# Loan company: a comparative analysis between a traditional and online loan compan...

Business, Company

# I. INTRODUCTION

## A. Statement of the Problem

Upon comparison, what are the advantages and disadvantages of making use of a traditional loan company such as the Diablo Funding Group, and of an online loan company such as E-LOAN?

## B. Purpose of the Study

This research paper has the following purposes and objectives:

§ To review the related literature pertinent to the comparison of traditional and online loan companies.

§ To provide a brief discussion on identity theft as a problem common to both traditional and online loan companies.

§ To examine the loan process of Diablo Funding Group, a traditional loan company, and E-LOAN, an online loan company.

§ To study the types of loan programs offered by Diablo Funding Group and E-LOAN.

§ To compare the advantages and disadvantages of Diablo Funding Group and E-LOAN based on their respective loan processes and loan programs offered.

## C. Delimitation

The research study is limited to discussing the loan process and types of loan programs of Diablo Funding Group and E-LOAN.  The background and financial statements of each company will not be covered.  The paper will also not get into a market comparison between traditional and online loan companies but limits its comparison between Diablo and E-LOAN only.  The study is also limited in comparing the data of Diablo and E-LOAN based on company profiles and information available online, and will not resort to customer interviews or customer satisfaction surveys.

D. Definition of Terms

The research paper defines the following pertinent terms (Diablo Funding Group, Mortgage Glossary 2005:

§ Appraisal – a report made by a qualified person as to the value of a property of a given date.

§ Down Payment – the difference between the sale price of a property and the mortgage amount.

§ Pre-Qualification – a preliminary assessment of a borrower's ability to secure a loan, based on a specific set of lending guidelines and borrower representations made.  This is not a guarantee or commitment by a lender to extend credit.

§ Underwriting – the process of evaluating a loan application to determine the risk involved for the lender.

## II. REVIEW OF THE LITERATURE

This chapter will review literature related to the topic of traditional and online loan companies. This section provides an examination of articles discussing the types of loan companies, the credit scoring process that loan companies undertake, a comparison of traditional and online loan companies, advantages of online companies (a newer phenomenon than traditional loan companies), and identity theft. Both types of loan companies, whether traditional or online, may be subject to the risk of identity theft. Thus, it is pertinent for this paper to review the effect of identity theft on traditional and online loan companies.

There are two types of loan companies: traditional loan companies and online loan companies. In a comparison titled " Types of Loan Companies" by uSwitch Limited (2005), the company presented the pros and cons of each type of loan company.

The pros for traditional loan companies, which also cover high street banks and building societies, the borrower at least knows what he or she is availing of because they are most likely to be familiar with the brand. All high street loan companies usually have branches throughout the U. S., so the borrower can actually speak to a loan officer or mortgage professional in person or face-to-face regarding their loan. Usually, traditional loan companies offer not only traditional banking but online banking as well. The con in traditional banking is that the companies usually charge a bit more in interest. They also require the borrower to make an appointment with their loan adviser to discuss and review their finances and credit history (uSwitch Limited 2005).

On the other hand, one of the pros in online loan companies is that this type has fewer overhead costs and thus usually charges less. Most of the lowest loan rates actually come from online banks. The borrower can usually set up a direct debit to take care of their monthly repayments so that they don’t fall behind. Even though most of the transactions are online, the borrower can usually still phone the loan company for problems and advice. One of the cons for online companies is that they have no branches, so the borrower can’t just pop into a branch and conduct banking transactions in persons. Most online loan companies are also less well established than traditional loan companies. However, many online loan companies are actually owned by traditional loan institutions (uSwitch Limited 2005).

The article emphasizes that choosing the type of company to take out a loan on involves shopping around by the prospective borrower. According to the article, the borrower can do it by using a comparison service. The comparison service will ask a borrower a series of simple questions about the type of loan they are looking for. Then it will perform a search of the loans market to give the borrower a comprehensive list of those which the service recommends for the borrower’s personal circumstances. The borrower can then browse the list at their leisure and choose a loan company most suitable for their needs. The article points out that shopping around and checking out loan program options will help a borrower save a fortune in interest payments, since all loan companies – whether traditional or online – caters for a different type of customer (uSwitch Limited 2005).

Diablo Funding Group's website provides for a useful discussion on credit scoring.  Credit scoring is " a statistical method of assessing the credit risk of a mortgage application" (Diablo Funding Group, The Loan Process 2005).  The credit score considers the borrower's past delinquencies, derogatory payment behavior, current debt levels, length of credit history, types of credit and number of inquiries.  The most common score, and now the most common terminology for credit scoring, is called the FICO score, developed by Fair, Isaac & Company, Inc., for the three main credit bureaus – Equifax (Beacon), Experian (formerly TRW), and Empirica (TransUnion).  FICO scores are repository scores that mean they only consider the information contained in a prospective borrower's or borrower's credit file.  FICO scores do not consider a borrower's income, savings, or down payment amount.  According to Diablo's discussion, credit scores are based on five factors:

§  35% of the score is based on the borrower's payment history

§  30% on amount owed

§  15% on how long the borrower has had credit

§  10% on new credit being sought by the borrower

§  and 10% on the types of credit the borrower has had (Diablo Funding Group, The Loan Process 2005).

The FICO scores are useful in directing applications to specific loan programs. They also set levels of underwriting, called “ Streamline”, “ Traditional” or “ Second Review”. But these scores are not the final word on the type of program that a borrower would qualify for, or on the applicable interest rate. Many practitioners from the mortgage industry have shown some skepticism on the FICO scores. Credit scoring has actually been an important part of the loan process since 1999, yet the FICO scores have already been used since the late 1950s by retail merchants, credit card companies, insurance companies, and banks for consumer lending. Yet the data from large scoring projects, according to the Diablo discussion, demonstrates the scores’ predictive quality (Diablo Funding Group, The Loan Process 2005). Diablo further provides for ways for a borrower to improve his or her credit score:

§ Pay bills on time.

§ Maintain low balances on credit cards.

§ Limit credit account to what is really needed by the borrower. Accounts that are no longer needed should be formally cancelled since zero balance accounts can still be counted against the borrower.

§ Check whether credit report information is accurate.

§ Be conservative in applying for credit and make sure that credit is only checked when necessary.

The borrower with a 680 credit score and above is considered an A+ borrower. In Diablo, this type of loan is put through an automated basis computerized underwriting system and should be completed within minutes. Borrowers with this credit score have the lowest interest rates and their loan can usually be closed in a couple of days (Diablo Funding Group, The Loan Process 2005).

A credit score of 620-680 usually means that underwriters will take a closer look at the borrower's credit profile to determine potential risk. The borrower might be required to submit supplemental documentation before final approval. These types of borrowers may still obtain " A" pricing but the loan takes a longer period to close compared to an A+ borrower (Diablo Funding Group, The Loan Process 2005).

A credit score of below 620 are usually not locked into the best loan rates and terms offered. This usually goes to " sub-prime" lenders and have less attractive loan terms and conditions. It also takes a longer period to process the loan under this type (Diablo Funding Group, The Loan Process 2005).

Another pertinent article to this research paper is the titled " Traditional Bank Loans vs. Online Loan Companies" (2005) by PR News Now. The article compares the advantages and disadvantages of traditional and online loan companies. According to the article, traditional loan companies require making appointments with bank lenders which are sometimes inconvenient for people in this modern, fast-paced world where instant gratification is becoming a common need. People are less patient in waiting for their loan approval, and in wanting instant outcome, turn to online loan companies. The article provides that small personal loans are especially easier if coursed through an online loan company. However, the article also provides that placing an application for a home loan is more comforting for a borrower if coursed through a person-to-person interaction in a traditional loan company. Since home acquisition is one of the most important financial decisions in a person’s life, making contact with another person, particularly a loan officer or mortgage professional, helps to calm the fears and hesitations of a first-time or uncertain borrower. Yet the article also points out that persons with bad credit histories will welcome an online loan company where rejection of one’s loan application, done online rather than face-to-face, is easier to handle. Online loan companies also tend to be more lenient on people with poor credit histories who want to get out “ from under the black mark of bad credit” (PR News Now 2005).

Online loan companies are also deemed advantageous since they provide quick answers to a borrower’s mortgage application and can give an answer whether or not the borrower has been pre-approved within 24-48 hours after submission of their online application (Reeder 2005). This and other advantages of online loan companies was discussed by Carrie Reeder in her article titled “ Online Mortgage Loan Companies Are Convenient” (2005), published in EzineArticles. com. Reeder points out that online loan companies usually do not pull a borrower’s credit on the initial application. This allows the borrower to apply to multiple lenders and to get an idea on what other options are available out there, without necessarily dropping their credit score with one loan company. According to Reeder, there are many online loan companies that will take a borrower's application and submit it to hundreds of lenders. They then provide the borrower with the four best offers. This allows the borrower to compare the lowest possible rates and terms, without the need of placing calls or setting up appointments with loan officers or mortgage professionals. Oftentimes, lenders which send offers also call the borrowers to check whether the loan offer they received online are applicable or suitable to their needs. This gives the borrower a chance to ask questions or advice on getting better terms or rates, and the time frame for a particular loan process. This also allows the borrower to find out what other loan programs they may qualify for with a certain lending company (Reeder 2005).

The bottom line, according to Reeder's article, is that a borrower can compare hundreds of lenders by him or herself in much less time as compared to a traditional loan company. The key perhaps is to investigate both traditional and online loan companies to best determine which type -- online or traditional – is best suited for the borrower's individual needs (PR News Now 2005).

One interesting point pertinent to the study is that whether a borrower opts for a traditional loan company or online company is that either is susceptible to the risk of identity fraud. Identity theft is crime involving the use of one person's personal information by another person to take the former's identity (Social Security Online 2005). The Better Business Bureau and Javelin Strategy & Research released a report titled the " 2005 Javelin

Identity Fraud Survey Report". The study provides that, contrary to popular belief, offline identity theft is more prevalent than online identity theft. According to the study, identity fraud is more commonly performed through paper source or offline. Online related fraud problems are less severe and less widespread, and definitely less costly. Losses attributed to offline identity fraud averages at $ 4, 543, whereas online identity fraud losses only average at $ 551 (Cherico and Van Dyke 2005). The study's findings, supported by CheckFree, Visa, and Wells Fargo & Company, and based on 4, 000 telephone interviews with consumers, concludes with the following four key points:

1) The most frequently reported source of information used to commit fraud was a lost or stolen wallet or checkbook.

2) Among cases where the perpetrator's identity is known, half of all identity fraud is committed by a friend, familymember, relative, neighbor, or in-home employee – someone known by the victim.

3) A wide variety of metrics confirm that identity fraud problems are not worsening, with the total number of victims in decline.

4) The majority of identity fraud crimes are self-detected (Cherico and Van Dyke 2005).

The study also provides for the following identity safety tips to protect consumers, whether they avail of online or traditional loan companies:

§ Prevent access to your personal information (for example, by replacing paper bills, statements and checks with Internet or paperless versions; by shredding all private documents before discarding)

§ Detect unauthorized activity (for example, by reviewing bank and credit card statements weekly and using online account access; by contacting financial providers uponfailureto receive loan statements in a timely manner)

§ Resolve fraud promptly to minimize losses (Cherico and Van Dyke 2005).

The article " Safest Places On the Web" by Jay Cline (2005), in addition, provides that there is no one widely recognized seal approval that says an online company has top-notch privacy and security. The padlock system on a borrower's Web browser means the session with the loan company is encrypted and Web security seals like ScanAlert Inc.'s " Hacker Safe" indicate that the web site is protected against all known vulnerabilities. However these methods do not address broader, organization security practices. Cline recommends that online companies should look for privacy policies that address the Safe Harbor privacy principles negotiated by the U. S. Department of Commerce and the European Union to best represent best practices in online privacy and security (Cline 2005). The author further provides that solid privacy is the best guarantee to data safety (Cline 2005).

A review of related literature thus show that there have been previous studies and comparisons as to the advantages and disadvantages with traditional and online loan companies. This research paper will analyze and compare two loan companies in particular – the Diablo Funding Group, a traditional loan company, and E-LOAN, an online loan company.

## III. RESEARCH DESIGN

This research paper made use of a combination of the descriptive, comparative, and analytical approach.  In Chapter I, the statement of the problem, the objectives of the study, terminology, and the limits of the study were present.  In Chapter II, a review of related literature on articles pertinent to the study – types of loan companies, comparisons between online and traditional loan companies, identity theft – were examined.  In Chapter III, the research design and outline of the paper was presented.  In Chapter IV, the data collected and gathered will be discussed.  A presentation of the loan process and loan programs of Diablo Funding Group and E-LOAN will be described in Chapter V.  In Chapter VI, the comparisons and results of the study will be analyzed.  In Chapter VI, the conclusions for the study will be presented.  Finally, Chapter VII contains the bibliography for all the sources used for this research.

## IV. COLLECTION OF DATA

The data collected for this research paper were primarily from the Diablo Funding Group and E-LOAN corporate websites.  The loan process for each company, as well as the types of loan programs, products and services offered by each, were used in this paper.

In addition to corporate websites, the study also made use of news articles related to the topic. Opinions, essays and articles on identity theft, comparisons of traditional loan companies and online loan companies, and types of loan companies were also used. All sources for this paper were gathered through the Internet.

## V. REPORT OF FINDINGS

### a. The Loan Process

#### i. Diablo

The Diablo Funding Group principally has a seven-step loan process, beginning with the Pre-Qualification stage. Diablo gathers information on the prospective borrower's income capacity and outstanding debts, then determines the borrower's capability to pay for a house (Diablo Funding Group, The Loan Process 2005)

Since Diablo offers various loan programs which may result in differing valuations, the company advises a borrower to get pre-qualified for each loan type applicable to the borrower's needs. To determine whether to approve or qualify a borrower for the type and amount of mortgage they want, Diablo checks on two essential elements:

1) the borrower's ability to repay the loan

-- This is verified by Diablo based on the prospective borrower's current employment and total income. The borrower's chances are better if he or she has been employed at the same place for at least two years, or has at least been in the same line of work for several years.

2) the borrower’s willingness to repay the loan

-- This is determined by examination of how the property will be used. Will the borrower be living in the property or renting it out? The borrower’s willingness to pay is also determined by how he or she has fulfilled previous financial commitments. During this stage, the Credit Report and/or the borrower’s rental payment history play important rules (Diablo Funding Group, The Loan Process 2005).

The second step in the loan process involves an evaluation of the applicable Mortgage Programs and Rates for the borrower. The borrower needs to determine how long he or she intend to keep the loan in order to evaluate the applicable Mortgage Program. For instance, if the borrower plans to sell the house in a few years, then an adjustable or balloon loan would be more fit. If the borrower plans to keep the house for a longer period, then a fixed loan may be more appropriate. The borrower should work closely with an experienced mortgage professional from Diablo who can evaluate the borrower’s situation and recommend the most suitable Mortgage Program. That way, the borrower would be able to make an informed choice as to what type of Mortgage Program or loan to avail of. It is also at this stage when the different program fees and closing cost estimates. These costs will be verified by what Diablo calls a Good Faith Estimate (GFE) and a Truth-in-Lending Statement (TIL) (Diablo Funding Group, The Loan Process 2005).

The third step involves the Application which is the true start of the loan process. This stage occurs between days one and five of the start of the loan process. Assisted by a Diablo mortgage professional, the borrower must complete an application form and submit the required documents. Three days from the submission of the application form, the borrower will receive the GFE and TIL mentioned in the Mortgage Programs and Rates stage (Diablo Funding Group, The Loan Process 2005).

The documents Diablo would be requiring at this stage would depend on the type of program the borrower wants to avail of. For instance, if the borrower wants to purchase or refinance their home, the required documents to be submitted would depend on whether the borrower is salaried or self-employed. If salaried, the borrower has to provide the past two-years W-2s and one month of pay stubs. If self-employed, the borrower has to provide the past two-years tax returns. If the borrower owns rental property, he or she would need to provide Rental Agreements and the past two-year's returns. If the borrower wants to hasten the approval process, they could also provide the past three-months bank, stock and mutual fund account statements, and the most recent copies of any stock brokerage or IRA/410k accounts that the borrower may have. If the borrower is requesting a cash-out, then he or she would need a " Use of Proceeds" letter of explanation. Copies of anydivorcedecree, if applicable to the type of loan being applied for, should be provided as well. If the borrower is not a U. S. citizen, a copy of their green card should be provided. If the borrower is not a permanent resident, then their H-1 or L-1 visa should be submitted. Lastly, if the borrower is applying for Diablo's Home Equity Loan, then in addition to the documents already mentioned, the borrower is also require to submit a copy of their first mortgage note and deed of trust (Diablo Funding Group, The Loan Process 2005).

The fourth level of the Diablo loan process is the Processing stage. After the application has been submitted by the borrower, the processing of the mortgage starts. The Diablo processor orders the Credit Report, Appraisal and Title Report. The information on the borrower's application, such as his or her bank deposits and payment histories, are verified at this stage. If there are negative or derogatory credit items – late payments, collections, or judgments, and the like – would require a written explanation from the borrower. The processor has to examine the Appraisal and Title Report to determine whether there are other property issues that would require further investigation. After the necessary information are gathered, or investigated, the entire mortgage package is then prepared by Diablo ready to be submitted to the lender (Diablo Funding Group, The Loan Process 2005).

A Credit Report or Credit Profile refers to a consumer credit file made up of different consumer credit reporting agencies. It provides the borrower's credit history, and how successful the borrower has been in paying his previous debts. There are five categories of information on a credit profile: Identifying Information; Employment Information; Credit Information; Public Record Information; and Inquiries. The credit profile does not include the information on the borrower's race, religion, health, driving record, criminal record, political preference, or income.

As mentioned, Diablo requires a written explanation from the borrower if there are credit problems or derogatory credit items in their Credit Report. The borrower should discuss these issues as honestly as possible with their mortgage professional who will help them to write their Letter of Explanation. These professionals that there a legitimate reasons for derogatory credit items, like unemployment, illness, or otherfinancial difficulties. If the borrower had problems which were subsequently corrected, through a reestablishment of credit, then their payments which were on time, during a period of one year, may be considered as sufficient. Diablo advises its borrowers to secure their own copy of their Credit Report even before they apply for their mortgage. That way, the borrower can take affirmative steps to correct any negative credit items in their profile even before they submit their application to Diablo. The point is to improve the borrower's credit score which Diablo, or any loan company, determines to assess the risk attached to the borrower's mortgage application. The higher the credit score, the easier for the borrower to obtain a loan, and to secure the best type of loan applicable for his or her needs. It also ensures benefits such as lower interest rates (Diablo Funding Group, The Loan Process 2005).

The fifth step in Diablo's loan process involves the Appraisal. The appraisal of real estate is deemed as the valuation of the rights of ownership. The appraiser does not create value but instead defines the rights to be appraised. The appraiser also needs to interpret the market to arrive at a value estimate. The site, amenities, and physical condition of the property should also be considered. In other words, the appraiser must conduct thorough research and collect data which should be completed before the appraiser can arrive at a final opinion of value. Diablo makes use of three common approaches, derived from the market, to come up with the opinion or estimate of value:

1) Cost Approach – this method derives what it would cost to replace existing improvements on the property as of the date of the appraisal, less any physical deterioration, functional obsolescence and economic obsolescence.

2) Comparison Approach – this method uses other “ bench mark” properties (comps) of similar size, quality, and location which have recently sold to determine value.

3) Income Approach – this method is used in the appraisal of rental properties and has little use in the valuation of single family dwellings. This approach provides an objective estimate of what a cautious investor would pay based on the net income which the property produces (Diablo Funding Group, The Loan Process 2005).

The sixth level in the Diablo loan process is the Underwriting. After the processor puts together a complete package, with all the verifications and required documents, the file is then sent to the lender or underwriter. The underwriter is responsible for the determination on whether the package is deemed an acceptable loan. If the underwriter requires more information, the loan application is put into “ suspense”. The borrower at this stage is then informed for the need to supply more/additional information and/or documentation. If the loan is acceptable upon submission, without the need for additional information, it is put on “ approved” status (Diablo Fund Group, The Loan Process 2005).

The seventh and final stage in the process is the Closing. After the loan has been approved, the borrower’s file is transferred to the closing and funding department of Diablo. This department notifies the broker and closing attorney of the approval of the loan, and also verifies broker and closing fees. The closing attorney then schedules a date and time for the borrower to sign the loan documentation. During the closing stage, the borrower should:

1. Bring a cashier’s check for his of her down payment and closing costs, if required. Personal checks are normally not accepted. If they are accepted, these checks will delay the closing until the check clears the borrower’s bank. Thus, cashier’s checks are more advisable.

2. Review the final loan documents. The borrower must make sure that the interest rate and loan terms are what he or she has agreed on. The borrower should also verify whether the names and address on the loan documents are correct and accurate.

3. Sign the loan documents.

4. Bring identification and proof of insurance (Diablo Funding Group, The Loan Process 2005).

After the borrower has signed the loan documents, the closing attorney then returns these documents to the lender who examines them again. If everything is in order, the lender arranges for the funding of the loan. Once the loan has been funded, the closing attorney then arranges for the mortgage note and deed of trust to be recorded at the appropriate county recorders' office. Once the mortgage agreement has been recorded, the closing attorney prints the final settlement costs on the HUD-1 Settlement Form. After that, final disbursements are made (Diablo Funding Group, The Loan Process 2005).

ii. E-LOAN

The loan process for E-LOAN, on the other hand, involves eight steps which vary somewhat from Diablo, the latter being a traditional loan company. The first step involves a Comparison of Loans. This is the borrower'sresponsibility. The borrower goes online to search for the type of loan most suitable for his or her needs. E-LOAN advises an online borrower to check whether there are hidden fee loans, and to look up the lowest rate for the product most applicable for his or her need. If the borrower is unsure about what product is suitable, then E-LOAN will recommend a loan type or loan program for the prospective borrower (E-LOAN, The E-LOAN Process 2005).

The second step is the Online Application. Once the prospective borrower completes the online application form, and submits the same, E-LOAN ensures that the personal information submitted by the borrower is ensured strict privacy and confidentiality. The borrower's information will be fully encrypted for transmission and stored securely on E-LOAN's serves (E-LOAN, The E-LOAN Process 2005).

The third step in the E-LOAN loan process is Approval of the Loan. Within minutes from submission of the online application, the borrower will get a decision and may order his or her appraisal through credit card payment. Unlike a traditional loan company, the E-LOAN loan process dispels the needs for a mortgage broker to rely on an outside lender for a loan decision. This minimizes the delay in processing the loan application. Instead, E-LOAN relies on an automated underwriting system which also significantly reduces the documentation requirements which a traditional loan company would require a borrower to comply with. This enables E-LOAN to close the borrower's loan quickly. Since E-LOAN processes the loan in-house, it maintains the control necessary to preserve the privacy and confidentiality of the borrower's personal information as submitted online (E-LOAN, The E-LOAN Process 2005).

The fourth stage involves Locking the Loan. The borrower, through their E-Track account in E-LOAN, assigned to each borrower upon their application, allows the borrower to lock their rate 24 hours a day. Upon locking his or her loan, the borrower will receive an email confirming their rate and price. Once their rate has been confirmed, E-LOAN guarantees to their borrower that their closing costs will not change (E-LOAN, The E-LOAN Process 2005).

The fifth level of the loan process involves Completion of Underwriting. After the borrower locks their loan, they can sit back as E-LOAN completes the final details for their account. E-LOAN undertakes to prepare the borrower's loan documents and delivers the documents to the borrower's title company. E-LOAN then contacts the borrower to arrange for a schedule to sign the loan documents (E-LOAN, The E-LOAN Process 2005).

The sixth step involves Funding of the loan, which is undertaken by E-LOAN. E-LOAN's loan consultant clarifies any final conditions and arranges for E-LOAN to disburse the borrower's loanmoney. The company guarantees that the borrower's loan will close on time – otherwise, the borrower will receive a $500 rebate (E-LOAN, The E-LOAN Process 2005).

The seventh and final stage in the E-LOAN loan process is the Signing of Loan Documents. The borrower may select a signing office most conveniently located to him or her. The borrower is then required to notify their E-LOAN loan consultant of their choice of signing office so that their consultant can make all the necessary arrangements directly with that company or signing office. The title officer is present during the signing to answer any questions or clarify any points that the borrower may raise (E-LOAN, The E-LOAN Process 2005).

b. Types of Loans Offered

i. Diablo

The Diablo Funding Group advertises at least 15 loan programs. The list of its loan programs are described as follows:

1) Conventional/Traditional Loan Programs – these programs usually require 5% down payments and offer competitive rates. Documentation and fair-to-good credits are required (Diablo Funding Group, Loan Programs 2005).

2) No Income Verification Programs – these loan programs do not request or verify the prospective borrower's income. It requires as low as 10% down payment. These are also called stated income loans, or " no-doc" loans which come in different variations. Some borrowers prefer not to disclose information regarding their employment, income or assets. Other borrowers are willing to disclose their income but select programs that do not calculate debt-to-income ratios. This allows borrowers to exceed the traditional guidelines required to qualify for a larger mortgage amount (Diablo Funding Group, Loan Programs 2005).

3) No Down Payment Programs – these programs require 0% down payment and closing costs paid by the borrower. The seller may contribute up to 6% closing costs (Diablo Funding Group, Loan Programs 2005).

4) Credit Problems Programs – these programs are offered by Diablo for customers who have credit problems and have been turned down by other companies. These credit problems may involve trouble credit, or bankruptcy (Diablo Funding Group, Loan Programs 2005).

5) 103% Purchase Programs – these programs require 0% down payment and closing costs can be financed up to 103% of the purchase price. However, only singe-family homes that will be owner-occupied are eligible under this program. First time home-buyer status are not required here, plus there are no income limits (Diablo Funding Group, Loan Programs 2005).

6) 80/15/5 Programs – this type of loan program carries a second mortgage for up 15% of the purchase price of the property. It is usually availed of by borrowers ho want to avoid PMI insurance or keep their first mortgage under the FNMA/FHLMC limit to avoid Jumbo rates. The borrower has to put down a 5% down payment, and finances a first mortgage up to FNMA/FHLMC limit and a second mortgage of up to 15% of the purchase price. Other variations of this type of loans also include the 80/10/10 or 75/15/5 (Diablo Funding Group, Loan Programs 2005).

7) Jumbo Loans Programs – these loans offer a 30-year and 15-year fixed rate mortgage and competitive adjustable rate mortgage (ARM) products. It requires full document, alternate documentation, and limited documentation. In this program, Cash Out and No Cash Out refinance are possible. Single family detached, condominium units, PUDs, and single-family second homes may be financed with no prepayment penalty under this type of program (Diablo Funding Group, Loan Programs 2005).

8) A-Thru D Loans Programs – these mortgage programs are for borrowers who are credit challenged. They vary from slightly damaged credit to severely damaged (Diablo Funding Group, Loan Programs 2005).

9) High Debt Ration Loans Programs – these loan programs allow borrowers tofinancethe purchase of a home or property. A ratio of monthly bills to monthly income higher than 50% is considered a high debt ratio under this type of program (Diablo Funding Group, Loan Programs 2005).

10) 2nd Mortgage Loans Programs – these loans are subordinate to the first mortgage. The program offers the borrower the chance to get funds for home improvement, debt consolidation, or other reasons – without disturbing the borrower's first mortgage. It is especially convenient when the borrower already has a low interest first mortgage (Diablo Funding Group, Loan Programs 2005).

11) Construction Loans Programs – these programs finance up to 90% of the cost of land plus the costs of construction. E-LOAN provides for a one-time fixed rate closing or traditional ARM products (Diablo Funding Group, Loan Programs 2005).

12) Investor Loans Programs – these programs are used to finance 1-4 family properties for investment. It requires as low as 10% down payment. These programs provide No Doc, Limited Doc and Full Doc variations. However, it is not available in some states in the U. S. (Diablo Funding Group, Loan Programs 2005).

13) FHA Mortgage Programs – these loan programs allow the borrower to put down as low as 3% down payment. They can even finance " allowable" closing costs, and the seller may contribute up to 6% of the purchase price to the buyer towards closing costs. This type of program is backed by the

Department of Housing and Urban Development (Diablo Funding Group, Loan Programs 2005).

14) Flex 97% Programs – this type of program is similar to the FHA Mortgage Program, except the Flex 97% does not provide maximum mortgage amount limitations. It requires a single-family, owner-occupied home, and that the borrower has a credit score of over 680 (Diablo Funding Group, Loan Programs 2005).

15) VA Mortgages Programs – this type of program is again similar to the FHA Mortgage Program, except that the borrower has to be a qualified war veteran or military person. This program is backed by the Veterans Administration and the U. S. federal government (Diablo Funding Group, Loan Programs 2005).

ii. E-LOAN

E-LOAN has 6 principal programs, each with various packages, terms, and rates – or sub-programs. The list of the E-LOAN products and services and their descriptions are as follows:

1) Fixed-Rate Mortgage Products Programs – these programs are for first mortgage only. Under this type of program, the monthly principal and interest payments do not change over the term of the loan. This means that the borrower can easily anticipate his or her mortgage interests. If the borrower is of the belief that his or her interest rates are going to increase, then this program may be the most suitable (E-LOAN, Products and Services

2005). Under this program, E-LOAN offers the following fixed rate mortgage, as seen in Table 1 below:

Table 1. E-LOAN Fixed-Rate Mortgage Products (for 1st mortgage only)

Term

Loan to value

30 Year Fixed (30 year)

Up to 107%

15 Year Fixed (15 year)

Up to 95%

Source: http://www. eloan. com/s/show/productlist? sid= s3-yUmqOoUP3YvTrT7vuDSLPb4I&user=&mcode=

2) Adjustable Rate Mortgage (ARM) Products Programs – under this type of loan program, the interest rate is fixed for a stated period of time and becomes adjustable for the remainder of the loan. For instance, a 5-year fixed (30-year) loan would have a fixed interest rate for the first five years. Then it converts to an adjustable rate for the remaining 25 years (E-LOAN, Products and Services 2005).

The adjustment in this program is based on changes in a pre-selected index. It takes place according to a pre-defined schedule which is generally every six months or every year. The borrower's interest rate and monthly payment fluctuates based on the changes in the borrower's index. Under this program, the most common indices are the Treasury Bill, Certificate of Deposit (CD), LIBOR and COFI. Adjustable rate loans, however, have more risks attached to them since interest rates could increase. But since the borrower is assuming an additional risk, then the lender generally provides a lower interest rate and monthly payment during the initial fixed interest period. These loans are especially beneficial to borrowers that plan to either sell their property or refinance before reaching the adjustable period (E-LOAN, Products and Services 2005). Under this program, E-LOAN offers adjustable rate mortgages, as seen in Table 2 below:

Table 2. Adjustable Rate Mortgages

| Term | Loan to value |
|---|---|
| 10 Year Fixed (30 year) | Up to 95% |
| 7 Year Fixed (30 year) | Up to 95% |
| 5 Year Fixed (30 year) | Up to 95% |
| 3 Year Fixed (30 year) | Up to 95% |
| 1 Year Fixed (30 year) | Up to 95% |
| 6 Month Fixed (30 year) | Up to 95% |

Source: http://www. eloan. com/s/show/productlist? sid= s3-yUmqOoUP3YvTrT7vuDSLPb4I&user=&mcode=

Similar to the previous program, the ARM Products Program application may be forwarded to E-LOAN's lending partners, in which case, the borrower will be notified before E-LOAN collects any of the borrower's personal information.

3) Stated Income Mortgage Products Programs – with this type of program, the borrower is not required by the lender to provide standards explanations of their income (such as tax returns) in order to qualify for these products. Verification of the borrower's income is not required, but the borrower must state the source of his or her income. The borrowers who tend to go for this type of stated income loan are usually self-employed borrowers or individuals who write-off a large portion of their income, like contractors, waiters and waitresses (E-LOAN, Products and Services 2005). This program offers different stated income loans, as provided in Table 3 below:

Table 3. E-LOAN Stated Income Mortgage Products

Term

Loan to value

30 Year Fixed (30 year)

Up to 100%

15 Year Fixed (30 year)

Up to 100%

7 Year Fixed (30 year)

Up to 100% (conforming only)

5 Year Fixed (30 year)

Up to 100% (conforming only)

Source: http://www. eloan. com/s/show/productlist? sid= s3-yUmqOoUP3YvTrT7vuDSLPb4I&user=&mcode=

4) Home Equity Line of Credit (HELOC) Programs – a home equity line of credit is a form of revolving credit in which the borrower's home serves as collateral. In other words, the credit line is secured by the equity in the borrower's home. Many homeowners tend to use their credit lines for debt consolidation, travel expenses, and home improvements (E-LOAN, Products and Services 2005). Under this program, E-LOAN provides for the following home equity lines of credit, as seen in Table 4 below:

Table 4. E-LOAN Home Equity Line of Credit (HELOC)

Term

Loan to value

Adjustable Rate Mortgage

Up to 100%

Source: http://www. eloan. com/s/show/productlist? sid= s3-yUmqOoUP3YvTrT7vuDSLPb4I&user=&mcode=

The first four programs – the Fixed-Rate Mortgage Products Program, Adjustable Rate Mortgage (ARM) Products Program, Stated Income Mortgage Products Program, Home Equity Line of Credit (HELOC) Program – may, in certain cases, the loans may be forwarded to E-LOAN's lending partners. When this applies to the selected loan product, the borrower will be notified before E-LOAN collects any personal information (E-LOAN, Products and Services 2005).

5) Home Equity Loan Programs – also known as a “ second”.  This program enables the borrower to borrow money in a lump sum against the equity (the value of the borrower’s home minus what the borrower owes) which the borrower has built up in his or her home.  This loan is subordinate to the existing mortgage.  Buyers usually use a second mortgage to keep their first mortgage in the conforming range, which keeps the rate lower, and to avoid PMI.  This type of program is often used to pay off credit card debts, purchase a car, and for major home renovations (E-LOAN, Products and Services 2005).  This program has the following home equity loans, as seen in Table 5:

Table 5. E-LOAN Home Equity Loans

Term

Combined loan to value

30 Year Fixed (30 year)

Up to 100%

15 Year Fixed (15 year)

Up to 125%

Source: http://www. eloan. com/s/show/productlist? sid= s3-yUmqOoUP3YvTrT7vuDSLPb4I&user=&mcode=

6) Installment Vehicle Loan Programs – the sixth and final program offered by E-LOAN is for borrowers who want to purchase a new or used vehicle, and

own it outright at the end of the loan.  Monthly payments are applied to the actual purchase of the vehicle, with lo rates offered on 36, 48, 60, 66, and 72 month installment loans.  These loans have no mileage limits or fees that are usually associated with a lease (E-LOAN, Products and Services 2005).

Under this program, E-LOAN as the following installment loans, as seen in Table 6 below:

Table 6.    E-LOAN Installment Loans

| Term | Loan to value |
|---|---|
| 36 Month | Up to 100% |
| 48 Month | Up to 100% |
| 60 Month | Up to 100% |
| 66 Month | Up to 100% |
| 72 Month | Up to 100% |

Source: http://www. eloan. com/s/show/productlist? sid= s3-yUmqOoUP3YvTrT7vuDSLPb4I&user=&mcode=

## VI. ANALYSIS OF FINDINGS

A comparison of the Diablo Funding Group and E-LOAN entails an analysis of advantages and disadvantages of each company's loan processes and the loan programs they offer.

The pre-qualification stage in Diablo's loan process is more tedious than E-LOAN's.  This may be viewed as a disadvantage since Diablo itself investigates and gathers information on the prospective borrower which may result in disqualifying the borrower from applying.  Also, Diablo requires the presence of two elements: borrower's ability to repay the loan, and the borrower's willingness to repay the loan.

By way of contrast, E-LOAN's pre-qualification stage does not involve E-LOAN.  There is no investigation by the company.  The pre-qualification stage is basically the borrower's discretion, since what it entails is for the borrower to compare the applicable loan programs online and to select the one best suited for his or her needs.  If the borrower is uncertain of what program to avail of, he or she can enlist aid from E-LOAN.

The pre-qualification stage thus is faster and easier with E-LOAN.  However, Diablo's thoroughness in investigating the borrower in the pre-qualification stage can also be viewed as an advantage.  Through an extensive pre-qualification process, Diablo at least ensures that the company will have a lesser chance to encounter a borrower who may renegade on his or her loan obligation.  Diablo's pre-qualification process may be tedious to the borrower, but it provides greater security for the loan company since they gather all the necessary information from a prospective borrower.

With Diablo’s loan process, after the pre-qualification stage, the borrower goes through the second stage where they select the mortgage program best suited for their needs. In E-LOAN, the borrower goes directly to choosing the applicable mortgage program. Thus, processing the loan at this point is faster with E-LOAN, since it only involves one process, whereas it takes a two-step process with Diablo.

The application stage is thus the third step in the Diablo loan process, and the second step in E-LOAN. The application form to be filled out by the borrower with Diablo is done with the assistance of a mortgage professional. In E-LOAN, the borrower is on his own since application is done online. Here, the disadvantage in the process lies with E-LOAN. In Diablo, the borrower is assisted by a company mortgage professional, which is convenient especially if the borrower has a lot of questions or needs clarifications regarding terms and conditions of the selected loan program. One major advantage in the E-LOAN application process is not only that the borrower is on his or her own, but he or she must submit personal information online. The process is definitely faster online, but it is open to other hazards such as the risk of identity theft.

Identity theft “ occurs when a criminal uses another person’s personal information to take on that person’s identity” (Social Security Online 2005). E-LOAN requires the borrower to submit personal information regarding their employment, name, address, income, and credit card details online during the loan application process. Although E-LOAN guarantees that the borrower’s information will be fully encrypted for transmission and accurately stored, online fraud is still one risk or disadvantage that does not attach to a traditional loan company such as Diablo. In Diablo, all the documents required to be submitted is in hard copy, and not online, and is signed by the borrower before turnover to the company's mortgage professional.

However, identity theft is not performed through online sources or online fraud alone. Studies have actually showed that identity theft is more frequently committed offline than online. Online fraud is " actually less severe, less costly and not as widespread as previously thought" (Cherico and Van Dyke 2005). The 2005 Javelin Identity Fraud Survey Report (as presented in Chapter II – Review of Literature of this paper) concluded that those who access accounts online can actually provide for earlier detection for possible identity theft, unlike people who rely on mailed month paper statements. The Javelin Report points out that consumers who manage their financial activities online actually reduce access to their personal information on paper bills and statements. According to the Report, "[v]ictims of identity theft who detected the crime by monitoring accounts online experienced financial losses that were less than one-eighth of those who detected the crime via paper statements" (Cherico and Van Dyke 2005). The Report further provides than an average of $ 551 in losses due to online sources were significantly less compared to an average of $ 4, 543 worth of losses detected from paper sources (Cherico and Van Dyke 2005).

In other words, the borrower is open to risk of identity theft whether they use online or paper sources. Personal statements available online, as with E-

LOAN, exposes the borrower to online fraud. However, the risk for identity loss via online sources is less as compared to identity theft through paper sources. Thus, since Diablo's process involves mailing loan statements and agreements to the borrower, this also opens up a greater risk for identity fraud to the borrower. The solution then is to provide protection for the borrower-customer by both types of loan companies – whether online or traditional. At the same time, the borrower must also take precaution to secure either their online personal information, or to not carelessly dispose their paper information. The use of paper shredders would be useful, especially since loan agreements and contracts contain pertinent and highly confidential information.

Safety against identity fraud is another benefit a borrower would get from Diablo's loan process since Diablo has very strict requirements about the documentation to be submitted by the borrower. Again, this may be viewed as tedious from the borrower's perspective. By way of contrast, in E-LOAN, after the application is submitted, approval will be communicated online to the buyer within minutes from submission of the online application. Diablo requires not only the submission of required documents before processing the loan, but it also requires the Diablo processor to submit review the borrower's Credit Report. Submission of the required documents or authentic copies thereof ensures the loan company that they are dealing with the a bona fide borrower, and not an impersonator. Some of the documents required are very personal, depending on the circumstance of the borrower, such a divorce decree. At this stage, it would be easy for the loan company, and the borrower, to spot whether someone is impersonating the borrower. Not all these documents, after all, are available to an identity thief. Thus, even though this may result in more work and more delay compared to online loan processing, it at least provides greater security to both the borrower and loan company.

The Credit Report may be advantageous, as mentioned, since it allows the loan company to ascertain the borrower will not renegade on his or her obligation. This is based on an examination of the borrower's credit history. Any negative or derogatory credit items requires a written explanation from the borrower. On the other hand, E-LOAN doe not require the presence of a mortgage professional to assist the borrower. It also reduces the number of required documents the borrower is supposed to submit. This is advantageous for a borrower who needs to avail of a loan immediately, without going through the tedious paperwork and delay.

Another advantage with E-LOAN is that it processes the loan in-house. It makes use of an automated underwriting system. Diablo, on the other hand, makes use of an outside lender and underwriter. This delays the approval of the loan again as the documents are passed from Diablo, to the lending company, and then back again. At each stage, Diablo and the underwriter go through separate evaluations of the loan application, and the underwriter may likewise require an investigation or explanation if there are derogatory credit items in the borrower's Credit Report. In Diablo if the underwriter requires more information from the borrower's credit history, the loan is put into “ suspense”. This may prejudice a borrower who is urgently in need of a loan.

The closing of the loan program also differs greatly between Diablo and E-LOAN. In Diablo, the borrower’s file, after approval by the underwriter or lender, is returned to Diablo to be processed by the company’s closing and funding department. The broker and closing attorney at this point communicates with the buyer on when to sign the loan documents, and what to bring or do before such date. After the borrower signs, Diablo then returns the loan agreement to the lending company or underwriter who again examines the document. If there is something amiss, the lending company returns the document to Diablo. Only if everything is order will the lending company fund the loan.

On the other hand, since E-LOAN processes the loan in-house, and has an automated underwriting system, the process is, again, much quicker. After approval of the loan, the borrower can immediately lock the loan 24 hours a day. The borrower confirms their rate online and receives an email confirming this as well. E-LOAN takes care of the completion of underwriting, which also allows the borrower to opt for another title company. The borrower may select a conveniently locate signing office, and may receive a $ 500 rebate from E-LOAN if the loan does not close on time. This saves time in terms of passing the loan documents back and forth from borrower, loan company, to lender, and back again in case there are any questionable information or insufficient data or documentation.

In terms of the loan programs offered, Diablo, as a traditional loan company, also has more variations of loan programs offered. It has 15 principal loans as compared to E-LOAN's 6 principal loan programs. Diablo's No Income Verification, No Down Payment, and Credit Problems Programs are especially helpful for people who are cash-strapped, or with low income that would otherwise disqualify them in other traditional loan programs. Their 103% Purchase Programs allows for 0% down payment with closing costs financed to up to 103% of the purchase price. E-LOAN, on the other hand, has a more limited offering. Its Fixed-Rate Mortgage Products Program, for instance, only applies to first mortgage only. Diablo has programs that apply to second mortgage, such as their 2nd Mortgage Loans Programs.

## VII. CONCLUSION

In conclusion, an online loan company such as E-LOAN may provide for a quicker, more convenient loan processing system. Since most of the transactions are online, the borrower may spends half the time to apply, process, and get the loan approved as compared to a traditional loan company such as Diablo. However, Diablo offers a wider variety of loan programs that would suit borrowers with different needs and wants. The loan process in Diablo is more tedious and takes a considerably longer time. The loan documents go through several examination stages between Diablo and the lending company. But the advantage to this face-to-face transactions is that the borrower is a participant every step of the way. Not only will it help to prevent identity theft, since Diablo has a strict documentation requirement, but it also allows the borrower to consult and clarify with a mortgage professional for any questions or concerns.

Borrowers in urgent need for loan funding and who want to do without the tedious processing system would benefit from an online loan company such as E-LOAN. Borrowers especially with a bad credit history would benefit from online loan companies since it does not have a strict documentation requirement on the credit history of the borrower. It is also easier to be rejected online rather than doing it face to face. On the other hand, Diablo also provides for loan programs that cater to borrowers who may have bad credit standing, such as their Credit Problems Program, and has a wider selection of loan programs. However, the loan process system with Diablo, and with any traditional loan company, is more tedious and takes more time than online loan processing. This is disadvantageous to a borrower who is in urgent need of funding, but advantageous for more prudent borrowers. For instance, home acquisition is an important financial commitment, and a borrower would benefit from face-to-face meetings with a mortgage professional for concerns, hesitations and clarifications. Diablo’s strict requirements on the documents to be submitted also helps to secure the borrower against identity theft. However, the traditional loan company may be too time-consuming for a person in urgent need for loan funding.

A borrower should thus do thorough research on both options – traditional and online loan companies – as well as an honest assessment of their credit history and financial capability, in selecting the loan process best applicable for their needs.

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