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TAMING THE PAPERLESS MORTGAGE

The road to electronic should be taken one step at a time

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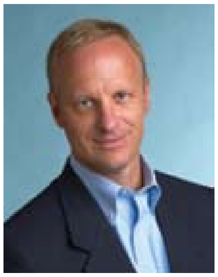

Ever since Congress established a legal framework for the validity of electronic signatures in 2000, the mortgage industry has dreamed of the day when borrowers would embrace a fully electronic process for mortgages.

The benefits are obvious – less paper, quicker closing times, enhanced digital tracking and easier file storage just begin the list. Yet more than a decade after the passage of the Electronic Signatures in Global and National Commerce Act (ESign) and Uniform Electronic Transaction Act (UETA), paperless mortgages are still a niche product.

Over the past few years, each new development, such as e-disclosure support, electronic file vaults and Web-based loan origination systems (LOS), has brought the paperless mortgage one step closer to the mainstream. For many originators, however, the concept of moving to paperless mortgages might seem overwhelming.

GRASPING THE FULL PICTURE OF THE PAPERLESS MORTGAGE

Productivity and planning expert Steven Covey notes in his best-selling book *The Seven Habits of Highly Effective People* that all successful projects "begin with the end in mind." If lenders do not completely understand what a paperless mortgage looks like, and how it can benefit their company, then reaching the goal is very difficult.

The simplest definition for a paperless mortgage is any mortgage where the initial disclosures and primary loan documents are created, processed, transferred, signed and stored electronically. In a "full" paperless mortgage, not only are the original documents be electronic, but the sale, management and servicing of those documents is digital as well.

The legal framework for supporting paperless mortgage is the Esign and UETA Acts passed in 2000. Shortly following those landmark laws, the Mortgage Industry Standards Maintenance Organization (MISMO) began working to define key paperless mortgage technical standards and processes that could legally support electronic transfer and signature in mortgage documents.

Once the technical standards were established, lenders and technology vendors began developing systems that could support all the pieces needed for a paperless mortgage. Today, the technology exists to completely run a paperless mortgage. For most originators, though, the best results will come from identifying those pieces of the mortgage process that will provide the best profit value and implement them first. For most lenders, the first steps will be embracing e-disclosures, e-filing and laying the groundwork for e-signatures.

PAPERLESS = INTEGRITY, TIME, SECURITY AND MONEY

For most originators, the key to implementing paperless mortgages is understanding electronic documents (eDocs), and the benefits they provide to the lenders and the borrower. Many loan officers think of eDocs as simple imaging, where existing paper documents are printed and scanned following the signature. However, in a truly paperless mortgage, the documents never exist in paper form.

Integrity. The biggest advantage of electronic mortgages is the increased integrity of the documents. Since an eDoc is accessible to all service providers in the mortgage chain, changes made to the documents are applied instantly to all areas of the closing documents.

This eliminates redundant data entry and reduces data errors, which is especially important in light of today's regulatory environment. Lenders are experiencing increased scrutiny of their regulatory compliance. With eDocs, all aspects of document, lender and investor compliance are monitored throughout the life of the loan. The integration of compliance support enables corrections to be made immediately, saving the need for long, expensive post-closing audits.

Automation has allowed Salt Lake City-based Castle & Cooke to go almost totally paperless. Not having to scan individual documents saves seconds per each individual document, with that saved time accruing to hours when the company processed almost six thousand loans in the last year. Automation of bar coding also allowed the company to cut back on temp workers for filing and imaging documents, which had been costing Castle & Cooke $60 per hour.

"Using the bar code feature in our document system, Castle & Cooke has saved more than $100,000 in imaging, shipping and storing loan docs," said Matthew Pineda, president of Castle & Cooke. "We get data integrity, compliance, system interface with our LOS, efficiency post-closing and incredible savings."

Time. Another benefit of the paperless mortgage for loan officers is the time saved. Paperless mortgages enable originators to eliminate much of the manual effort of handling, processing and checking paper documents. Applications, disclosures and closing documents can be generated, shared, signed and filed digitally.

By reducing the time spent on each loan document package, the originator can focus their time on improving customer service, increasing loan volume and lowering paper transportation and storage costs.

Security. Additionally, paperless mortgages are more secure than paper-based loans. Electronic files can be encrypted for secure transmission and storage, preventing unauthorized access to the data. An electronic "seal" can also limit when, and by whom, changes are made to the loan file.

Money. Using eDocs will save originators money. Integrating all the documents into one system will reduce the need for the expensive transportation, filing and storage services needed by paper documents. Decreased time in the process means less time spent on each loan.

SELECT AN EDOC FORMAT

In short, eDocs are documents that are created, signed and stored electronically. With lenders and investors becoming more accepting of eMortgages, two eDoc formats have risen to the top. One is the Securable, Manageable, Archiveable, Retrievable and Transferable document (SMART Docs), and the other is the eSigned Portable Document Format (PDF).

While both formats of eDocuments achieve the same thing – a legally bound loan document – each format takes a different approach. An eSigned SMART Doc is a single electronic document with five sections: Header, Data, View, Audit and Signature. SMART Docs are XML-based and designed to be created, viewed and stored in a Web environment. An eSigned PDF Document is an electronic document in a PDF format that is sealed with a digital signature. PDF Documents are viewed either within a Web browser or through the stand-alone Adobe® Reader®.

DISCLOSE BEFORE YOU CLOSE

Disclosures are more important in today's mortgage process than ever before due to RESPA and MDIA regulations. Regulators are constantly adjusting disclosure laws to ensure borrowers have as much information as possible on the settlement expense and finance charges of their loan.

Lenders have already spent hundreds of man-hours implementing the 2010 reforms to the Real Estate Settlement Procedures Act (RESPA) and Mortgage Disclosure Improvement Act (MDIA). These rules amended disclosure requirements, set mandatory waiting periods and instituted fee disclosure requirements.

As all lenders know, the disclosure-waiting period impacted decades of previous mortgage processes. Under the MDIA, lenders cannot close a loan until seven business days following the mailing or delivery of the initial disclosures. If there are any material changes to the disclosure, such as a change in annual percentage rate, the lender must provide a new disclosure with corrected information no later than three business days prior to closing.

Under the RESPA rule that went into affect last year, originators must provide consumers with a standardized GFE within three days of signing a mortgage application. While the regulation does not dictate what lenders should charge for certain services, the disclosures now serve as a binding estimate.

However, lenders should not get too comfortable with the new forms and standards. The Consumer Financial Protection Bureau (CFPB), which began operations in July, is working to consolidate RESPA and the Truth in Lending Act (TILA) to create a new, unified disclosure form that consumers can understand.

The CFPB has already begun floating proposals for new disclosure forms. The first round of proposals received more than 13,000 comments, and the agency began a second round of proposals based on the initial feedback.

E-DISCLOSURES SIMPLIFY COMPLIANCE

For many lenders, e-disclosures are the first step to paperless mortgages. E-disclosures simplify the generation, distribution, tracking and reporting on disclosures. Electronic delivery not only ensures compliance with regulations, but it also saves time, since borrowers can receive electronic communications immediately. Borrowers are also more comfortable signing disclosure forms electronically, compared to closing documents.

In terms of complying with the regulations, the most significant benefit in using e-disclosures is that there is a reporting trail for the generation, distribution and receipt of all disclosures. Originators can ensure that borrowers have opened the disclosures, and some systems will even mail a back-up paper copy when the disclosure is not accessed, signed and returned in the time required.

Walpole, Mass.-based Mortgage Master has also been able to enhance customer service using e-disclosures.

"We are able to submit secure loan and disclosure packages to our customers through our doc system and LOS," Lisa Goble, director of Operations for Mortgage Master, explained. "For our borrowers who are comfortable with online communications, we can send a secure e-mail with all their disclosures and loan documents. We can also attach application files, ensuring the borrower receives everything they need to evaluate and confirm the mortgage."

Goble said the integration also provides the lender with a secure back up for documents submitted electronically. If the borrower does not open the file or refuses the electronic method, the system automatically generates a hard copy and mails it as a back up. The system also tracks and provides reports on all documents to ensure compliance with disclosure laws.

Goble also said borrowers have praised the electronic format for being easy to access and save copies for their own personal use. Traditionally, lenders must mail large files to the borrower, which the borrower must store physically and mail back the needed signed pages. With electronic disclosures, the borrower can only print out those pages they want, sign disclosures electronically and securely save the documents on their computers.

The primary legal requirements originators need to be aware of concerning electronic disclosures is that the borrower must sign an agreement to communicate electronically prior to any disclosures being issues.

It should also be noted that lenders could experience a small reduction in office-supply costs by moving to electronic disclosures. Loan officers can also attract borrowers who are seeking the convenience and speed electronic communication enables.

ONLINE STORAGE – BARCODES AND E-FILING SIMPLIFY RECORDS

The next area of paperless mortgages seeing the most growth is the digital storing and filing of loans after closing.

Traditionally, lenders had to mail or fax loan documents after closing to the servicing or secondary market departments. Printed closing documents had to be filed and stored throughout the life of the loan.

Why should lenders be concerned with what happens to documents after closing? Just as outstanding customer service generates repeat business and referrals, finding ways to digitalize post-closing documents will make it easier and more profitable to work with funders, investors and servicers.

E-filing can take many forms. For lenders still using traditional paper closing documents, the documents can be scanned and barcoded. Barcoding enables lenders to quickly find and access documents using on online database to track the documents. True eDocs are even easier, since the document was generated in a digital environment and does not require any conversions to file electronically.

Forked River, N.J.-based Oceanside Mortgage also uses an automated barcode solution to streamline and secure the document scanning and storage process. The lender can set up barcodes in minutes and create documents that can be scanned immediately without using barcode stickers.

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"We use a barcode system that interfaces flawlessly with our LOS," said Steve Stone, Oceanside Mortgage's vice president of Secondary Marketing. "Our barcode feature allows us to ship instantaneously to investors, speeding up the process and saving thousands of dollars in shipping costs."

After just more than a year, Stone attributes significant savings in terms of both time and money to the company's implementation of automated documents. Oceanside closes anywhere from 80 to more than 350 loans each month, and their new process saves the company $20 per loan. Furthermore, improved efficiency in the document production process enables Oceanside to operate with a much smaller staff.

A DIGITAL JOHN HANCOCK: E-SIGNING

The largest barrier for most originators is the willingness or ability of borrowers to sign paperless loan documents electronically. While there are always early adopters, e-signed mortgages still make up a small percentage of the marketplace.

However, each new generation is more comfortable embracing complex financial decisions online. Consumers now embrace online and mobile banking, online stock trading and shopping for car loans. It is only a matter of time before the tide begins to turn and electronically signed mortgages become more commonplace.

In the meantime, loan officers should ensure they do not get stuck when that time comes. Ensure that the technology platforms and document systems can support e-signatures.

WHAT TO LOOK FOR IN PAPERLESS MORTGAGE TECHNOLOGY

When making the decision on how to implement pieces of the paperless mortgage, there are a few considerations to keep in mind. The most important is compliance. Any mortgage system – both paper-based and electronic – must comply with all the federal, state, agency and investor requirements. In the case of paperless mortgage, lenders should make sure that the proper forms would be delivered in the correct format at the right time.

Compliance is not a place to take shortcuts. A compliance failure can result in lawsuits, trouble with regulators and loss of time and money. Having a trusted disclosure provider can remove the burden of keeping up with compliance updates and let lenders focus on their customers.

Donna Moody, assistant vice president of closing for Augusta, Ga.-based Georgia Bank and Trust, said having a document partner that paid strong attention to compliance is invaluable. "Compliance is very important to us," she explained. "Our document system is constantly updated to keep up with all the changes coming from Washington and the states we operate in. The system truly helped us navigate last year's Real Estate Settlement Procedures Act (RESPA) changes."

A good service will have a reporting feature that lets brokers track every stage of the mortgage process to make sure that everything is completed on time and in accordance with new regulations. The reporting function could also be tied to a mailing service that would send paper copies of the documents to borrowers automatically when the electronic communication is not completed in time.

The paperless mortgage does not have to be a giant project taken on at once. Begin with those areas where automation and paperless technology can smoothly implement into existing technology platforms. Documents are often one of the easiest pieces to begin doing electronically, and the savings per loan can be the difference between surviving and profit.

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