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RiskSpan Thought Leadership: The Digital Era for Mortgage Origination and Documentation Storage

Almost 11 years ago, Congress enacted the Electronic Signatures in Global and National Commerce Act (eSign). Since then, approximately 210,000 eMortgages have been originated and sold into the secondary market.

Many in the industry agree that deploying a fully electronic mortgage transaction on an industry-wide scale is necessary and worth the investment.

Although the pace of change relative to document and process digitalization has been slower than anticipated, the changes implemented to date demonstrate promise. Parties involved in the process have not only recognized process efficiencies and direct cost savings, but they have also identified new opportunities to leverage the efficiencies conferred by the technology.

Expanding the Strategic Vision

The original vision for a fully electronic mortgage transaction focused primarily on process efficiencies - the speed of origination and sale to the secondary market (often dubbed “Apply Today, Close Tomorrow”).

Though often overlooked, the turmoil in the marketplace over the last several years has expanded the opportunity to modify that vision to advance loss mitigation efforts - specifically with eSigning loan modification documents.

Consequently, today’s concentrated focus on risk mitigation and compliance provide even more opportunity for the fully electronic mortgage.

Renewed Focus of Bringing Pieces Together

Changes in investor guidelines and requirements are rampant and often change in a dramatic way. Lenders, Servicers and other parties in a real estate transaction are typically expected to implement such changes in short-order with little to no impact on the ability to service the borrower. Even those institutions with strong enterprise risk management structures often find these changes taxing.

A fully electronic mortgage transaction provides unique opportunities to implement changes in a well-controlled manner - strengthening existing risk management and compliance practices with relatively limited impact to cost.

The basic elements required to support a fully electronic transaction include:

- Electronic Origination Platforms that include Underwriting and Processing
- SMART Documents that tag data
- Closing Platform with eSign capabilities
- Electronic Property Recordation
- Electronic Registry and Vault

Robust sets of business rules within origination systems and underwriting engines not only facilitate loan processing, but provide opportunities for fraud checks, data validation, compliance checks with product guidelines and other forms of quality control. Closing Agents, Investors, Servicers and Regulators also benefit from the electronically stored data and documents.

A Closing Agent who capitalizes on eSignatures not only sees tremendous process efficiencies, but also sees that the risks of failing to execute the appropriate documents and/or failing to ensure the HUD-1 Settlement Statement matches the respective loan documents are minimized. An Investor who is willing to purchase eMortgages can leverage the data and documents to facilitate due diligence and quality control processes. The introduction of the electronic registry and electronic vault concepts provide additional control and audit trail documentation of negotiable security instruments. County Recorder offices could also see significant gains in terms of process efficiencies with a streamlined process. And all of this simplifies or eliminates post-closing and servicing transfer reconciliations that have contributed to the foreclosure crisis.

Achieving Success by Realizing the Strategic Vision

We view the automation of the mortgage lifecycle as a lesson learned from the foreclosure crisis. Delivering on that vision can enhance the borrower experience while decreasing opportunities for fraud. The digital era enables process efficiencies, provides more transparency, and promotes standardization of data, documents, and processes, leading to the type of quality scaling necessary for the re-emergence of the secondary market.

These benefits provide a “Win-Win” scenario for lenders, investors, regulators and, just as importantly, borrowers. As the industry attempts to re-attract private capital, timing is ripe for a fully electronic mortgage transaction.

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