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► **It's taken a while, but e-mortgages have started to gain mainstream acceptance** ►

At times, the road to complete digitalization of mortgage origination seems to be a quixotic quest.

Numerous technology vendors and industry experts proclaim the new era of paperless e-mortgages. Investors and consumers, on the other hand, continue to type, print, sign and ship their paper forms.

But unlike Don Quixote's imaginary giants, e-mortgages are a reality and are being originated today — and they're not necessarily anyone's enemy.

More investors are funding and supporting e-mortgages, encouraged by early-adopter lenders. For brokers, e-mortgages offer the opportunity to produce more loans in less time, while saving money on time-consuming data-entry tasks and data-storage. More important, borrowers get a faster, more enjoyable experience during origination and at closing.

In the past few years, developments such as e-disclosure support and Web-based loan-origination systems (LOS) have brought the

industry one step closer to true e-mortgage acceptance. But what exactly is an e-mortgage, and how will its adoption affect brokers in the near future?

In the most basic sense, an e-mortgage is one where the initial disclosures and primary loan documents are created, processed, transferred, signed and stored electronically. In a "full" e-mortgage, the original documents are electronic, as are the management and servicing of those documents.

The concept of e-mortgages has been around for years. The idea of the loan process — from a borrower's search to closing — existing completely online came about in the late 1990s. This vision often included laptop support for originations, online access to mortgage pools, development of



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Bye, Paper

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automated approval and underwriting engines, and simplified processing requirements.

In 1999, the Mortgage Industry Standards Maintenance Organization (MISMO) began working to define key e-mortgage technical standards and processes that could legally support electronic transfer and signatures in mortgage documents.

Once the first technical standards were established, lenders and technology vendors began developing systems that could support all the pieces needed for an e-mortgage.

In 2000, Congress established a legal framework with the Electronic Signatures in Global and National Commerce Act (ESIGN), backing up the Uniform Electronic Transaction Act (UETA), which 46 states and the District of Columbia have adopted to date. The legislation supports the validity of electronic signatures.

Today, technology exists to conduct compliance, origination, disclosure, closing, delivery, signing, recording and servicing electronically.

Benefits for brokers

For most brokers, the key to implementing e-mortgages is understanding electronic documents — or e-docs — and the benefits they provide for borrowers.

Many brokers think of e-docs as images or scanned, ink-signed papers. A true e-mortgage, however, is created, transferred and signed electronically. It never exists in paper form.

The biggest advantage of the e-mortgage process is time. E-mortgages allow mortgage professionals to eliminate much of the manual effort of handling, processing and checking paper documents. By reducing the time spent on each loan-document package, brokers can focus on improving customer service, increasing loan volume, and lowering paper-transportation and storage costs.

Another key benefit is the increased integrity of the documents. If all service-providers can access the same electronic document, their changes to closing documents can be applied instantly. This eliminates redundant data entry and can reduce data errors.

E-mortgages also can be more secure than traditional, 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 file.

With the e-mortgage process, all aspects of document, lender and investor compliance are monitored through the life of the loan. Compliance support also allows for immediate loan corrections, saving the need for long, expensive post-closing audits. This can reduce brokers’ exposure to regulatory risk and can ensure a higher closing percentage.

Often, e-mortgages also will save brokers money. Integrating all documents into one system will reduce the need for the expensive transportation, filing and storage services that paper documents can require. Decreased time in the process means less time spent on each loan.

Lagging adoption

The primary reason e-mortgages have been slow to take off is the historical lack of investors willing to purchase e-mortgages. But as the technological and security benefits have become evident, more investors are getting on board, putting the final piece in place for lenders to offer more pieces of the complete e-mortgage. Fannie Mae and Freddie Mac now purchase e-notes, for example, and more investors are accepting them.

 **For brokers interested in originating their first e-mortgages, the initial step is using an LOS that can share data throughout the loan process and provide the needed checks and balances to ensure quality. Typically, requirements vary by lender.** 

Another obstacle has been borrowers’ reluctance to sign documents electronically. With the increase in acceptance of online banking, electronic tax filing and e-commerce, however, consumers have shown they are willing to rely on secure technology in financial dealings. As of this past May, MERS eRegistry was tracking 2,400 e-notes, up from the 1,700 reported on the Mort-

gage Bankers Association’s e-mortgage “frequently asked questions” Web page in March 2007.

County recorders’ offices’ reluctance to accept electronic documents has been another hurdle. These offices vary greatly in their implementation of electronic-storage and -filing capabilities. But as counties replace older systems, they likely will embrace electronic filing. Brokers also have the option to process a mortgage electronically and then have the needed paper documents drawn up for counties that do not yet support electronic recording, if needed.

Where to get started

For brokers interested in originating their first e-mortgages, the initial step is using an LOS that can share data throughout the loan process and provide the needed checks and balances to ensure quality. Typically, requirements vary by lender.


Electronic documents often are sent as securable, manageable, archiveable, retrievable and transferable documents (S.M.A.R.T. Docs) or as PDFs. Each has its pros and cons. But the key is to have a document system that supports both types. The best systems can even convert the loan information into either format, depending on the investor’s needs.

Compliance-monitoring is another feature to seek in e-mortgage systems. With varying laws governing disclosures, prepayments and yield spreads, an e-compliance feature takes some risk out of preparing an e-mortgage. The top systems can flag loans that appear to violate applicable regulations, allowing for corrections before the loan reaches the closing table.

Finally, electronic-document systems should integrate with e-closing systems. It’s also handy to find one that allows for printing documents for lenders that don’t provide closing support.

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Despite having to overcome a few hurdles since their inception, electronic mortgages are poised to be a major force in the mortgage industry. Each year, more consumers are comfortable with online commerce and financial management, providing a market for the e-mortgage.

For brokers, the decrease in time needed to prepare loans allows for more time spent with customers — and ideally, more profit. 

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