E-SIGNATURES

Quest for Paperless Mortgages

The last remaining hurdles to electronic signatures — and therefore electronic mortgage documents — are coming down, albeit slowly

BY AUSTIN KILGORE

Any banker or borrower who has attended a mortgage closing understands the benefit of electronic signatures, technology that lets users click to sign documents rather than hand-write their name dozens of times. Electronic signatures have been legal in the United States since 2000. But a lack of acceptance at the Federal Housing Administration and the Internal Revenue Service has prevented some lenders, even technologically advanced ones, from using the technology for any mortgage documents.

Wells Fargo sees this first hand with the lenders from which it purchases loans. “For some lenders, having an inconsistent process across all products is not an option,” says spokesman Jim Hines. “They’re holding off implementing electronic signatures until they can offer them for all products.”

This obstacle is in the process of being lifted. The IRS and the FHA are developing policies that will allow mortgage lenders and borrowers to electronically sign a variety of mortgage documents.

The IRS plans to allow e-signatures on a form that gives lenders permission to review borrowers’ tax returns for income verification. The FHA is considering an electronic process for mortgages that incorporates e-signatures and matches policies in place at government-sponsored enterprises Fannie Mae and Freddie Mac.

Progress on these two initiatives has been slow, but mortgage industry insiders working on them are optimistic the changes will take effect this year. What is less certain, however, is the extent of the immediate and long-term impact the initiatives will have on encouraging more widespread adoption of paperless and e-signature technologies in the mortgage industry.

Vince Kasperick, president of online-only mortgage lender Aimloan.com, says his company recently began originating FHA mortgages, but that the additional document requirements, including e-sign, particularly given that most FHA borrowers are first-time homebuyers, may make these loans more difficult than GSE loans.

“My guess is they’re going to require more loan officer time and processor time to help the borrower through the process,” Kasperick says. “That’s where the challenge is going to be. How do we originate government loans in a very efficient way so that we can offer really aggressive pricing? We’ve always run our business by competing on price and you need to be very efficient to be able to do that.”

In July, Mortgage Bankers Association officials met with the IRS to discuss e-signature adoption for the 4506-T form that lets banks review borrowers’ tax documents.

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Since the MBA’s advocacy efforts began in earnest, the IRS has developed two initiatives for the 4506-T — an e-signature policy that closely resembles the existing request procedure and an automated electronic transcript process.

With the e-signature policy, lenders will send an electronic version of the 4506-T to the borrower along with the other documents in the initial disclosure package. But rather than the current practice of printing, wet signing, and then scanning or faxing the form back to the lender, the borrowers will e-sign and return the 4506-T electronically with the other disclosures.

A group of 12 lenders has been using this procedure since July in a limited-scope pilot program, according to Jeff Knott, director of product management of Equifax Verification Services, which offers 4506-T services and was chosen to participate in the pilot program with e-signature vendor DocuSign.

The pilot program is scheduled to end on March 31. Later this year, Knott says he expects the IRS to open it up to all vendors and lenders in the mortgage industry.

Equifax Verification Services is also participating in the preliminary stages of the e-transcript policy, in which borrowers can skip signing the 4506-T altogether. Lenders will direct borrowers to an IRS website where they will create an account and authenticate themselves, Knott says. From there, borrowers can request tax transcripts and provide an address for delivery. The e-transcript service will automatically deliver the data to the lender, eliminating the two-day waiting period embedded in the traditional 4506-T process.

“The 4506-T was so tied to the wet signature, the electronic signature broke down the first barrier,” Knott says. “E-transcript is knocking down another barrier, where instead of having to print out and process these forms, the IRS can provide that instant report.”

The IRS declined repeated requests for comment. But Knott expects the agency to roll out a pilot program for the e-transcript service in the second quarter.

But even as these new options become available, the paper-based process will remain.

“We’re going to have some borrowers comfortable with the e-transcript process, but we also have to think about the lenders in this situation,” Knott says. “If they have an established process where they’re getting consent for verification of deposits, title insurance and everything else in that large stack of paper that is a mortgage application, I think they will continue to need the ability to continue to make the 4506-T part of that process for consistency, versus breaking up that process for the taxpayer.”

**FHA PROGRESS STALLS**

Meanwhile, the MBA has had less success at the FHA. In May 2011, the group launched a public campaign to encourage the FHA to adopt e-signatures. Although the MBA publicly announced a breakthrough with the FHA on e-signature efforts in November, the initiative has since been sidelined, leaving MBA officials quietly scratching their heads and wondering what happened.

According to industry professionals close to the efforts, the policy was created and was on track to be finalized by the end of 2011. “It was supposedly going through the process and all of a sudden, it stopped. It wasn’t one of those slow deaths. It just stopped,” says an official involved in the efforts, who spoke on condition of anonymity.

“Finding the right senior champion has probably been one of the biggest hindrances,” says Kelly Purcell, executive vice president of eSign Systems, a division of Wave Systems Corp. that provides private-label and direct-enterprise e-signature technology.

The delay appears to be related to the departure and replacement of key FHA personnel. Vicki Bott, who had served as the Department of Housing and Urban Development’s deputy assistant secretary for single-family housing, left the organization in June 2011. Bott’s successor, Charles Coulter, joined HUD in January, after previously serving as the vice president for business transformation at Freddie Mac.

“This issue is currently on hold because our office of single-family housing is in the process of getting a new management team in place. We do plan to pursue this issue in the future,” a HUD spokesperson said in a written statement, citing the hiring of Coulter.

Before the setbacks, FHA officials met with various e-sign vendors in the mortgage space, including Purcell. A major concern for vendors is that the FHA’s policy doesn’t deviate from existing industry norms.

“There are best practices that are established in the mortgage industry,” Purcell said. “We want to make sure that FHA understands those best practices.”

Purcell said the FHA considered three draft proposals, getting input from industry professionals who encouraged the FHA to base its policies on existing Fannie Mae and Freddie Mac guidelines. “From what I’ve seen, they’re definitely not going way left or way right — they’re right in the middle,” she says.

Despite the challenges, Purcell believes the FHA will move forward with the policy sometime in the second quarter of 2012. Once implemented, she believes lenders will be encouraged to adopt e-signatures for both FHA and GSE loans they originate.

“Not having the FHA on board has definitely hindered e-mortgage adoption all around because most companies have to have one way for FHA and another for conforming and nonconforming agency loans,” she says. “When the FHA comes out with this, which is why everyone is so excited about this, there will be no more excuse” not to use e-signatures.
But Sharon Matthews, chief executive of mortgage e-document and e-signature vendor eLynx, says that while the FHA move is a positive step, it won’t garner immediate widespread e-signature adoption.

“Will it help? Absolutely. But I don’t think all of a sudden, the floodgates open, the sun rises, and we’re all walking on water,” Matthews says.

Wells Fargo anticipates the eventual shift to e-signatures will improve processes for its correspondent banks, Hines says.

“The e-sign gap between products continues to grow,” he says. “However, when FHA announces their acceptance of e-signed docs, we believe lenders will be able to align their products and tools quite easily. Wells anticipates a number of e-sign client approvals will be requested upon announcement of FHA’s acceptance.”

One bank that’s been moving ahead despite the political issues is BNC National Bank in Scottsdale, Ariz. Doug Brendel, executive vice president of the $700 million-asset bank, was shoulder deep in paper when he decided to bring in new mortgage technology.

“A typical loan file is now about 400 pages of paper,” says Brendel. “We don’t have an analysis of how much that costs to process and what we will be able to save by eliminating that paper, but it’s pretty substantial.”

The institution is embracing electronic signatures to speed loan processing and disclosures and is tapping imaging to remove paper documentation, which saves additional time and labor. BNC plans to use Ellie Mae’s Encompass360 loan origination system, which will be hosted by FocusIT.

Borrowers who log into the lender’s site will go through an electronic signature process by authenticating themselves and creating an identity that can be subsequently “clicked” by the users to acknowledge receipt and transfer of loan documentation.

“This is useful for a couple who may be at work at different locations. The husband and wife can call up documents, confirm them, and send the documents back and forth and back to [the lender] without having to print or fax the documents,” Brendel says.

There’s also a time savings in online completion of compliance requirements, which have expanded with new regulations. The Mortgage Disclosure Improvement Act, for example, was amended earlier this year to require lenders’ cost disclosures to include a payment summary that vastly expands the details tied to monthly mortgage costs.