

## **E-Signature Bursts onto the Mortgage Servicing Scene**

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Despite the ongoing buzz surrounding e-Signature technology in the mortgage industry, its impact on the performance of financial institutions won't be fully realized until it is more widely implemented. While it's a question of when, rather than if, e-Signature technology will take hold in the mortgage segment, the speed of adoption has lagged far behind that of similar industries. For example, both the credit card and auto lending industries have been using e-Signature technology with great success for several years now.

The complexity of mortgage-related documents and processes makes e-Signature adoption somewhat more challenging. Most lenders have been waiting for regulatory issues, industry standards and technology integration to get closer to maturity before committing to the use of e-Signatures. Unfortunately, the wait has cost them substantial gains in efficiency and cost savings.

It's important to understand that e-Signature technology adoption is not an 'all or nothing' proposition. It won't be used to close every first mortgage in the country immediately, but e-Signature technology can certainly make a positive impact on other areas of the mortgage pipeline right now. Lenders already see substantial benefits such as high customer satisfaction ratings from incorporating e-Signatures into less restrictive home equity lending and mortgage refinancing operations.

To achieve the most immediate impact from e-Signature technology in the current mortgage environment, the best place to start is approvals on documents that don't have to be notarized and recorded. Given that scenario, e-Signature technology is a great fit for use in the mortgage servicing process – and that's exactly where it's making major inroads today.

### **E-Signatures in Mortgage Servicing**

With mortgage loan default rates continuing to climb nationwide, servicers are focused on accelerating their loss mitigation efforts. In fact, servicers are under pressure from state governments to do so. According to a recent study by the State Foreclosure Prevention Working Group – attorney generals and banking regulators from 11 states – 70% of the reporting servicers' borrowers who were more than 60 days past due on payments were not yet involved in any form of workout program. The study, which reviewed data from 13 of the top-20 mortgage servicing companies, speculates that those numbers may be at such high levels because the reporting servicers lack the capacity to manage the volume of delinquent loans or have not been successful at contacting delinquent borrowers.

Numbers like these fuel the concerns of government officials and consumer groups that in turn clamor for servicers to complete workout solutions for a greater number of delinquent borrowers and do it faster to avoid foreclosures. Many servicers are turning to technology solutions to help boost their efficiency, and e-Signature technology is a valuable part of the equation. It helps servicers speed modifications, nail down

repayment plans more quickly, decrease fallout levels and accelerate the pace of servicer-borrower communications.

Some servicers quickly recognized the value of e-Signature technology and have experienced significant efficiency gains by incorporating it into their loss mitigation processes. They are taking advantage of e-Signature technology for both first mortgage repayment plans and loan modification processes to reduce costs, improve timelines and ultimately help keep borrowers in their homes.

Once e-Signature capabilities are in place, the technology can also be used to electronically secure borrower signatures on any number of the one-off forms such as the automatic draft payment authorizations servicers repeatedly use in their day-to-day operations. In fact, any document that simply requires a consumer's signature can be completed utilizing e-signing technology, thus cutting costs and increasing efficiencies across the servicing organization.

### **Accelerating Repayment Plans**

When repayment plans are developed as part of loss mitigation efforts, servicers require that borrowers sign the associated documents to indicate their agreement with the terms of the plan set forth. Typically, the only signature required on repayment plan documents is that of the borrower(s), with no witness or recordation required. As such, repayment plans are ideal for the incorporation of e-Signature technology. In fact, the technology allows servicers to see a dramatic reduction in the fallout rate associated with repayment plan agreements.

When servicers send out repayment plan documents to obtain wet signatures, they often find that anywhere from 15 to 30 percent are never returned by the borrower. This requires several follow-up phone calls in an attempt to contact the borrower and get the signed documents returned. In addition to the cumulative costs associated with these efforts, if servicers fail to receive the signed repayment plan agreement, the default is likely to become an even more costly foreclosure.

By incorporating e-Signature technology into their repayment plan processes, servicers see a significant reduction in the number of documents that are not signed and returned. Some servicers have reported that fallout rates decrease by 50 percent or more. e-Signature technology allows repayment plan agreement documents to be posted online for borrowers, with built in tracking so servicers can confirm the borrower viewed and signed the documents. There are also reminder features for automated follow-up.

By accelerating the loss mitigation process, loans can move back to performing status more quickly. In addition to the overall increase in operational efficiency for the servicer, consumers are more likely to sign an agreement when they can do so immediately.

Repayment plans are expected to be a significant part of servicing operations for at least the next several years. Forward-looking servicers that incorporate e-Signature technology into their loss mitigation process will be well positioned to maximize borrower retention.

## **Streamlining Loan Modifications**

According to the Hope Now Alliance, an industry group working to respond to the current default and foreclosure crisis, 869,000 prime and subprime mortgage holders entered into some sort of repayment plan or loan modification in the second half of 2007 alone. While that number seems high, many would argue it is not high enough to help offset potential foreclosures. With more loans scheduled to reset this year and next, the need for streamlined workout programs is more pronounced than ever. Introducing e-Signature technology can greatly speed the modification process for servicers, allowing them to handle the increased volume more effectively.

Depending on the servicer's processes and the extent of the changes to the initial loan, loan modifications may or may not need to be notarized and recorded. Typically, once the modification goes beyond an interest rate-only change to the original loan terms – for example, altering loan amounts, lengthening terms, etc. – recordation requirements increase. For these transactions, notarization is still required and as a result, must be performed in person, with wet-ink signatures.

However, in that situation servicers can employ a hybrid of electronic and wet-ink signature processes. If the lender needs a borrower to wet sign an e-Note, the borrower can give the lender's electronic closing partner a *transaction-specific limited* power of attorney. The borrower agrees to the terms of the note electronically, then the electronic closing partner prints and signs an exact paper copy of the agreement on behalf of the borrower. If the vast majority of documents in a package can be e-Signed, with only one or two requiring manual signatures, the efficiency gain is still significant.

Servicers needn't wait for a full end-to-end solution - including e-Notarization adoption – before introducing e-Signatures into their operations. They can reap substantial gains immediately with minimal up-front costs, while positioning themselves with a full solution for loan modification as non-notarized and recorded modifications increase.

For loan modifications that do not require notarization or recording, e-Signature technology is employed much the same way it is used to reduce timelines for repayment plans. Cycle-times are shortened, fallout rates decrease, and overall costs to the servicing organization are reduced.

## **Meeting Enterprise-Wide Document Needs**

With the wide applicability of e-Signature technology, servicers can use a system initially implemented to speed the repayment plan and loan modification processes to positively impact many other areas of their operations. E-Signature technology can deliver value throughout the mortgage chain by enabling electronic signatures on other documents related to the mortgage servicing process that must be signed, but need not be notarized.

For example, a borrower may wish to start having mortgage payments automatically withdrawn from his/her bank account. The servicer can electronically deliver an automatic payment deduction form to the borrower. The automated tracking and reminder functionality associated with e-Signature technology helps the servicer ensure the signed authorization form is received so it can execute the auto-withdrawal. The

electronically signed form can then be uploaded to the account record on the servicing platform.

E-Signature technology allows the servicer to introduce cost-savings, efficiency and customer satisfaction for any document communication that requires a customer signature but not notarization.

### **In Closing**

Servicers can immediately enhance their effectiveness by implementing an e-Signature solution that offers a high degree of integration with current servicing platforms, enterprise default and loss mitigation systems and/or desktop loss mitigation platforms. Seamless e-Signature integration with existing systems offers the greatest back-office efficiency gains since data from each platform or program can be accessed to populate modification and prepayment plan documents. Once electronically signed, returned by the borrower and authenticated, documents can be automatically uploaded to any of the servicer's systems.

By deploying e-Signature technology, servicers experience greater efficiency for loan modifications, prepayment plans and any number of other document/signature-dependent tasks. It's a smart move. From reducing document approval and processing time and costs, to lowering repayment plan fallout rates and streamlining any document process that requires a signature to complete, the time to implement e-Signature technology is now. In fact, the timing could not be better.

### **About the Author**

Mr. Verkuylen is Chief Strategy Officer for LSI, the nation's largest centralized title, closing, appraisal and diversified real estate services company. He has been an executive in business development, sales management and new product development. Mr. Verkuylen has been working in the mortgage industry since 1985 with experience in the automation of credit reporting, flood determinations, valuations, and title and closing. During the past nine years, his focus has been automating the title and closing process, point of sale delivery of settlement services and eClosing.