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MORTGAGE TECH

Electronic Mortgages Have Arrived

It Has Been Done; Now Will It Spread?

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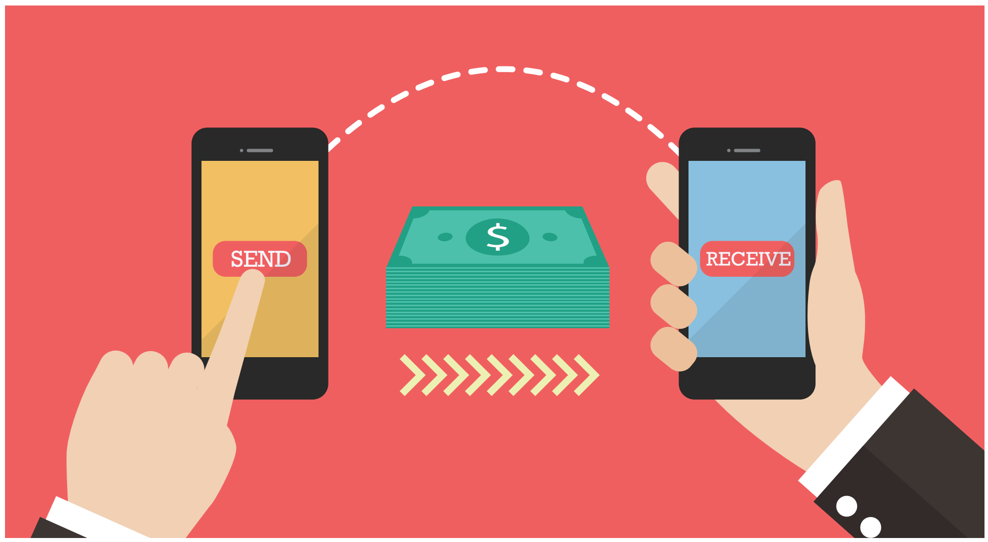

For many years, the electronic notary portion of the mortgage process has been the obstacle to complete digitization, but Radius Financial Group has cracked the code on clearing that hurdle. The company has already issued a half-dozen or so all-digital residential mortgages and sold them on the secondary market, with another dozen to come by the end of the year.

"These are complete digital entry, digital exit loans," said Keith Polaski, founder and CEO of Norwell-based Radius Financial Group. "Everyone has had digital entry (electronic applications) for a long time. To me, the desire to take my organization down this path has always been about the consumer experience. I challenged my company to have a full digital solution for when the millennial homebuyers break out. There's going to be a wave of homeownership that we haven't seen in a long time. I knew that if we don't do it, someone else will and then we'll be at a competitive disadvantage."

Fannie Mae buys e-mortgages and has been encouraged to expand that initiative; Polaski's challenge was to convince a warehouse lender to fund one of these loans. He found a partner in Santander Bank. Polaski is only aware of a few other institutions in the U.S. making totally electronic loans, and most of those are self-funded.

Electronic mortgage advocate and conveyancing attorney Hugh Fitzpatrick of Fitzpatrick and Assoc. in Tewksbury has had his hopes crushed before, but he is encouraged by Radius' progress.

"I've been following the e-mortgage movement since 2004-2005," Fitzpatrick said. "I hoped and thought it would eventually go this way, but I didn't think it would take so much time. I think 2017 is all about the consumer. It's incumbent upon all participants to find more efficient resourceful ways to deliver service to our clients."

Secondary-Market Buy-In

The vast majority of lenders only make loans they are confident they can sell on the secondary market. Currently, only Fannie Mae and Freddie Mac will buy e-mortgages. That represents about 70 percent of loans nationwide. It also means that FHA, VA, GSE and jumbo loans aren't being done digitally – yet.

"We have a closing agent who had to go through a process as an e-notary Through World Wide Notary," Polaski said. "He has a signing pad that has digital DNA in it, if you will. There's a firm aligned with MERS and approved by Fannie and Freddie that can do an e-notary. His Massachusetts notary seal is digital."

Polaski said other aggregators pay more for loans than Fannie and Freddie, so he's eager to see them approve e-mortgages, but that won't happen until the larger lenders like Wells Fargo, Chase and Citibank embrace all-digital loans – and as he put it, "those are pretty big ships to try to steer."

"If anyone said tomorrow, they want to do what we just did, it would take at least nine months," Polaski said. "I hope our success will drive my competitors to do it, too. The CFPB did an e-note pilot symposium, but the big lenders didn't do anything. Hopefully we can be the catalyst that starts this. In theory, it would be possible in the future to turn a loan around in 12 hours."

Currently the homebuying process isn't built to accommodate that kind of speed, but Polaski thinks there is definitely an appetite for speeding the process up. Fitzpatrick said the time to capitalize on that is now, as the wave of Millennial homebuyers is cresting.

"I think Millennials are going to create the demand," Fitzpatrick said. "The lending industry tends to be a follower industry. It'll be like mobile bank deposits – as soon as one bank offered them, they all had to start doing it. I hope Radius' success will compel others to rethink it. If the process isn't digital in five years, they're going to miss the opportunity to capture Millennial homebuyers."

Faster, Cleaner and Better

Paperless mortgages are not only faster and more efficient; they're also less prone to errors, according to Polaski.

"It's not possible to do a true e-closing and not have every 'i' dotted and 't' crossed," he said. "There are all these other effects that make us faster and more cost effective. We closed a loan on Wednesday morning. Fannie bought it within 24 hours."

Fitzpatrick agreed and said that as technology improves, accuracy will also improve.

"Most of the technology has a policing function," he said. "The technology doesn't allow you to proceed until the appropriate fields have been filled in, which drastically reduces the potential for error."

E-mortgages are better for the consumers and better for the industry, he said.

"Think of how the Realtor community will receive it when they go to a closing and not one pen touches a piece of paper," Polaski said. "That's what I get excited about. You go on record 15 milliseconds after you hit done. Our purchase closings will never have to happen in the registry again."

Attorney Richard Vetstein, who has also been following the e-mortgage movement for many years, was uncertain of the future of e-mortgages on the morning the results of the 2016 presidential election were announced.

"I know the CPFB has been advocating for paperless transactions since the agency was created," Vetstein wrote in an email. "However, now with Trump being elected, there's concern the agency may be in jeopardy, so there will be no federal agency championing this issue. Paperless transactions are more convenient for the consumer and less expensive for lenders and attorneys. The industry should continue to push for them." ■

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