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Hybrid E-Closings See Usage

While doing a complete e-closing seems very futuristic to some, hybrid e-closings are being done today at an increasing rate.

by By Scott Kersnar

Document Systems Inc. estimates that 90% of mortgage documents have to be converted into Printer Control Language to accommodate the fact that "almost all documents used by mortgage lenders today are printed on paper at some point during the process." That needed conversion has been an expensive sidetrip on the way to fully electronic commerce. To help the mortgage industry mitigate that cost, Document Systems recently release its OpenPCL doc viewer, posted the project to the SourceForge.net Open-Source software development website and made the source code available on its own site.

The mortgage industry is resigned to the persistence of paper. Many consumers - and state laws - still require paper notes and deeds, though that requirement is slowly eroding. In March, Ingeo Systems and the Iowa County Recorders Association launched a portal that will enable statewide submission of electronic real estate documents so that "all of Iowa's counties can electronically receive lien releases and assignments from national, regional and local submitters." That means a big piece of the American heartland soon will be handling the lien-release process in seconds instead of days or weeks.

Visionet Systems reports that its VisiRelease platform, which is tightly integrated with both Fidelity Information Services and Fiserv's mortgage servicing systems, processed more than one million lien releases and recordings in 2006. That's 12% of all lien releases processed in that year, just 24 months after the initial launch of VisiRelease.

Consumer acceptance of e-closings has been a more difficult hurdle. However, starting in April 2007, if you went to Wachovia.com and hit mortgage, you could reach a banner ad inviting you to "Close Your Mortgage in a Few Clicks" via ClosingStream, a product of Fidelity National Information Services' LSI.

"The early indication is that close to a third of our customers are selecting a Web-based closing," said Wachovia's Tom Wood. Moreover, he said customer satisfaction with the online closing "is higher than with our traditional closing." The reason he singled that out is because it gives Wachovia greater control of the process. "We don't have that control with a visit from a mobile notary or a traditional office closing."

As with VisiRelease, this is no mere pilot effort. At our own Mortgage Technology conference in January, E-Loan talked about its own upcoming e-closing service via Closing Stream. More recently E-Loan president Scott McKinlay used the system to close his own personal home-equity loan. In fact, said Al Verkuylen, LSI senior vice president of strategy and execution, ClosingStream has quietly chalked up some 20,000 e-closings while others like eOriginal, DocuSign, Document Processing Systems, Stewart and Navy Federal Credit Union have garnered all the pioneering headlines as e-closing has evolved. Among ClosingStream users, the adoption rate for e-closing is "more like 60% -70%" for lien releases and assignments, he said, because those don't require signatures.

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With the ClosingStream solution, LSI controls the entire title and closing process, "eliminating the need to coordinate with several third-party providers." The process can handle as many as four different borrowers in separate locations. To handle some processes, the borrower gives LSI a power of attorney. This hybrid step is a main factor separating ClosingStream from a fully electronic e-closing solution such as the eClosingRoom Stewart created in partnership with Silanis.

Though LSI offers the ClosingStream option to every borrower seeking a traditional closing, only those that have high-speed Internet access can use the service. Of those that do, ClosingStream draws 99% borrower satisfaction, according to Mr. Verkuylen. A big plus borrowers can enjoy with e-closing is faster funding, he noted. Another plus is the ability for borrowers to examine documents online and then review them with a loan counselor before signing. After that review, they then have to sign only once via a click-to-sign process.

"It's a better experience for them than having the at-home mobile notary come out," he observed. "If the borrower doesn't understand something, there is a conference call and a Web session. We can even conference in the lender to correct a document and continue with the closing rather than having to reschedule."

The borrower only has to return one signed and notarized document to LSI. That document returned document is combined with the original closing documents in preparation for the closing. For the actual closing, the borrower securely logs on to the ClosingStream website and dials a toll-free number to connect with an LSI closing representative. Using ClosingStream's online meeting process, the representative covers all the loan document to ensure the borrower understands them.

For a number of reasons, few lenders are drinking the e-closing Kool-Aid all at once. In March 2007, First American Corp. expanded its e-closing services to provide an integrated set of capabilities that enables data and documents to be shared electronically between all participants throughout the closing process and provides the ability to sign or acknowledge documents electronically. In addition, the solution enables electronic asset delivery to investors and all documents can be stored in the First American e-vault.

Though First American's goal is to enable lenders to achieve fully electronic mortgages, First American SVP for enterprise technology Jason Nadeau said most of their customers are taking a "toe in the water" approach to e-closing: "We haven't run into any customer that wants the entire thing." The greatest interest among First American customers has been in the three-day disclosure solutions, followed by document distribution capabilities and e-vaulting. At this point, he reported, "we're not seeing customers wanting to do all three."

Though the evolution of e-mortgages has been painfully slow, companies like DocuSign, eOriginal and Silanis that long ago drank the e-closing and e-signing Kool-Aid have avoided going belly up by making their living providing pieces of the e-closing puzzle. As an example, eOriginal found an early market for electronic transactions in leasing and auto loans. The Fiserv LeMans unit of Fiserv Inc. has a strategic business partnership with eOriginal to deliver electronic contract, secure archival and statutory compliance offerings to LeMans car-loan clients.

Seattle-based DocuSign claims to be "the world's most trusted on-demand electronic signature

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service," with about 1,000 customers using the product, including title companies, lenders and companies like Expedia outside the financial services realm. "The business volumes are growing outside mortgage at a faster clip," said DocuSign vice president and co-founder Tom Gonser. DocuSign's service leverages technology from DocuTouch, a promising e-commerce firm that burned through its VC capitalization before figuring out how to make a living. Mr. Gonser's NetUpdate firm acquired Seattle-based DocuTouch and then sold it to DocuSign.

LandAmerica Lending Services went into production with DocuSign as their e-closing solution in October 2006. Cheryl Johnson, LandAmerica vice president for product strategy, said they picked DocuSign because it was the most user friendly product they looked at for remote closing - and because DocuSign has the battle scars and proven ability to master all the hybrid strategies necessary to make remote closings happen quickly, with or without e-signing or mobile notaries, without all remote signers having to sign at the same time - and "provide clarity to a lender that all the signatures have been places on the document, that consumers have been able to identify and understand the documents they sign."

Though consumer acceptance of Land America e-closings has been very small to date - "hundreds at this point vs. thousands in the traditional way" - she said more and more consumers are "seeing the advantages and saying they want to move to the platform." She said e-closing "absolutely" is proving to be a money saver for LandAmerica of "around 30% - 40% at this point."

She said DocuSign's ease of use is a big driver of acceptance. "It doesn't matter how we interface with our clients, we can easily adapt the DocuSign solution to however we do business today. There are no barriers to entry other than education, with the consumers as well as the lenders."

Mr. Gonser noted the growth of e-signings across markets, from 150,000 transactions in 2004, to 335,000 in 2005, to 1.6 million for 2006 and a forecast of 7 million for 2007. He also observed that most of those e-signings will continue to take place outside the mortgage industry. "The mortgage industry has been talking about it for years," he said, "but mortgage is the most complex transaction we see. People are going to be doing e-closings on a broad scale [in the mortgage industry] only after they see how many other industries are doing them on a broad scale."

He said DocuSign's most formidable competitors are companies like FedEx and DHL. The biggest barrier for companies like that to enter the mortgage industry is domain expertise, he said, arguing that companies like DocuSign can thrive by bringing their hard-won expertise to bear ironing out those complexities, such as bringing all the vendors into the transaction behind the scene via Web services. "With us, a lender doesn't have to deal with the county recorder, you don't have to submit it to MERS, you don't need a notary seal. I have one. I can notarize electronic documents."

Stewart's Tim Anderson - universally recognized as the industry's leading evangelist of e-mortgages - believes that the wholly electronic closing process Stewart and Silanis have created will ultimately prevail. However, he acknowledged that today "a hybrid approach works especially for banks that want to mine their existing client base to cross-sell refi and home-

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equity type products since they are already customers of the bank and have an existing first position relationship with them. However, the approach still requires the feeding of paper documents and the signing of them. Stewart has a complete model that supports this and also offers a complete e-closing solution for purchase as well as second loan business. And it is much more streamlined, less costly and less risky process overall, as well."

He sees problems with the limited power of attorney used by LSI and others. "The LPOA process actually introduces more work and potentially costs into the closing process - creation of new forms, FedExing of documents back and forth, physical appearance upfront with a notary or attorney, return of the POA, the validity of the executed POA, training and compliance enforcement with settlement agents." In contrast, he stresses, "The use of eClosingRoom combined with the use of SureClose provides for a centralized, collaborative platform for all participants in the real estate transaction and not just the borrowers and/or settlement agent."

Evangelizing the pure Stewart model is a slow process. Only 10 of Stewart Title's thousands of offices are equipped to handle e-closings at this writing. The Texas Dow Employees Credit Union is working with Stewart's Houston office to enable doing purchase loans as well as refi and home-equity e-closings. Loretta Williams, vice president for real estate lending at Texas Dow, said that so far they have done six e-closings, "including the only paperless e-closing in Texas," thanks largely to their good fortune in having "a technology-driven county clerk."

She said that success will be something they can advertise, as Wachovia has done on a larger scale with ClosingStream. But it will be a long while before fully electronic e-closings boast the numbers achieved with the hybrid model - especially when it comes to purchase loans. "We still run into consumers who are not e-driven," said Ms. Williams. "You could have a buyer ready to do it, but if you don't have a seller, you can't." With a purchase transaction, "you have to have all the parties together agreeing to e-closing."

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