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## MORTGAGES

### Electronic Mortgages Poised For Big Leap in Market Share

■ BY ANTHONY GARRITANO

When will the electronic mortgage revolution happen?

It is a question industry pundits have pondered for years. Though electronic mortgages are happening today, they remain less than 1% of the total market. Nonetheless, three things show promise for much faster electronic mortgage adoption, and industry members are predicting significant market share increases next year and in 2011.

First, the Mers loan-tracking system registered its 100,000th electronic note this month. What makes this significant is that about half of those e-notes were registered just this year.

Several lenders are dedicated to moving electronic mortgage adoption further. Fifth Third Bancorp in Cincinnati, for example, is in the process of getting Mers certification with the intent to sell electronic mortgages on a flow basis to Fannie Mae by the end of the year.

Brenda Clem, the manager of secondary marketing loan delivery for Fifth Third's bank subsidiary, said the savings from electronic mortgages go well beyond the money spent on paper.

"I look at the time spent to actually leverage your staff to have the critical thinking going on instead of just the low-task item of pushing around paper," she said. "I want the critical thinking and the decision-making folks to do what it is that I hired them to do. I don't want to be the last one" to adopt electronic mortgages, "and that's why I'm keeping the foot on the pedal."

Flagstar Bancorp Inc. has started providing financial incentives to warehouse lending customers that opt to close mortgages



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electronically and sell them to the Troy, Mich., thrift company.

"With capacity being what it is, it's taken us five or six days to turn a file," said Steven Brooks, an executive vice president and the chief operating officer of lending at Flagstar's thrift. But "if you come online and e-close ... we at Flagstar can guarantee 24-hour or 48-hour close. With an e-closing, there isn't much for us to review. It'll go to the top of the line, we'll buy it in 24 to 48 hours and it'll free the [warehouse] line up to do more loans."

The second big industrywide e-mortgage first for 2009 will be the introduction of Version 3 of the Mismo standard from the Mortgage Industry Standards Maintenance Organization, a not-for-profit subsidiary of the Mortgage Bankers Association that develops standards for both the residential and commercial industry sectors.

Version 3, which is currently up for public comment and is slated to be introduced as the standard in late June, was developed to increase transparency and support data security — two issues the mortgage crisis has caused bankers to look very hard at.

Greg Alvord, the senior vice president of technology at the Plano, Tex., pricing and decisioning vendor Optimal Blue, and the chief architect for Mismo, said that in previous versions of the standard "there was a huge gap in the way origination looked at things and the way servicing looked at things. It was impossible to communicate things to the servicer or the secondary market. Version 3 closes that gap so all the data that has been created during the origination process can be visible to the servicer and the secondary market."

Mortgage investors complained "that they didn't know what they had in terms of data quality," Alvord said. "We can now communicate everything about the data in the loan all the way down the value chain of participants that need to see into that loan."

What this means for electronic mortgage adoption is that if investors begin wanting to see all the data associated with a property, the Mismo message can handle that and get that to the servicer as well. Now the same data message can now be used in origination, servicing and the secondary market.

The last big e-mortgage milestone for 2009 will be the publication of the Federal Housing Administration's e-mortgage specifications. The FHA has endorsed about \$143.9 billion in single-family loans in the first six months of fiscal 2009, up 169% from the same period in fiscal 2008.

Currently the FHA does not accept electronic mortgages, but when it does later this year, that would mean the three biggest mortgage guarantors — Fannie, Freddie Mac and the FHA — will be accepting e-mortgages.

“Mainstream e-mortgage adoption is inevitable,” said Kim Weaver, vice president of product management for Fiserv Inc.’s electronic lending platform. “It’s been in the

works for years. The underlying structure is there and it’s tested. It’s going to be like the iPhone and it’ll digitize the way mortgage assets are done.”

Weaver said that in the next five to 10 years electronic mortgages’ share of total originations could rise to between 5% and 10%. “The high-middle-tier bankers will be the ones to propel that adoption forward,” she said.

Fannie has taken steps to accept electronic signatures for loan modifications, which Weaver called “another good sign. . . . In fact, some of the e-notes done around loan mods are also being registered on Mers, which indicates that this is legal and works for all types of transactions. It’s being done.”

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