

Industry Outlook

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How E-Mortgages Eliminate Friction from Start to Finish



By Paul Anselmo, CEO, SigniaDocs

It has been said with great accuracy that the process of creating mortgages and getting them all the way to an investor is full of moving parts, and moving parts cause friction. Friction is everywhere in the industry, among its lenders, among its service providers and among its investors. The friction discussed here, of course, is metaphorical, not physical, but the results are no less destructive than the heat generated by moving parts in a machine. The friction we have dealt with since the industry began is perhaps more destructive than its literal counterpart, despite our attempts to throw lubricant at the problem as we would dump a quart of oil into the family car. In the car, friction is unavoidable but can be treated. In lending, the friction slows down the process, costs hundreds of dollars for each loan, robs profits – and is almost completely avoidable with technology available today. Inexpensive, simple to deploy technology, too.

Anything that gets between the borrower and the end investor represents transactional friction. The need to process and make decisions is unavoidable, but is readily treatable by making the process electronic, concepts the industry is finally beginning to understand and embrace. Freddie Mac and Fannie Mae are eager to rid themselves of friction and have been open to electronic mortgages for quite some time, but it has taken a global crisis that threatens lenders with extinction to change from expensive paper processes to efficient electronic ones. They simply must find better ways to create and deliver their products, which is why you are hearing a lot more noise around the e-mortgage space lately. It makes complete sense, especially given the ease with which adoption occurs.

From the beginning of the mortgage process, e-processes ease transactional friction. Initial disclosure packages are sent electronically via secure links in minutes, eliminating the “hair on fire” process of putting a physical package in most borrowers’ hands within 72 hours. Receipt is verified electronically, satisfying RESPA, and lenders benefit further by gaining borrower commitment sooner, getting them “off the street” and leading to greater likelihood of loan completion. This happens at virtually no cost, especially when compared with the time, energy, printing and courier expense in the current process. Using e-mortgage platforms, documentation is ordered and received electronically, fed into automated underwriting (AUS) and loan origination systems (LOS), and kept in an e-vault, with access limited to those involved in the process. Stakeholders can view the loan information via the Web as permissions are granted, meaning far fewer phone calls to check on document

arrival and loan status – eliminating another prime point of friction and increasing customer satisfaction with a faster process.

In the secondary market, friction has been rife largely because of the lack of data integrity associated with selling loans. Changes are made in the LOS that aren't reflected in the bid tape traditionally used, so live bodies have been used to adjudicate the two, and at great expense. The e-mortgage renders all this unnecessary by virtue of its very nature. Category One SMART Docs are both document and data stream in one. Change one and the other is also changed. Preview the data stream and there is no need to look at either physical documents or their image views. Data integrity is complete, every time. Using the e-vault, investors can preview the loans before they make a buying decision if they wish, removing even more friction in pipeline management. When the loan is ready to close, all parties, including the borrower, can look at the loan documents beforehand online and have a head start on understanding the line items on the disclosure statement, among other things. This means their closing is vastly reduced in time and aggravation, resulting in a better borrower experience, but it also means something else – something very important.

The closing docs, being SMART, after all (an acronym for Securable, Manageable, Archivable, Retrievable and Transferable) are capable of helping lenders avoid big problems down the road. There are a growing number of cases with traditional documented loans where borrowers have maintained that they have neither understood nor acknowledged their obligations under the loan at the closing table. They didn't know an adjustment could occur or that they could lose their house if they didn't make payments, etc. Borrower-friendly courts have frequently decided against lenders, leading to penalties and even abrogation of the loans involved, costing millions of dollars. E-closings won't let this happen so readily. E-documents can be customized to require various sorts of special attention for key items in the closing documents, such as verbal and digital explanations of provisions and e-initials for important sections. A closing agent can't accidentally miss a page that needs to be initialed because the e-closing cannot proceed unless it is done correctly. This intrinsic capability makes e-documents far more secure than paper ones and reduces even more friction from the loan process.

Perhaps the greatest friction occurs in loan servicing in cases where borrowers fall behind in their payments. No one is happy dealing in these scenarios, of course – lenders see their loan threatened, borrowers see their home potentially disappearing and servicers see their profits erode with each friction-producing letter or phone call. Loan modifications are more prevalent now than at any time in history, assisted to a degree by the financial incentives being paid by the GSEs to ease the pain. Expect them to increase even more dramatically in 2009 as the federal government and the Obama administration push lenders to modify rather than foreclose on defaulting loans. E-mortgages reduce transactional friction here, too. E-modifications happen when an agreement is reached between lender and borrower and documents are sent out to be signed. Instead of creating and sending paper documents, e-mods are sent electronically, arrive immediately, are e-signed electronically and returned right away. The disturbing trend about paper loan modification agreements going unsigned by borrowers who just give up and leave is largely interdicted by e-modifications because of their immediacy and simplicity.

E-delivery to investors is the final stage of the process that helps reduce transactional friction. Investors can inspect before they take delivery if they desire, but the real beauty is once again in accuracy and immediacy. Loans are delivered in minutes and purchases can be funded more quickly (subject to credit file due diligence), minimizing warehousing costs and wasted time. Investor diligence is cut in half since the closing package is SMART. E-

recordings are becoming commonplace today, with over a third of the busiest markets capable of handling these transactions. For those not yet capable, papering out is limited only to the mortgage or trust deed, meaning that two or more reams of paper per loan never have to leave the stockroom.

E-processes take transactional friction out of mortgage creation and even loan modification areas, but they also remove a great deal of financial friction from the picture. All of the processes mentioned happen for very little, generally comparable to the cost of a set of traditional paper documents and other small transaction fees. The result is a better experience for everyone involved, from borrower to investor and everyone in between. There is greater security and accompanying reductions in security exposure, and importantly, a complete lack of surprises along the way. E-mortgages may not be a panacea, but they make life much easier every step of the way, and they are available right now.

You might say that e-mortgages are a matter of fact – not friction.

Paul Anselmo is CEO of SigniaDocs, the Texas-based provider of e-mortgage solutions for the lending industry. Prior to founding SigniaDocs, Mr. Anselmo served as president and CEO of Mortgage Resource Network, a business process outsource and technology provider to the mortgage industry, which he founded.