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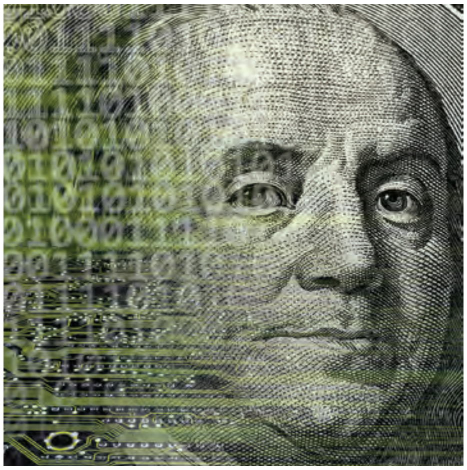

A SPECIAL FOCUS ON

The Growth of Digital Originations and Closings

Going Digital Is Easier Than You Think

By Jeff Bode

It's a great time to be an independent mortgage banker … regulatory woes notwithstanding, of course. Both origination volume and profits are up for mortgage lenders, and independent mortgage bankers (IMBs) continue to gain market share over their depository peers.

However, this era of prosperity will inevitably set up a David-versus-Goliath showdown between smaller IMBs and their larger counterparts over market share. While larger IMBs certainly have the advantage as far as capital, smaller IMBs possess a nimbleness that the big guys just can't match. That flexibility will enable smaller IMBs to go toe-to-toe with larger market players by going digital.

Most people agree that digital is the future of the mortgage industry, but few would go so far to say that the industry is already there. This is false. Digital origination technology has been in use for years on the front-end of the mortgage transaction (think eSignatures, online loan applications, etc.), and eClosings are occurring with more and more frequency as investors have become savvy to the positive impact digital closings have on loan quality.

Of course, making the switch from paper to digital does require a change in direction, so to speak, and that is where the agility of smaller IMBs works in their favor. A large IMB is not unlike an oil tanker–powerful, expansive, capable of handling significant volume. However, the bigger the vessel, the harder it is to alter its course. Smaller IMBs, on the other hand, are much closer to a cutter–a small- to medium-sized craft built for speed rather than capacity and much, much easier to redirect when the need arises.

Most of the momentum in the progress of eClosings has come from small to mid-sized players because the scope of their operations is such that change can be rolled out relatively quickly. Furthermore, moving from paper closings to eClosings can provide numerous benefits that can improve profitability and spur growth. As such, it would greatly serve smaller IMBs to make the move to eClosings now while their larger competitors are still years away from making the transition.

Making the switch

As one might expect, the biggest challenge in transitioning to eClosings is breaking the habit of writing in information on closing documents by hand. This is such an ingrained part of the closing process for many smaller IMBs that paper-and-pen comes second nature to loan officers and closing agents.

This is where it helps to have a trusted document preparation provider in your corner. These vendors have put considerable time and effort into digitizing the document creation and signature process, and by leveraging the work they've already done, smaller IMBs can easily eliminate previous manual processes and move to automatically populating the form using previously captured information and executing eSignatures on documents where allowable.

It bears noting here that many states differ on whether certain documents, such as documents that require notarization, can be signed electronically. However, most doc prep vendors are well aware of this fact and can easily accommodate a hybrid eClosing process where certain documents are printed out for wet signature and ingested back into the overall closing package. In no way should this be a barrier to adopting eClosings.

Once the automation hurdle is cleared, it really is downhill from there, though there are a few more details that will need to be addressed. For example, having "prior to funding" conditions on a loan can complicate the eClosing process. Thus, it's a good idea to ensure all conditions, with the exception of a rare few, are cleared before funding to keep the process running smoothly.

There is also a bit of legwork to do with investors. For those IMBs that are working with savvy investors that accept eNotes, they will need to ensure they are using their investor's preferred electronic document storage method. While some investors have built their own eVaults, others are comfortable with using a third-party provider's, and most doc prep providers have an eVault offering, which streamlines the process considerably.

In addition, IMBs would need to work with their investors to determine the preferred delivery method, but that's a relatively minor concern, especially if the investor has already embraced eClosing and is prepared to ingest incoming loans in a digital format.

The benefits of change

Making the switch from paper to digital will cause some pain–that's inevitable with any significant change. However, the rewards smaller IMBs will reap from making the transition far outstrip the momentary discomfort.

For example, eClosings have a demonstrably positive impact on loan quality. For example, missing signatures or incorrectly signed documents are embarrassing mistakes that can erode an investor's trust in the quality of loan production—not to mention that it could be grounds for the borrower to legally nullify the transaction. Utilizing eSignatures ensures that documents are signed correctly and in the appropriate spots, thus eliminating the need to re-sign documents ... or worse.

In addition, missing documentation is one of the biggest categories of loan defects that investors see. Fannie Mae estimates that nearly 40 percent of the repurchase requests it issues are resolved by simply providing documentation that was not present when the loan was originally submitted. eClosing easily addresses this issue, as it is virtually impossible to misplace a digital document.

In short, the eClosing process extracts much of the "human error" that can negatively impact loan quality, ensuring that minor mistakes don't become major reasons for rejection by the investor.

On the post-closing end of things, eClosings significantly reduce the amount time spent on each loan file, as staff no

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longer have to scan and upload documents. All the documents are already compiled in the order in which they must be sent, and delivery to the investor happens with the push of a button rather than the sealing of an envelope and trip via snail mail.

In addition to time, eClosings also deliver savings in the form of reduced expenses. Paper, printing supplies, scanners, shipping materials, postage–the cost of paper-based closings is staggering. In contrast, eClosings (eSignature technology, electronic documents, etc.) are a fraction of the cost of paper-based closings, and as an added benefit, the labor that would otherwise be devoted to these highly menial, low-value tasks can be redirected to areas that can drive profitability.

And finally, let us not forget the benefit to the consumer. Without a doubt, eClosings provide a better mortgage closing experience for the consumer. Traditional closings can take an entire morning or afternoon to execute, whereas eClosings can be completed in 15 to 30 minutes, resulting in a much less painful process for everyone involved.

In addition, eClosings provide consumers with the opportunity to review their closing documents electronically prior to the actual closing. Not only does this enable the consumer to feel more educated and empowered in the closing process, but it is also one of the key aims of the Consumer Financial Protection Bureau's "Know Before You Owe" initiative, which lenders have been striving to comply with for the past 18 months or more.

There's no denying that eClosings are vastly superior to traditional, paper-based closings, and as IMBs continue to gain market share over depository lenders, competition for this larger piece of the mortgage pie will intensify.

By virtue of their natural agility, smaller IMBs are well positioned to claim their fair share by adopting and, subsequently, reaping the benefits of eClosings well ahead of their larger competitors. They need only take the helm and chart their course in the right direction.

Jeff Bode is owner and CEO of Addison, Texas-based lender Mid America Mortgage Inc. Mid America seeks to buy e-closed and hybrid loans through delegated and non-delegated correspondent channels, in which it offers a two-day dwell time. Jeff can be reached by e-mail at Jeff.Bode@MidAmericaMortgage.com.

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