

## The Clear Path to Electronic Mortgages

*Blazing a trail that any lender in the industry can follow.*

### A White Paper

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#### **The Promise of Paperless**

For nearly half a decade, experts in the mortgage lending industry have been extolling the benefits of completely paperless mortgage lending. But it wasn't until 2004 that a study actually quantified the cost savings to a mortgage lending enterprise.

In October 2004, CC Pace and The Stratmor Group conducted a time and motion study on behalf of the Mortgage Bankers Association in which it was revealed that paperless lending, enabled by the emerging industry data standards, could save lenders hundreds of dollars per loan. The study showed that "direct costs can be lowered by as much as \$249 per loan, approximately 75% of which would directly benefit the lender. In addition, the surveys show that execution costs can be improved by as much as 15.38 basis points, a 25-50% pickup in retail lending margins or \$450 for the average loan."

Lending executives that had previously been only thinking about making the move to electronic lending now had ammunition to go to their boards with bona fide reasons for making the investment in whatever technologies were necessary to get them there. Unfortunately, when asked what technologies would be required to achieve these impressive savings, executives hit the next hurdle in the race to adopt the electronic mortgage.

The idea of lending electronically was now an objective for many lenders, but the path to getting there was still obscured. In an effort to lead lenders to the light, MBA's MISMO organization (Mortgage Industry Standards Maintenance Organization), issued a definition of the paperless mortgage:

In a presentation to lenders, MBA Senior Director of Industry Technology Harry Gardner (who also holds the title of Vice President of eMortgages for MISMO) said the paperless mortgage must meet the following criteria:

- Electronic mortgage transaction (at least for critical docs: eNote at minimum)
- Paperless – not imaged

- Signed electronically
- Data + document view – ability to recreate exactly what the consumer digitally signed
- Ability to determine electronic originals from copies (eNote: MERS® eRegistry)
- Hybrid eMortgage = e-docs + paper

In short, Gardner said the goal was “a mortgage where the critical loan documentation, specifically the promissory note, is created electronically, executed electronically, transferred electronically and ultimately stored electronically.”

Lenders have been told that if we can reach this goal, the benefits to everyone in the value chain will be compelling. For lenders specifically, we as an industry expect to see:

- Documents that contain their own data, that can be extracted and read
- No manual keying of data from paper docs, “stare & compare” quality checks
- The death of the paper cart: On-screen access to all docs
- Increased delivery speed & and lower costs, essentially free and immediate
- QC, fraud & compliance checks automated, using that standard data
- A vastly improved buyer experience
- eDocs available to everyone in the process prior to closing

By now, the vast majority of lenders have been convinced that taking the paper out of the mortgage lending process is a strategic imperative. Unfortunately, the industry players that are most active in promoting the idea of all electronic lending are not in a position to endorse specific technologies or vendors. In fact, their continued success depends upon having a critical mass of industry players involved in their efforts, making it impractical for them to alienate any vendor by promoting any other.

One consortium of industry vendors, the eMortgage Alliance, worked for a number of years to promote paperless lending through the advancement of a set of technologies. Without the support of the trade associations or the GSEs, the effort saw little success.

Today, lenders are left in an uncertain position. They are well aware of their need to move into electronic mortgage lending, but they are finding it difficult to measure the risks involved in the various technological solutions being offered. With some vendors estimating the required investment in the millions of dollars, lenders are hesitant to move forward but eager to do so. They know the outcome they want to achieve, but can’t see a clear path to get there.

### **The Obstacles to Electronic Mortgages**

In addition to the fact that the major players (GSEs and major industry trade groups) will not step forward to endorse specific technologies, lenders who achieve a measure of success with electronic lending are hesitant to share details as it now constitutes a competitive advantage in the marketplace.

Lenders who have not yet made the move to paperless lending are left sifting through many vendor offerings in the hope of finding a solution that is both affordable and sufficient to give the company the benefits the board has been trained to expect. Unfortunately, the vast majority of the technologies available on the market today are only partial solutions that cannot deliver the expected return on investment.

Emerging standards, while a boon to the industry in general, further hamper the adoption of electronic mortgages because lenders fear that moving into the market before the standards are finalized may cause them to step back and retool later in the game, a process that will likely be expensive. MBA's MISMO, PRIA (the Property Records Industry Association), REIPA (the Real Estate Information Professional's Association) and others are all working to set standards for real estate-related transactions.

In addition to the many technology offerings and standards groups, the industry itself is broken up into a large number of sub-industries, each intent on taking its part of the transaction beyond paper. In addition to the lender, we have title companies, notaries, closing/settlement agents, County Recorders and secondary market investors, all intent on making certain that they can achieve the benefits offered by all-electronic mortgage lending at the lowest possible cost to their firms. All of these players are currently working with expensive legacy systems, many of which have not yet provided sufficient return to justify their initial investments.

Finally, there are some lenders in the industry who seem to be holding out for assistance from other industry players they feel have more to gain from electronic lenders. Despite the MBA's time and motion study, some lenders still believe that the majority of the benefits attributable to paperless lending will be realized by secondary market players and not by primary market mortgage lenders. If that is the case, they reason, should not these larger players incent lenders to make the investments required. To date, no secondary market investor has offered to pay more for an electronic loan than for a loan originated on paper.

Despite these obstacles, paperless lending is possible with today's technologies. It is feasible, legally defensible and successfully tested. In fact, both Fannie Mae and Freddie Mac have already bought loans with electronic notes and both companies say they hope to invest in more. The goal can be realized. The only question is how much will it cost lenders to do so.

### **The Problem with Current Solutions**

Sometimes, having too many choices is just as bad as having none at all. On the surface, it appears that lenders are being offered so many technologies aimed at taking their operations paperless that choosing between them has become a monumental task. In truth, when you filter out the partial solutions—those dependent upon other technologies to succeed or that fail to take the loan all the way from the Point of Sale through to the secondary market—it becomes clear that lenders don't really have many good choices at this time.

That is not to say that there are not some very good companies working in this space. Some of the industry's best technologies are working on this problem today. The problem is that most are working on solid offerings that are limited in scope or broader offerings that are limited in the number and kind of service providers they connect.

It should be noted, as per Gardner's definition above, scanning document images is no longer considered a viable paperless lending solution. While the paper may well disappear from the process with a scanning department, the paper will always reappear if the data cannot be extracted from the documents electronically. Any solution that involves scanning without a method for extracting the data is not a clear path, but rather a detour.

Similarly, any solution that does not allow for electronic signatures does not represent a clear path to our goal. While technologies exist to allow closing agents to return document packages to the lender on CD-ROM, without a digitally signed note, we have not realized a complete solution.

Any solution that involves a proprietary set of technologies (required extensive integration in order to work with legacy systems) or a captive group of settlement providers (such as we often see from the larger title companies) will not give lenders all the benefits they seek and cannot be the solution of choice.

Finally, a real eMortgage solution will take the deal from the Point of Sale all the way to the secondary market and into the Recorder's vault. While it is true that the majority of U.S. counties are not currently capable of electronic recording, it is well documented that only a few counties make up the majority of the lender's business.

Among the 3,142 individual county jurisdictions in the United States, just a handful has the ability to electronically record and store documents that would be part of a paperless package. However, the 600 top counties have already been offered electronic recording and indexing systems and many have installed them or begun that process. A real solution should be able to interface with any of these systems, without requiring the County Recorder to modify anything.

When we use this list to winnow down the list of competing technologies, we find that lenders are offered few if any complete solutions. Those that remain are expensive and time-consuming to implement. They require the lender to retrofit its entire business and still often require the lender to settle for a subset of all available settlement services providers by virtue of the difficulty involved in integration.

We considered all of this before we began development of the Settleware offering. Because we studied this market and the available solutions offered before we created our offering, we can say with confidence that there is one solution that does provide a clear path that takes lenders, painlessly and affordably, to paperless lending.

## **The Clear Path to Paperless Lending**

These are the criteria we used in the development of Settleware, however, as this is not a sales document, per se, we leave it to other publications to convince you that our offering meets these criteria. Here, our goal is to lay out, scientifically, the requirements for a real solution. We hope you will investigate our offering further, but regardless of what technology you choose, it must meet the following objectives in order to be a real solution.

1. The solution must not disrupt the lender's current process. It must work with legacy technologies now in place and new ones installed in the future. No upfront hardware costs.
2. It must work easily with any and all parties to the transaction, taking advantage of the Internet and providing bullet-proof data security. Very low cost to integrate.
3. It must be capable of facilitating paperless transactions from the earliest moment until the deal is archived, regardless of the number of systems or parties involved.
4. It must support all levels of e-Recording, digitized and/or digital and secure signing solutions including supporting electronic or hard copies, digital and signing pads formats, as well as e-Notarization.
5. It must support Investor e-Delivery, enabling all lenders to sell e-Mortgages to the investor of their choice.
6. It must be capable of working with data in any standard schema and recording documents made up of this data and other information up to Level 3 in either SMART Doc or PDF format.
7. It must provide for sealed, tamper proof electronic signatures that are fully compliant with UETA and U-Sign and must interface with any eVaulting system.
8. It must be capable of sending executed documents from the closing table directly to the Recorder's Office. In the case of lien releases, it should be instantaneous.
9. It must include business rules management and roles-based permissions to allow for secure workflow routing. Electronic audit records must be complete and tamper proof.
10. It must be protected by US Patents to give lenders and other users confidence that the technology will last.
11. It must be certified by industry players lenders want to work with, such as MERS, MISMO and Fannie Mae.

12. It must allow for a lender to fully implement and begin using the system in 60 days or less.

We leave you with two thoughts, in the hope that it does not overly tarnish this document as a carefully thought-out treatise on the current state of the industry as it regards electronic mortgage lending.

- Settleware offers the only production-ready product that meets all of the above requirements to facilitate the complete electronic real estate/mortgage transaction, connecting all parties, documents and data, consummated over the Internet from the Point of Sale through closing, secondary marketing and recording of documents.
- Because the offering is SaaS, some of Settleware's current customers are experiencing a 50% savings in process costs using this offering.

We hope you'll contact us for more information:

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