



A Perfect Storm For E-Mortgages

By Anthony Garritano, Editor, Mortgage Technology Newsletter

When will e-mortgages be mainstream? It seems at every major mortgage conference the prediction is two years. While in the past that may have been overly optimistic, in this market embracing e-mortgages can give lenders a competitive advantage in a down market, adoption incentive for sure.

Also, a lot of the pieces are coming together. For example, both GSEs have e-mortgage specs, several other investors are accepting hybrid e-notes, lenders are moving to go paperless, county recorders are embracing technology, the IRS is automating, etc. So, are we in a perfect storm for e-mortgages?

It seems so. Small lenders like 1st Advantage and credit unions like Navy Federal paved the way and demonstrated that it's possible. Fannie Mae was first to market with e-mortgage specs. Now Freddie Mac is open for business.

Even more telling the two largest lenders in the nation, Countrywide and Wells Fargo are debating about e-document formats and are preparing e-mortgage systems for delivery next year, and Wall Street is very interested in entering the mortgage space as well. In total, 87% of 45 respondents think large lenders and Wall Street will drive e-mortgage adoption next year.

"Wall Street is emerging as a formidable business channel that is not encumbered by old technology and business practices," said Jordan Brown, CEO at consulting and investment banking company MarketWise Advisors. "Wall Street firms are seeking the most cost efficient means to purchase loan production. E-mortgage technology potentially provides a leveraged business model to acquire production at a lower operational cost than mainstream mortgage purchasers."

Patrick Hartford, director of e-mortgage standards at Quicken, believes that large lenders will drive e-mortgage adoption. "The large lenders are driving the document formats in MISMO. There are two camps talking about doc formats right now. In the end, I think the investor will go with the format of the guy who delivers them more volume. Wall Street and the midtier will follow. They're not involved in MISMO as much. They're waiting.

Right now the debate between Intelligent PDF and XHTML continues within MISMO. "PDF hasn't gone anywhere yet," pointed out Mr. Hartford. "The large investors aren't taking them so I don't know how that's going to go. We at Quicken will look at the investors in the market to see what they accept. That will shape our e-closing pilot to a large extent.

"The first step to embracing e-mortgages is having someone to analyze the data and be involved in MISMO and PRIA. It's important to be involved in the discussion. Another reason why Quicken brought me on is because I am involved so I can bring them up to speed," he added.

"There are also e-closing and e-recording vendors that will help. The vendors work with the investors so starting a dialogue there is a plus for a lender looking at e-mortgages. Building the system in-house takes someone who has been around a while and understands how everything works," noted Mr. Hartford.

In the interim, MISMO is also looking to make things easier by adjusting the SMART Doc spec so it's more user friendly. "There are quite a few SMART Doc enhancements ahead like version 1.1, which adds the HUD-1 and title policy to the category-one SMART Doc," explained Mr. Hartford. "From there, SMART Doc version 2.0 is being fast tracked to allow implementers to decouple the framework from the data to be able to add new data. It will also make e-recording and e-notarization easier."

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And county recorders are no longer the e-mortgage hurdle they used to be. For one, Bexar County, Texas started e-recording in October of 2004, shared Tim Anderson, vice president of business development, in charge of the e-mortgage initiative at Stewart Transaction Solutions as part of a WebEx sponsored by Advectis on paperless processing.

"Currently 70% of title recordings are paperless there. They reduced operating expenses by 40%. In terms of productivity, they went from processing six to 12 policies a day the paper way to 12 to 24 a day by embracing electronic processes. In total, the county generates 320,000 documents a year and e-records 121,600," he reported.

"E-recording adoption follows the 80/20 Rule," Mr. Anderson pointed out. "Of the 3,141 counties, only 625 have to come online to cover 80% of the loans floated each year. Also, 625 of those counties have a population of less than 100,000 and 1,581 have a population of less than 25,000."

At present Stewart has e-recording closing table coverage in 10 states. "We're doing this today," noted Mr. Anderson. "It's happening and it's expanding everyday."

On another front, the IRS is getting rid of another e-mortgage hurdle, paper W2s. The IRS has completed the development of a system providing secure electronic return of tax transcripts. The new "Express Service" includes electronic transcripts of personal and business tax returns that will be made available significantly faster than the current two-day program it is replacing.

Additionally, W2s, 1099s and K1s will be added to the program within 30 to 60 days. Along with improved turnaround times and an enhanced product, the IRS will impose a user fee of \$4.50 per year requested in the new program to recover its costs of program maintenance.

"At the end of the day, it's all about electronic data," concluded John Le, president and CEO at Irvine, Calif.-based LOS vendor Portellus. "This will accelerate the process, mitigate fraud activity and it will end the need to electronically image those forms. This certainly facilitates the process of an e-mortgage."