Will New Regulations Finally Make The E-Mortgage A Reality?

Although e-mortgages have been around for years now, new compliance mandates are pushing the industry toward widespread adoption.

By Patrick Barnard

Editor's note: In this first of a multi-part series, ***SME*** *breaks down the e-mortgage by its various facets and explains the challenges that have slowed adoption.*

The concept of an electronic mortgage, or e-mortgage, has been around for about 15 years now - in fact, the first e-mortgage was registered in 2000 in Broward County, Fla. - one year after the Uniform Electronic Transactions Act (UETA) was passed, and the same year that former President Bill Clinton signed the Electronic Signatures in Global and National Commerce Act (e-sign) into law.

A year later, the newly founded Mortgage Industry Standards Maintenance Organization (MISMO) introduced the first industry data standard for electronic transactions, along with its pioneering Smart Doc technology, which paved the way for mortgages to be processed electronically. The technology was immediately embraced by Fannie Mae, which announced in 2002 that it would start accepting e-mortgages and launched a campaign to drive adoption among lenders.

Despite Fannie's aggressive push to get lenders to embrace the new technology, integration issues, security concerns, the high cost of upgrading to new systems and lack of incentive hampered adoption. Also slowing adoption is the fact that the mortgage industry has historically been resistant to change - upon first hearing about the e-mortgage, most lenders said, "No, thanks - I'll stick with my reliable, manual, paper-based processes." What's more, by 2003, origination business was starting to pick up significantly - and by 2005, lenders were so backlogged with new business that they didn't even have time to think about new technologies.

Still, the e-mortgage had proven its potential to transform the industry in those early years - and everyone knew it was only a matter of time before fully automated loan production became a reality.

Since then, the e-mortgage has evolved significantly. The infrastructure to support e-mortgage transactions is now fully built-out and scalable. Today, the e-mortgage is an "ecosystem" of technology solutions working in unison across every facet of the mortgage process - from application to closing. Technologies comprising this ecosystem include e-sign, e-doc, e-vault, e-disclosure, e-closing, e-notary and e-recording solutions, as well as Mortgage Electronic Registration Systems' (MERS) e-registry and e-service solutions. Many lending institutions now have e-mortgage technology in use - but with so many facets to the e-mortgage, there is still plenty of room for further development and adoption.

With the implementation of the Consumer Financial Protection Bureau's (CFPB) ability-to-repay/qualified mortgage (ATR/QM) rules - and with the pending implementation of the CFPB's Know Before You Owe docs and rules on Aug. 1, 2015 - the stage is now set for the e-mortgage to become the standard approach to the mortgage process. The new rules require lenders to keep an electronic audit trail of all the documentation associated with a mortgage, so as to give regulators fast and unhindered access to loan files and related data to aid in their forensic audits. The e-mortgage - and in particular, e-doc, e-sign, e-vault, e-notary and e-recording solutions - is ideal for facilitating this level of transparency: With the e-mortgage, all the data associated with a loan file lives within the document in the form of a metatag that stays with the document no matter where it goes.

Equally as important as the compliance aspect is the fact that investors now demand complete transparency in the loans sold as mortgage-backed securities (MBS). In today's investor- and market-driven environment, automating the mortgage process accelerates the loan cycle, which positively influences funding commitments and satiates investor desire for loan quality.

Operational efficiencies and increased profits are also driving adoption of the e-mortgage. Lenders are finding that by automating loan production, they can boost productivity, reduce operating costs, better prepare for shifts in market demand and deliver improved customer service.

The e-mortgage has led to a fundamental change in how lenders evaluate and invest in technology. Most are now making technology decisions based on a solution's ability to support electronic-based transactions. Today, about 70% of the loan origination systems on the market handle e-mortgages through a highly coordinated set of technologies and services that automate, integrate and administer the many routine activities that comprise the mortgage lending process. Helping to facilitate this new level of business process automation is the integration of Internet-based lending channels into the mortgage-lending process, widespread adoption of automated underwriting systems, and the creation and implementation of industry standards, such as MISMO, e-sign and UETA.

Although the e-mortgage has come a long way in the past 15 years, there are still plenty of loose ends that need to be wrapped up before one can say it has truly arrived as an industry standard. First and foremost is adoption. Currently, a little more than half of all lenders are using e-mortgage technology on some basis. But with the introduction of the CFPB's ATR/QM and Know Before You Owe rules, adoption is set to increase dramatically, as lenders will essentially have no choice but to embrace e-mortgage technologies in order to meet compliance.

For some, the new Know Before You Owe docs specified by the CFPB and going into effect Aug. 1, 2015, are the proverbial cherry on the sundae for the e-mortgage.

"When people ask me, 'When is the e-mortgage finally going to happen?,' I tell them Aug. 1, 2015," says Tim Anderson, director of e-services for DocMagic, and a member of the Mortgage Bankers Association's MISMO Residential Governance Committee. "I think that's as late as it's ever going to get - and if lenders aren't gearing up for it, they are not going to comply. If a lender is still in a paper world [when the new regulations take effect], I don't know how it is going to do it."

In a recent survey conducted by Xerox Corp., 88% of mortgage professionals said pressure to comply with industry regulations and standards is the greatest factor impacting e-mortgage and paperless initiatives. The survey, conducted in December, shows that 63% of lenders now have electronic document solutions in place, compared with 55% in 2012.

What's more, 68% of respondents believe that the mortgage industry will close more than half of all loans as an e-mortgage within the next seven years. The survey reveals that 82% of lenders experienced an increase in e-disclosures and 32% saw an increase in e-closings during the past year.

Still, lenders face significant challenges in implementing the e-mortgage. As per the survey, 74%

of lenders say lack of e-signatures' acceptance on U.S. Department of Housing and Urban Development (HUD) originations has hindered their e-mortgage plans.

Almost all respondents (97%) say online collaboration among internal and external participants in the mortgage process (i.e., lenders, borrowers, closing agents, investors and servicers) is a key component to standardizing the e-mortgage. To accomplish this, all parties must be able to access and share data through a single, Web-hosted, electronic loan folder.

Anderson says one of the biggest challenges in bringing the e-mortgage to fruition is covering the entire process end-to-end. To do this, he says, "You've got to involve a lot of players - you've got your lender, the buyer, the seller, the investor, the title agent - and the more people you involve, the more people there are to sign off on this thing. So, you have to educate a lot of folks - and you have to aggregate everyone on a common e-closing, e-signing platform."

Although this requires substantial investment in new technology and training, there is a huge competitive advantage in doing so. An example is Flagstar Bank, which, according to Anderson, "has spent an inordinate amount of time re-vamping their processes, educating title agents, and trying to get a competitive advantage using e-mortgage and e-closings as their carrot." He says Flagstar has had great success with its e-mortgage program, which has been in place since 2007. The bank credits its e-mortgage program for improving its operations, as well as its customer service, he says.

In addition to the CFPB's Know Before You Owe docs, the bureau's ATR/QM rules will also be a significant driver of e-mortgage adoption - and not just because compliance requires data transparency. Because the CFPB's QM rules have the effect of making all QM loans "cookie cutter" in nature, the reduction in the sheer number of loan types makes it simpler, in many respects, to implement the e-mortgage.

"ATR/QM is going to effectively commoditize the mortgage market - all QM loans will be very much cookie cutter," says Scott Stuckey, chief operating officer for DocuTech. "So, when it comes to QM loans, it's going to be like buying wheat - they're all going to be the same.

"So the next question is, can we take advantage of that from a technological perspective?" Stuckey adds. "The technology to facilitate the e-mortgage has existed for a long time - but the industry has struggled adopting it and executing against it for a number of different reasons."

Stuckey says although there are a number of lenders that run completely paperless shops today, many of them do not deliver their loans electronically.

"They process the whole thing electronically, but in the end, they deliver an image of a paper file, instead of a true electronically recorded deed or note," he explains.

'When people ask me, 'When is the e-mortgage finally going to happen?,' I tell them Aug. 1, 2015.'

Stuckey points to lack of investment in e-recording technology on the county levels as perhaps the biggest barrier to adoption for the e-mortgage. Of the nation's 3,585 counties and recording jurisdictions, about 30% still have not adopted the required technology and infrastructure. While many larger cities and counties now have systems in place, there are many, smaller counties which have not yet upgraded their systems, primarily due to budget constraints. Adoption of e-recording on the county level, therefore, is critical in order for the e-mortgage to be truly "end-to-end." Stuckey says it will take more time for the smaller counties to make these investments.

As a result, "There will always have to be exceptions for places where you have to manually deliver," he says.

Also presenting a major barrier to adoption, Stuckey says, are concerns over the security and reliability of e-notary services, many of which rely on video-based communications to record signings and transactions. While many lending institutions are now using e-notary services to verify and validate electronic transactions (some are now enabling borrowers and lenders to close transactions using mobile devices including the iPhone and iPad), this is largely considered the weakest link in the chain as far as security and fraud are concerned.

"Just because you see someone on screen that looks like the borrower - and presents an ID on screen showing that they are the borrower - doesn't necessarily mean they're really the borrower," he says. SME

*Check out next month's issue for Part 2 of **SME**'s series on the e-mortgage.*

Our 2014 Lineup!

MONTH	EDITORIAL TOPICS	DIRECTORIES / BONUS DISTRIBUTION*
February	• Quality Control • Subservicing	**Bonus Distribution:** • Southern States Secondary Market Conference, Feb. 25-26, San Antonio, TX • Eastern Secondary Market Conference • MBA National Mortgage Servicing Conference & Expo, Feb. 18-21, Orlando, FL
March	• Technology in Mortgage Banking • Regulatory Oversight	**Bonus Distribution:** • MBA-NJ 30th Annual Regional Conference, March 9-13, Atlantic City, NJ
April	• Correspondent Lending • Underwriting	**Bonus Distribution:** • ABA Real Estate Lending Conference, April 6-8, Charleston, SC
May	• Secondary Marketing Trends • Credit Unions	**Bonus Distribution:** • MBA National Secondary Market Conference, May 18-21, New York, NY
June	• Fraud Detection • Warehouse Lending Report	
July	• Origination Strategies • Risk Management	**DIRECTORY**: Property Valuation Providers **Bonus Distribution:** • CMBA Western States Secondary Market Conference
August/ September	• Compliance • Collateral Valuations	**DIRECTORY**: Subservicers **Bonus Distribution:** • ACUMA Credit Union Show • New England Mortgage Banking Conference
October	• Capital Markets • Federal Policy	**Bonus Distribution:** • MBA Annual Convention & Expo, Oct. 19-22, Las Vegas, NV
November	• FHA • Due Diligence	
December	• Hedging • Vendor Services **SPECIAL REPORT:** • Year In Review/Year Ahead	**DIRECTORY**: Industry Service Providers

*Bonus distribution dates are subject to change. Call for updates.

For more information, contact Vanessa Williams.
williams@sme-online.com ■ (800) 325-6745, ext. 233
www.MortgageOrb.com

SECONDARY MARKETING EXECUTIVE