# The human league

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**Some specialist lenders are using the human touch when deciding cases, adding what they call intelligent underwriting to the process, but here our experts debate how effective this approach really is**

“Computer says no”, the catchphrase from the television comedy show *Little Britain*, has unfortunately become an all too real fact of life for many borrowers and brokers over the last four years.

With most high street lenders using automated systems to process mortgages, only clients with spotless credit histories have been able to get a mortgage.

But there are a growing number of specialist lenders that use a more blended approach - they still have a credit score system but they use manual underwriting to make the final decision on whether to proceed with a case. This allows for clients who have had a blip on their credit history in the last couple of years, have no credit history or just don’t fit the vanilla criteria of high street lenders.

It doesn’t mean borrowers will automatically get a mortgage - far from it - all the lenders in this sector are at pains to point out that this is a far a cry from the type of lending done before the downturn. But taking a more intelligent approach to underwriting helps ensure that borrowers who have experienced complications are not immediately barred from getting a mortgage.

But is this approach working and are there any potential threats to it in the recent Mortgage Market Review consultation paper?

To debate how effective intelligent writing is as a process and to what extent it’s understood by brokers and borrowers, we invited the great and the good of the industry to a round table sponsored by Kensington.

Seated from left: **Aaron Strutt**, product and communications manager, Trinity Financial; **Rob Jupp**, managing director, Brightstar Mortgages; **Sue Anderson**, head of member and external relations, Council of Mortgage Lenders.
Standing from left: **Alex Hammond**, PR, brand and communications manager, Kensington; **Ben Thompson**, managing director, Legal & General Mortgage Club; **Peter Heigho**, owner, Client Data Systems; Roy Armitage, head of risk, Kensington

**Q. WHAT DO YOU UNDERSTAND BY THE TERM INTELLIGENT UNDERWRITING AND WHAT IS ITS RELEVANCE TO SPECIALIST LENDING?**

**Rob Jupp:** An interesting piece of research from Datamonitor recently predicted the specialist sector will be a major growth area in the next five years, so this is an important part of the market.

Intelligent underwriting is the ability to consider applicants who don't qualify for a 'one size fits all' approach. So clients who wouldn't be able to sail through the systems of a top five lender because of their credit score require good old-fashioned human beings to have a look at them to ensure that the risk is the correct one and that they will prove to be decent clients.

**Alex Hammond:** The question of what is meant by specialist gets us to the question of intelligent underwriting. If something is not a standard vanilla case and can't just be run through the system, then it needs to be seen by a lender that can ensure it will be sent to an underwriter who understands the circumstances, particularly for the self-employed.

It's not as simple as 'computer says no', therefore it's specialist or intelligent underwriting - actually, if you were to take that approach you could be left behind in the market. So it's about balancing technology and expertise. As Rob says, research indicates that the growth in the specialist sector would be double that seen in the mainstream sector. If you are a broker looking for areas of growth then the specialist market is one to target.

**Q. WHAT DOES THE TYPICAL CLIENT LOOK LIKE - ONE FOR WHOM YOU WOULD NEED A SPECIALISED UNDERWRITING APPROACH?**

**Jupp:** They're typical hard-working individuals, most of whom would have been welcomed with open arms three years ago by high street lenders.

**Aaron Strutt:** But it's not just about where borrowers don't fit the criteria of lenders - it's also where people are rejected for their address not being found on the system. If the lender can't overturn the original decision in principle, it will decline the client.

**Roy Armitage:** That's key - there's an unspoken association that specialist is a credit-impaired type borrower. That may have been the definition some years ago but it definitely wouldn't be today.

It is a fact that a lot of high street lenders have beefed up their underwriting and risk approach, and as a result a lot of good quality customers no longer fit their criteria. It does need a bespoke approach to deal with cases that are not vanilla. But I would also say that you can't dissociate the intelligent underwriting from the person who is actually doing it.

For me there are different sorts of underwriters. There's one type that's associated with using a more automated platform heavily reliant on a credit score result - for example, the type of person who has perhaps not got the experience you need in a specialist industry. To get the right sort of underwriter with the right level of knowledge, experience and education is difficult these days, because it's a skill that's been devalued over the last couple of years.

**Q. IS THERE A LACK OF EXPERIENCE AMONG UNDERWRITERS IN THE WIDER MARKET?**

**Ben Thompson:** There used to be plenty - I can think straight away of one or two lenders that used to take more of a bank manager approach to underwriting, but five or six years ago they let most of those underwriters go. So for me intelligent underwriting is where automation doesn't lead the business decision. It's about how you present cases and that's changed a hell of a lot over the last six years.

**Q. WILL WE SEE A BOOM IN DEMAND FOR SPECIALIST PRODUCTS WHERE A BESPOKE UNDERWRITING TECHNIQUE IS NECESSARY?**

**Sue Anderson:** Well, in a way, the reason you'd expect to see such exponential growth relative to the mainstream market is because we saw an exponential drop in the specialist sector relative to the mainstream. If we take the base to be now, you'd expect to see a normal and recovering market getting back to the non-vanilla business.

But my concern about the phrase intelligent underwriting is whether it brings in an artificial divide. Surely what we need is good underwriting that accepts the fact that not all cases are the same? I wouldn't want us to reach the position where there's the perception that intelligent underwriting for some reason equals less good credit risk, which is not what we need to be saying.

**Peter Heigho:** I'm not sure it is an artificial divide - if you look at traditional sourcing systems they only have a certain amount of parameters they can deal with in their data sets. So when brokers input information the amount of times it will come up with a box stating 'refer' is huge because they can't handle those combinations.

That's where I see intelligent underwriting coming in. It's all very well to say a lender will not lend on a flat that's over six storeys high, but it might if it was in Chelsea or Kensington. It requires human intervention to say that it is not a straightforward reject because it's out of criteria.

**Q. WHY DO HIGH STREET LENDERS AUTOMATE THE PROCESS AND NOT JUST RELY ON HUMAN UNDERWRITING?**

**Jupp:** There's no way you'd be able to originate the loans to get this market going with just manual underwriting - it would be impossible, you need both. You need the mass market going through automated systems at low LTVs, but you also need the significant minority to be considered. We need to make the distinction that the specialist market does not mean non-conforming.

**Thompson:** The market is already two-tiered in a sense. Some bigger banks take the low hanging fruit, the easy to process stuff. Then you have the secondary tier, the smaller regional building societies, plus some of the specialist lenders.

**Armitage:** But interestingly you can have good and bad underwriting in specialist areas and you can have exactly the same in a high street scenario. That's why these labels aren't helpful. It's more about understanding where your risk appetite is and having your approach based on it. If you misunderstand that you don't just get your credit risk wrong, you may end up in front of the regulator at some point as well.

**Q. WITH SPECIALIST PRODUCTS NO LONGER BRANDED AS A SPECIFIC TYPE OF LOAN, IS IT MORE DIFFICULT FOR BROKERS AND BORROWERS TO RECOGNISE THERE ARE PRODUCTS AVAILABLE THAT CAN ENABLE MORE PEOPLE TO GET A MORTGAGE?**

**Strutt:** If it's in the lender's criteria that a specific brand will allow a customer to have missed a few payments and their credit doesn't reach a certain point, then you can't argue with it being declined. It's all about making things transparent.

**Thompson:** Research among some 3,000 people last year showed that two out of three felt they wouldn't get a mortgage in the next 12 months if they applied. This was mainly due to deposits being too small. The perception was that they needed to be much bigger than the market requires today and also because of credit history issues. So there's a mismatch between what the average person thinks they can get versus what they can actually get. The industry can promote awareness of what's available and the fact that there's a lot more choice than people think.

**Hammond:** The definition of lenders that are not high street lies at the crux of this. One of the big challenges Kensington has had is that we are not a non-conforming lender. We don't target adverse credit. We've reinvented ourselves but at the same time we don't want to give ourselves a new label that will just be badged the old label.

So when we talked about intelligent underwriting we saw it almost as an approach rather than a product type or a sector. We'll say give us your cases, this is the approach we'll take, we'll publish our criteria transparently, you'll know what it is.

If you understand that criteria then when you send us a case you'll understand what you're getting from us. We expect intermediaries to understand the criteria and our responsible lending obligations.

**Q. HOW BIG AN ISSUE IS FRAUD IN THE UNDERWRITING PROCESS?**

**Armitage:** The instance of forged documentation is as prevalent as it was in the 2000s. Even if you are a lender that employs experienced underwriters, as we do, to view this information on its own you would not know that a payslip is forged - it's that good.

I'd like to think I'd know, but I wouldn't. You'll only know because other facts of the case don't fit. So this issue of forged documentation is a big one for the industry.
Part of the MMR is that we would get more automated links for income checks and for me that's crucial. By getting access to bank account data you can more or less solve this problem overnight.

**Jupp:** So would you be able to compare remotely the information the client gives you on their income with what it is in their bank account?
Armitage: Yes. There is one credit reference agency that has a product available now, but the other agencies are developing products that will allow you to access current account data.

The drawback for some lenders is that if they don't supply current account data themselves as a lender, then they can't get information back. They can get other information that may be of use, but not the current account data, which provides the most valuable information. There needs to be a level playing field so it doesn't matter if you're a lender with a current account portfolio or not.

This isn't a competitive issue, this is about preventing fraud and poor lending, so why shouldn't every lender have access to it?

**Jupp:** It doesn't feel to me that fraud has increased - it's just that the ability to detect it is greater.

**Anderson:** Like everything else, fraud is an area where the market has got better at doing things. There is also an increased burden of compliance and the bar has been set higher. Obviously that's a good thing.

But in thinking about intelligent underwriting, you need intelligent supervision and also intelligent risk management from the lender's point of view in terms of what compliance risk they are taking on against intelligently underwritten cases, so it's not unreasonable to ask for intelligent submission of cases.

**Armitage:** I agree. At the moment the industry has changed because it's had to in light of the credit crisis and the regulatory focus on poor lending decisions. With an intrusive regulator on the doorstep, all lenders are aware that their decisions are under intense focus. The challenge for all of us is to maintain high standards in a more buoyant, busier market.

**Jupp:** At the same time your margins will probably be reduced because competition is growing.

**Armitage:** Precisely, so the need is there to drive down unit costs. That is why there has been investment in automation and why many lenders rely heavily on it. Otherwise, how do you drive down the price of a mortgage per unit? Equally if you're underwriting in a more intelligent way, it's going to be a more expensive way of doing it and in the end product cost is likely to reflect this.

**Q. SO CAN BROKERS IMPROVE THE WAY IN WHICH THEY SUBMIT CASES TO LENDERS?**

**Thompson:** Where cases are presented properly to a lender, the adviser is posing that key question - "If I was an underwriter, what would make me comfortable about this case?"

**Jupp:** Good mortgage intermediaries do think like underwriters.

**Thompson:** Lots do that today. It is probably a minority that still need more work to be done. There's a lot of work going on in the background where lenders have taken proactive steps to tell brokers that cases are not looking so good, your fall off rate is high and here are the reasons why.

Brokers are getting involved and actually making a significant improvement and quickly. That tells me it's an easy leap for lots of people to make. It's much better than it was but there's still a bit further to go.

**Q. WHAT DIFFERENCE WILL THE LATEST MORTGAGE MARKET REVIEW CONSULTATION MAKE TO UNDERWRITING MEASURES?**

**Thompson:** On the face of it this appears to mean more requirements for underwriters, or at least more skills. By making lenders more explicitly accountable or responsible, by definition you'd think more underwriting would be required.

**Armitage:** I'd agree. High street lenders have invested more in systems than people. I don't see that changing. The challenges concern some distinct parts of the underwriting process - for example, on interest-only. How does a system verify that the repayment vehicle is credible? Well, it can't. If it were a debt consolidation case, would you let that go through without any oversight?

Lenders probably have to understand which parts of their business need a different sort of underwriting to what they did historically. But other parts will probably stay as they are now, and rightly so.

**Anderson:** There's a lot to be grateful for out of the latest paper, compared with the previous one. We could have ended up with a far more stupid set of underwriting standards being the default position in the absence of greater regulatory intelligence.

But as I said before, we do need intelligent supervision. It's well and good having principle-based rules, which is what we're getting with the MMR, but to feel comfortable that the goal posts won't be moved after the event, they also need to be able to rely on the quality of the supervision to be in line with their interpretation of the rules at the time.