

## **Streamlining Loan Workouts with eSignatures: *Managing the rising tide of modification and repayment volumes***

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As mortgage loan default rates continue their seemingly endless rise, pressure is increasing on servicers to both expand the reach and speed the completion of loan modifications and payment plans. The sheer volume of workout requests is tremendous, with so many financially burdened consumers applying that results have been less than ideal for all concerned.

While statistics on the matter differ depending upon the source, both the Hope Now Alliance, an industry group focused on the current default and foreclosure crisis, and the Office of the Comptroller of the Currency (OCC) are reporting significant increases in loss mitigation actions. Payment plans dominate in these actions, outpacing full loan modifications by more than four-to-one according to the OCC and nearly two-to-one according to Hope Now data. However, loan modifications were also found to be rising at a much quicker than historical rate.

Regardless of the greater number of payment plans and modifications servicers are managing to complete, many still do not perceive the effort to be adequate. Calls continue from government officials and consumer groups alike for more workout solutions to be completed, helping more borrowers. Further, these groups are pushing for workout solutions to be achieved much faster than the industry has so far been able to accommodate, so as to hopefully avoid even higher foreclosure rates than those currently being reported.

### **eSignatures Bring Immediate Improvements**

Faced with such a daunting challenge, servicers are turning once again to their technology partners for solutions. Primarily, they are looking to their existing servicing platforms for ways to increase efficiency in meeting new demands and increased loss-mitigation volumes. And much of the functionality they need to do so is already available.

One key technological component in meeting increased loan modification demand may well be the eSignature. The technology integrates with leading servicing platforms and loss mitigation solutions, and can help servicers to speed modifications, finalize payment plans more quickly and accelerate borrower communications.

Perhaps the greatest, immediate impact eSignatures can have on servicers' loss mitigation efforts is within the realm of establishing payment plans for financially troubled borrowers. Using eSigning payment plan documents is an ideal place to begin to incorporate the technology into a servicer's operations, mainly because, in most cases, these documents do not need to be notarized and recorded.

As technology becomes ever more capable and industry acceptance broadens, servicers can expect to be able to perform full modifications and refinances with the same efficiency and ease, including the creation of Category 1 MISMO-compliant SmartDoc eNotes. Indeed, once the technology is in place, eSignatures can be used across the enterprise, whenever and wherever a document requires a signature.

That being the case, employing eSignatures to allow borrowers to sign off on payment plans is the perfect starting point. It can speed and improve the process immensely, while boosting efficiency, curtailing fallout levels and reducing costs. Given the expected increase in these transactions throughout the remainder of this year, into 2009 and beyond, eSignatures become a very attractive solution to both servicers and sub-servicers alike.

### **Repayment Plans a Perfect Starting Point**

Usually requiring no more than the borrower's signature, straight repayment agreements undoubtedly represent the greatest immediate opportunity for eSignatures. When it comes to full loan modifications, the parameters may change, adding recordation and notarization to the list of requirements.

Many servicers still require loan modification documentation to have both a witness' signature and a notary's seal. As for recordation, some servicers record a full 100 percent of their modifications, while others record far less and some not at all. Even within those three segments, there may be a certain percentile that will see an immediate advantage from using eSignatures in segments of loan modification today.

On the other hand, when it comes to repayment plans, generally, the only requirement is that one or both borrowers sign the documentation. A witness is usually not needed, and repayment plans are often not recorded. The reality is that the majority of repayment plans in the marketplace can be processed using eSignatures at this very moment. And doing so would significantly revolutionize the process.

First, eSignatures can dramatically reduce the time necessary to get sign-off from borrowers on repayment plans. Today, nearly 30 percent of plans that are sent out to borrowers simply never come back, signed or otherwise. More often than not, follow-up calls to these borrowers produce similar results. For a servicer with that kind of fallout rate, moving to eSignatures should reduce that number significantly, by half or even more.

### **Enterprise-Wide Benefits**

In addition, there are a great many documents involved in servicing (in loss-mitigation efforts, as well as normal day-to-day operations) that require borrower or other third-party signatures. Automatic payment deduction authorization forms, for instance, could easily be converted to an all-electronic process. In fact, any document that simply requires a consumer signature is a perfect vehicle for eSignature use.

Additionally, the tracking and follow-up capabilities inherent to the electronic nature of such borrower communications allows the servicer to stay on top of the progress of individual documents. Documents are posted and the borrower notified and directed to a secure authenticated online signing site.

Then, if the document has a life expectancy of a particular number of days, the system can be configured to automatically issue reminders to the borrower until closure on the document is achieved. The servicer or lender has the ability to report on and track an

individual document's progress and, once signed, the ability to upload that eSigned document directly into its servicing or loss mitigation platform.

In short, by incorporating eSignature capabilities into their servicing platform, servicers can expect to see significant improvements to efficiency and time-cycles associated with getting such documents signed and incorporated back into their core system without the need to scan or image.

### **Beneficial to Loan Modifications**

In April of this year, the Hope Now Alliance announced that servicers have provided loan workouts for about 1,376,000 homeowners since July 2007. According to Hope Now, over half-a-million workouts were provided in the first quarter of 2008 alone. The OCC's report, relying upon a focused set of more granular data – limited to the nine largest national bank mortgage servicers – showed less progress, with only approximately 160,000 workouts in Q12008.

Whichever data one chooses to accept, many would, rightly, argue that the current loan workout levels, however high, are not enough to help offset the growing number of potential foreclosures. The OCC reports that foreclosures have already increased from 0.9 percent to 1.23 percent of the examined portfolio. With projections for new foreclosures on the rise, the need for streamlined workout programs becomes more important than ever. Introducing e-Signature technology can greatly speed the modification process for servicers, allowing them to handle the increased volume more effectively.

As mentioned above, 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. For loan modifications that do not require notarization or recording, eSignature technology is employed in 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.

With eSignature technology solutions becoming more sophisticated and legally accepted, eSignature is quickly becoming an acceptable substitute for notarization. As such, the mortgage industry can expect that fewer loan modifications will require notarization or wet signature.

### **What the Future Looks Like**

For a related example of how eSignatures can help servicers, particularly in the area of loss mitigation, consider Fannie Mae's HomeSaver Advance™ program.

The very nature of the program and its streamlined requirements lends itself well to immediately capitalizing on the speed and simplicity of eSigning. Beyond that, Fannie Mae is making moves to bring eSignatures even further to the forefront in its quest for fully compliant eNotes and a wholly electronic process.

As it stands today, the HomeSaver Advance program allows a servicer to create an unsecured second mortgage up to fifteen thousand dollars to cover the degree to which a borrower is in arrears on a mortgage and then to sell that note to Fannie Mae.

Fannie Mae recognized that the HomeSaver Advance program is ideal for the acceptance of eSignatures. As a result, Fannie Mae is now accepting Category 1 MISMO-compliant SmartDoc eNotes from servicers for this program.

eSignatures and other assisting technologies allow for the use of true eSigned notes, with immediate MERS registration upon signing and delivery as a Category 1 MISMO-compliant SmartDoc eNote to the Fannie Mae eVault.

By using eSignatures in a fashion acceptable to Fannie Mae, servicers are now able to tremendously reduce the cycle time to issue and close HomeSaver Advance eNotes.

The point is that servicers need not wait for a full end-to-end solution that covers every base before introducing eSignatures into their operations. They can experience substantial gains immediately with minimal up-front costs, while positioning themselves to have a full solution as the technology matures.

Loan workout volumes will continue to rise throughout the foreseeable future, and servicers need to improve efficiencies where and however they can. As industry movement toward the use of MISMO-compliant eNotes becomes more pronounced, or likewise, as non-notarized and recorded modifications increase, the servicer with an active eSignature component to its servicing and loss mitigation efforts will be more than ready to meet the challenges and reap the benefits.