

ECLOSINGS AND EMORTGAGES: A LENDER'S PERSPECTIVE



A Primer for Title Agents

Many Lenders are considering the benefits of eClosings and eMortgages for their consumers because of the increased efficiencies in their work processes. The following is intended to give the Title Agent insight into a Lender's perspective when considering the adoption of eClosings.

ECLOSINGS VS. EMORTGAGES

eClosings — An eClosing is the electronic execution of some or all of the mortgage loan closing documents in a secure digital environment. Most eClosings are considered “hybrids” because one or more of the documents are traditionally signed. Key documents such as the promissory note and security instrument may be printed and “wet-signed.”

eMortgages — An eMortgage is a mortgage asset that is created electronically by utilizing a fully electronic note. A digital eNote is signed electronically as a replacement for a traditional paper note. eClosings result in eMortgages only if the promissory note is signed electronically.

eClosing Benefits: The Hybrid eClosing methodology has many benefits to the consumer including:

- ▶ **Document Preview:** Lenders can share documents with the buyers before closing. This gives an opportunity to answer questions or correct errors. Consumers are also provided with additional time to review and understand documents and loan terms.
- ▶ Closing times may be reduced for consumers.
- ▶ **Competitive Edge:** Lenders with eClosing capabilities can offer a more efficient closing process.
- ▶ **Experience:** All parties involved in an eClosing (e.g., borrowers, originators, Lenders, servicers, Title Agents and real estate agents) benefit from a more streamlined closing experience and shorter wait times for funding.
- ▶ **Risk Management:** eClosings can reduce the potential for manual operational errors, such as missing signatures or documents, and improve data quality and validation.

eMortgage Benefits: A Lender may opt to include an eMortgage with Hybrid eClosings. Implementing an eNote and creating an eMortgage have the following benefits:

- ▶ **Post-closing Processes:** eClosings may offer faster turnaround times in warehouse inventory and liquidity into the secondary market.
- ▶ **Funding Costs:** Lenders' funding costs can be significantly

reduced by utilizing eNotes.

- ▶ **Risk Management:** eNotes are secure, easier to manage than paper collateral and reduce the risk of lost notes.

LENDER CONSIDERATIONS WHEN MOVING TO ECLOSINGS

The Lender type is a significant factor in their adoption of eClosings. Each lender type is discussed below.

- ▶ **Mortgage Broker** — Mortgage Brokers serve as the middlemen for multiple Mortgage Banks. The broker offers the homebuyer a loan in the name of the Lender. Therefore, a Mortgage Broker can only consider an eClosing or eMortgage if the Lender for whom they serve as a broker offers eClosings and eMortgages.
- ▶ **Correspondent Mortgage Lenders** — Correspondent Mortgage Lenders originate and fund loans in their own name. These loans are then sold to larger Mortgage Lenders, who in turn service or sell the loans on the secondary market. Correspondent Mortgage Lenders can offer eClosings and eMortgages only if the subsequent Lenders purchasing the loans permit electronic transactions.
- ▶ **Mortgage Banks** — Mortgage Banks originate their own loans that are kept as part of their portfolio or sold on the secondary market to investors such as Freddie Mac, Fannie Mae or other private investors. Mortgage Banks can offer eClosings and eMortgages for transactions that will be sold to Fannie and Freddie.

LENDER PROCESS/TECHNOLOGY CONSIDERATIONS

- ▶ **Investors** — Most investors will approve electronic signatures on the closing documents. Lenders wishing to originate, sell and service eNotes must get approval from their investors.
- ▶ **eNote Preparation** — Implementation of eNotes requires Lenders to work with their technology vendor to ensure that the vendor is able to create an eNote in the correct format.
- ▶ **eMortgage Software** — Implementation of a full eMortgage process, which includes eSigning and handling eNotes, requires Lenders to select a technology vendor that supports eMortgages. This vendor also must be approved by the investor.

Note: Technology solutions to manage eNotes and eMortgages must be acquired and implemented by the Lender independently of any systems or processes from the Title Agent.