

MORTGAGE

TECHNOLOGY

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TECH PERSPECTIVES

People say there are two things you can count on in life — death and taxes. I propose a third for those involved in the mortgage industry — misinformation about the status of electronic processing of mortgages and the reality of reaching it. There are two major camps of thought that exist today regarding e-mortgages: those who believe it is virtually here or just around the corner, and those who perceive a number of barriers and do not believe the e-mortgage will exist anytime soon. I propose that both these perspectives are a little too absolute. As with so many things in life, the truth lies somewhere in between.

Why do so many industry watchers gravitate to one of these two extremes? One contributing factor may be the appeal of being viewed as a visionary. It's fun to paint a compelling picture of a future that uses technology to eliminate most, or all, of the barriers involved in an expensive, long, complex transaction when you do not have to deal with the technical and regulatory realities.

So, where, in fact, is the industry today, with regard to e-mortgages, and when will the dream of total digital closings become a reality? The industry is more than halfway there today and the finish line could as easily be measured in months as in years. To use a baseball analogy, we're currently rounding second and heading for third. It's important to note that the necessary technology to accommodate e-mortgages already exists. Regulatory procedures are now being honed to accommodate digital documentation and e-signatures and the industry and its technology vendors

are currently partnering in an effort to reach this goal. Several milestones have already been reached in various pieces of the process, including e-delivery of closing and disclosure documents, document image warehousing, electronic recordation of documents in several counties, Web-based loan origination, electronic service ordering, and e-signing of application docs, just to name a few. The important thing to note is that there are many more processes that could benefit from existing technology on the way to the complete e-mortgage. True, the digital closing won't be here tomorrow, but as we continue to move in that direction, there are many time and dollar savings to be realized along the way.



The Paperless Mortgage Rounds Second, Heads Home!

— By Phil Huff

If the industry has already embraced much of the digital technology of mortgage processing — especially in the front-end preparation — why is there not more enthusiasm and anticipation among industry professionals who will benefit so substantially from this technical advancement? Because the mortgage banking industry is now in a “wait-and-see” mode regarding what it views as an e-mortgage. Many mortgage professionals lob all electronic initiatives into this nebulous term, “e-mortgage,” thereby effectively eliminating many

“along-the-way” enhancements currently available to them. Some financial institution decision makers resign themselves to the logic that, since the digital closing is not yet fully realized, why invest in a solution that offers some, but not all, of the benefits they believe the completely digital closing will bring?

The real question to be answered is: where can I change the way I do business that saves time or money, enhances my customer service or gives me a competitive advantage? Our industry has fallen into the trap of “all or nothing” with regard to technology initiatives, seemingly stating, “If I can't have the completely digital closing, then I'm not going to do anything.”

Let's think of this situation in baseball terms: the current state of the e-mortgage is a base runner standing on second base, inching away from the bag and poised to make a dash for third. Entertaining the baseball analogy, think of the track to fully accepted digital closing from an offensive perspective: two bases have been reached and home plate is within sight.

Breaking down the game, let's look at what the industry has already accomplished, and what must happen in order to bring that base runner home.

What We've Accomplished

To reach first base, the industry needed technology that could safely and securely transmit documents to homebuyers and borrowers. Secure Electronic Document Delivery (SEDD) solutions allow lenders to deliver closing documents to closing agents and homebuyers as

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easily as if they were printing to a laser printer in the next room, at a fraction of the time and cost. In 1999, lenders gained access to tools that enabled them to capture and re-purpose data within their legacy systems. Capturing print stream generated by the lenders' LOS ensures that documents are rendered accurately throughout the loan process. This is a crucial step, considering the thousands of distinct document formats required in the process. Today, documents can be presented via the Web, right to the closing table, in an unaltered state, in a matter of minutes. That's quite a change from the days of couriers and next-day air.

What about security? Until recently, the transfer of information via the Internet was not considered secure by everyone. The technology

eSIGN (Electronic Signature in Global and National Commerce Act) and UETA (Uniform Electronic Transactions Act). The challenge to e-signature implementation is to convince potential users to recognize e-signatures as equally valid to an ink signature. With these regulations, the e-signature is given the same power of validity that is given to a "wet ink" signature. According to both eSIGN and UETA, the rights and needs of lenders and borrowers include:

- The option to use an e-signature through an opt-in key — it remains the borrower's choice to sign electronically.
- Hard copies of documents are always readily available.
- An audit trail of e-signature actions

Only with collective understanding and promotion of the proper technologies can an e-mortgage ever become a reality.

now exists to protect information being transmitted online and lenders have taken notice of both the security and reliability of online document delivery. Depending on which vendor you use, your documents are safer with SEDD than with many next-day delivery options. The technology for SEDD is readily available, easy to use and can interface with any existing system. Plus, with security measures in place, the initial apprehensions about SEDD of mortgage documents (identity theft and document alterations) have been quelled.

Where Are We Now?

At second base, we encounter a real-world implementation of Web-based electronic signature during the loan origination process. Now, the industry is positioned to adopt and realize widespread usage of e-signature technology where it is most easily accepted in the mortgage process — the three-day disclosures at the end of the application process. Already in progress are two pieces of legislation that promote the acceptance of e-signatures:

allows for easy tracking status so that lenders can have real-time knowledge of document approval.

- Adequate authentication of user identity prior to e-signing identity of borrower is confirmed when borrower signs up for signatures. Both eSign and specifically NCCUSL require this step to prove that the person accessing the website is the same person that delivered his/her information via the phone or Web. Usually four out-of-wallet questions are asked (eye color, city of birth, mother's maiden name, etc.).

The Next Challenge

If we're now at second base, leaning toward third, the play that will get us to the next base is the involvement of government-sponsored enterprises. GSEs must first accept e-signatures before the technology can be truly accepted and implemented into the mortgage process. Efforts are now underway to facilitate the delivery of the e-note to Fannie and Freddie, right from the closing table, as soon

as next year. The GSEs are very active in MISMO (Mortgage Information Standards Maintenance Organization) for good reason. If we can get to third, and Fannie and Freddie can actually receive the e-note in electronic format, we've cleared a major hurdle, and the potential savings are astronomical. Fannie and Freddie recognize this. They see e-signature technology as not only a plausible, but necessary tool in streamlining the mortgage process. Once e-signatures have gained the authority and support that those hesitant lenders and borrowers require to fully embrace a crucial phase of the e-mortgage, it follows naturally that the concept of the pure e-mortgage will no longer be so far-fetched.

Reaching the Goal

Once we're e-delivering smart, electronic information to the GSEs, it's an easy run from third base to home. It may take a year or two before the general public truly embraces the idea of an electronic mortgage process, from origination to closing to filing, but in the fourth phase of e-mortgage acceptance, lenders, brokers, GSEs, borrowers and recorders will all be a part of the process online. The industry cooperation will mean a fast, secure, legally binding method that takes a fraction of the time to complete and costs far less than ever imagined.

Mortgage lenders, borrowers, GSEs and vendors all have a vital stake in helping the industry reach the digital plateau. This is why it is important for industry leaders to become knowledgeable and stay abreast of current developments. It is also imperative that lenders take the opportunity now to begin the transition by fostering the adoption of e-delivery and e-signature technologies to keep the process moving to fruition. Only with collective understanding and promotion of the proper technologies can an e-mortgage ever become a reality. Then everyone involved in the process will have reached home. ♦

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For more information, please call 800-466-5969