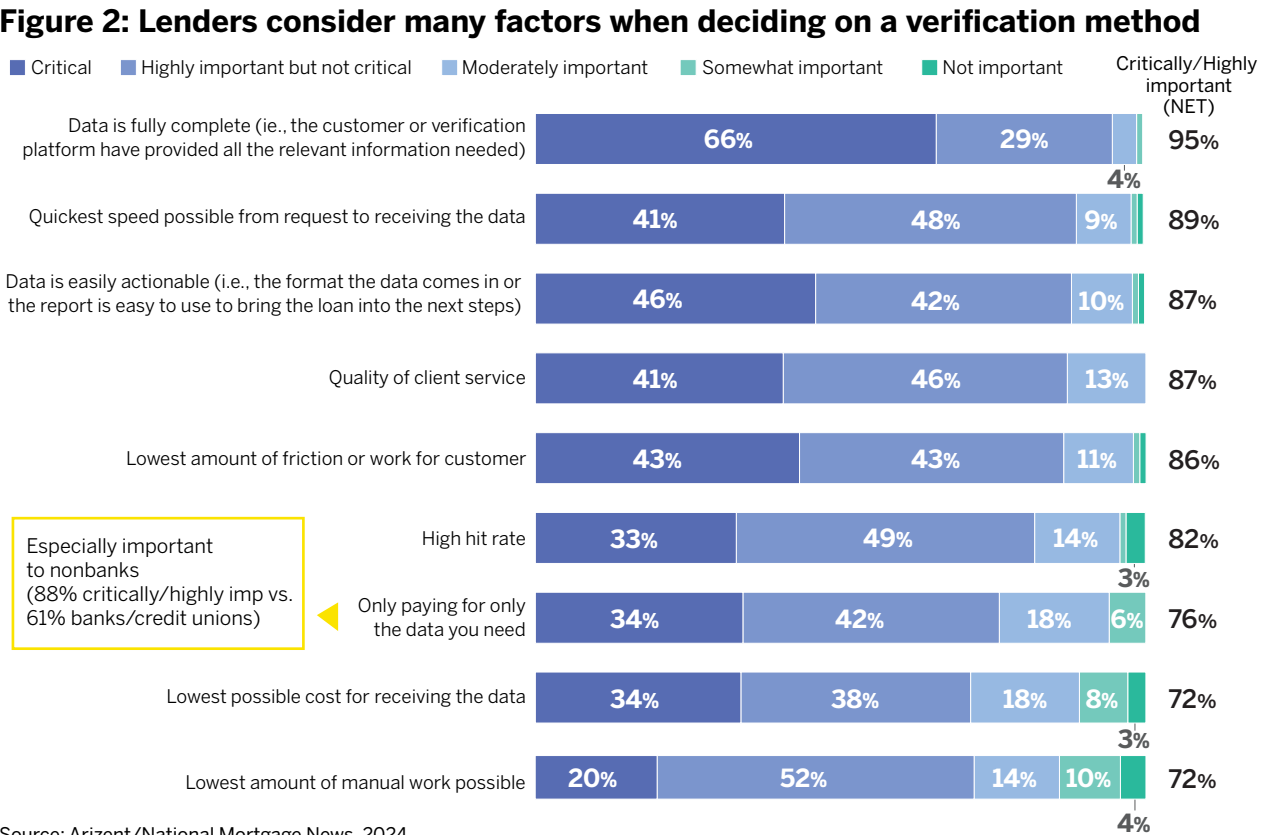
Verification of income and employment information can be a particularly cumbersome step in the lending process. Manual verification techniques tend to be opaque and can take anywhere from 30 minutes to multiple days to complete, often requiring multiple calls, leading this step to becoming a common sore point. In fact, this friction in manual verification affects both lenders and customers. Customers need to gather and provide all of their documentation in whatever format lenders require. Lenders then must find the resources to ensure that documentation is all accurate and in order.

By contrast, instant verification processes produce a much faster result with substantially less friction. They depend more heavily upon information already available about the customer, greatly reducing the burden of compiling and delivering documentation. These processes can also absolve lenders of liability for issuing a loan, since most instant verification products certify the data to comply with the agencies' limited waivers of representations and warranties. As a result, lenders that sell a loan to a federal agency enjoy a safe haven from having to buy the loan back if the verification information is found to be inaccurate.

“Manual verification tends to be time-consuming, more prone to fraud and harder on both the borrower and the lender,” says John Tsefrikas, SVP and GM of Verification Solutions at Experian. “Instant verification can produce a much better customer experience — but the question for lenders often is, ‘At what cost?’”

What lenders want from the verification process

Friction is not the only key pain point lenders need to address. In practice, lenders are looking for verification methods that simultaneously address a number of key priorities (see Figure 2).





At Experian, our value-driven pricing sets us apart in the industry.”

– John Tsefrikas, Experian

For obvious reasons, having the right data to make a decision is a high priority for lenders. How that information gets delivered is important, too. Getting actionable data as fast as possible via a process that’s smooth for both the lender and their customers would check a number of key boxes for lenders.

The cost of that process also matters. And the cost per loan can vary widely, depending on a verification provider’s pricing policies. For example, customers with multiple employers during the verification period deliver multiple records, which can inflate costs when providers charge per record. Lenders also often wind up paying for partial, incomplete or low-quality data that they don’t need or want — or that they can’t even use. Nonbank lenders are particularly keen to maximize the value of their data purchases by only paying for what they need. “At Experian, our value-driven pricing sets us apart in the industry,” notes Tsefrikas. “We are committed to offering our clients reasonable pricing, ensuring that they receive exceptional value for their investment.”

The instant verification provider landscape is expanding

Today, lenders have access to more verification tools and services than ever before. As the landscape expands, verification services are increasingly competing to offer innovative solutions aimed at addressing persistent challenges for lenders.

“New solutions like Experian Verify are providing the industry with additional options to meet their VOIE needs,” says Michele Bodda, president of Experian Employer Services, Verification Solutions and Housing at Experian.

Improving instant verification’s value proposition

As attractive as instant verification products are from a customer experience point of view, they fail to meet lenders’ top priorities in many cases. Some of the most common pain points identified by respondents also play a key role in deciding which verification method to use.

Data completeness and accuracy are a key pain point for lenders, but they’re typically a wash as far as decision-making is concerned. Most verification providers base their offerings on the same base dataset. Given that common foundation, verification providers have two main routes available to make their offerings more valuable: how they present the data and what they charge for it.



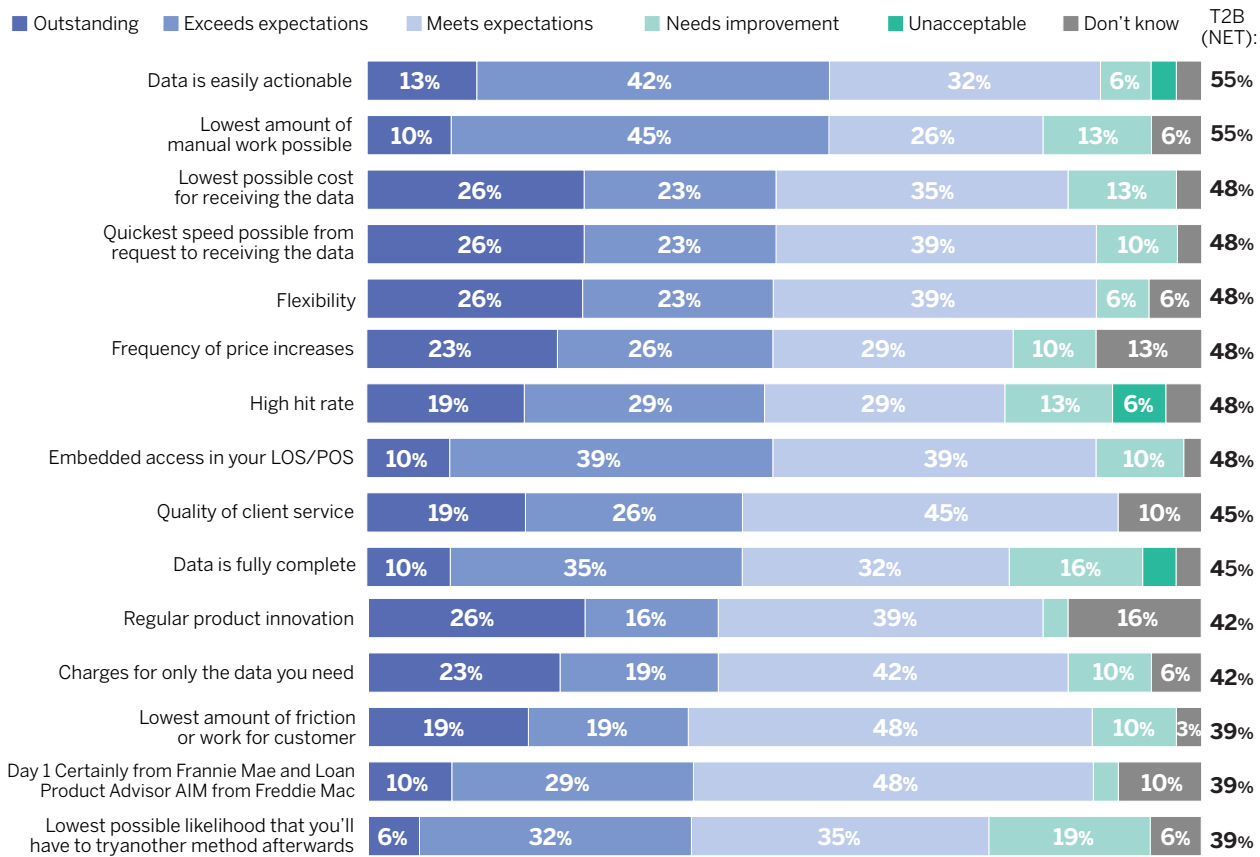
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Those efforts are important because speed and cost are a common pain point. One lender specifically cites “Time and cost of doing the work manually vs. an automated solution” as a key challenge.

Survey respondents indicate that Experian Verify meets or exceeds their expectations when it comes to addressing these pain points, as well as a variety of other solution attributes (see Figure 3).

Figure 3: Experian Verify users rate its solution highly across a variety of areas



Source: Arizent/Accounting Today, 2024

Attributes related to the cost of the service are particularly notable here. Offering the lowest possible cost for receiving data, charging only for the data you need, ensuring the lowest likelihood that lenders will need other methods to complete the verification process and limiting the amount of manual work required all speak directly to cost efficiencies for the lender (see sidebar: The importance of price transparency).

The importance of efficiency throughout market cycles

The cost efficiencies lenders can achieve become even more important as their operations scale. As lenders ramp up the number of loans they underwrite, the expenses related to the cost of that increased production also increase. When processes require resource-intensive options such as manual verification or the use of multiple vendors, it takes more effort, time and money to produce a loan.

“ We are committed to providing our clients with an innovative and cost-effective means to complete their verification needs in real-time.” – Michele Bodda, Experian

Scaling a resource-intensive operation means investing in hiring and training more staff when the organization wants to expand or when demand for loans rises, such as during a refinance boom. In the case of a refinance boom, lenders then face the prospect of having to trim their workforce back down during other parts of the rate cycle, potentially leaving them in a position where they need to scale staff back up the next time a boom takes place. The potential margin hit from scaling operations ultimately can wind up constraining a lender's growth, producing a hidden cost vector.

Instant products that offer lower cost and lower resource intensity make it possible to meet changing business and market needs. That way, lenders can respond to a refi boom with less friction and without necessarily having to scale up their hiring. "We are committed to providing our clients with an innovative and cost-effective means to complete their verification needs in real time," says Bodda.

The industry is beginning to recognize that value at scale. More than half of larger organizations doing more than \$1 billion in origination volume (53%) are using Experian Verify.

The importance of price transparency

Comparing instant verification tools is difficult if it's not clear exactly what lenders are paying for. Transparent pricing gives a clear view of what you get from your verification provider and how much it costs. Here's what to look for when assessing pricing:

- How are clients billed? Some customer verifications return multiple employment records. Paying per consumer search rather than per record returned can provide better value.
- No dataset is 100% complete. Make sure you're not being billed for incomplete, partial or substandard data that you ultimately won't be able to use to complete the verification process.
- Check your invoice. Charges should be explained clearly and laid out in an intuitive, easy-to-understand way. Be wary of unexplainable lump-sum charges that can make it difficult to derive the cost per loan or pass certain fees to borrowers.



About Experian

Experian is a global data and technology company, powering opportunities for people and businesses around the world. We help to redefine lending practices, uncover and prevent fraud, simplify healthcare, deliver digital marketing solutions, and gain deeper insights into the automotive market, all using our unique combination of data, analytics and software. We also assist millions of people to realize their financial goals and help them to save time and money.

If you are interested in learning more about Experian Verify, contact your Experian account representative or visit experian.com



About Arizent Research

Arizent delivers actionable insights through full-service research solutions that tap into their first-party data, industry SMEs, and highly engaged communities across banking, payments, mortgage, insurance, municipal finance, accounting, HR/employee benefits and wealth management. They have leading brands in financial services including American Banker, The Bond Buyer, Financial Planning and National Mortgage News and in professional services, such as Accounting Today, Employee Benefits News, and Digital Insurance.

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