UMDP
UNIFORM MORTGAGE DATA PROGRAM

Fannie Mae™

Freddie Mac

2016

eMortgages

Joint GSE eMortgage Outreach Survey Findings on the State of Industry Adoption

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Background

- **What is an eMortgage?** An eMortgage is a mortgage loan where the critical loan documentation – specifically the promissory note (eNote) – is created, executed, registered, transferred and ultimately stored electronically. (NOTE: This often includes a wet-signed security instrument).

- **What is an eClosing?** Electronic closings or "eClosings" involve parties applying eSignatures to electronic closing documents. This is often a hybrid process in which certain key documents (e.g., Note, Security Instrument) are printed to paper and traditionally wet-signed. Therefore, an "eClosing" produces an "eMortgage" *only if an electronic promissory note was signed electronically*.

As of February 2015, the Mortgage Electronic Registration Systems® (MERS®) had registered 338,000 eNotes and the number continues to grow. There are approximately 50 lenders/investors integrated with the MERS eRegistry, and more than 200 companies closing eNotes, which are sold to and registered by an integrated company acting as an aggregator.

A number of factors are driving demand for eMortgages, such as:

- Borrower expectations – demanding faster, better, and more reliable service.
- A desire for more efficient processes and cost savings in the loan origination process.
- Potential for increased liquidity due to shorter timeframes from loan origination to sale in the secondary market.
- Reduces interest rate risk and hedging costs.
- Potential for reduced cost for warehouse lines.
- Speeds loan funding and reduces cost for eNote certification and storage.
- Reduces the associated delays in loss mitigation activities.

Why did the GSEs conduct a Joint Outreach Survey with Industry Stakeholders?

Fannie Mae and Freddie Mac (GSEs) are working together under the direction of the Federal Housing Finance Agency (FHFA) as part of the 2016 Scorecard to identify, assess, and where appropriate, implement strategies to improve the lending industry's ability to originate and deliver eMortgages (electronically signed mortgage documents).

This report is a culmination of a joint industry outreach survey by the GSEs asking 130 key industry stakeholders – lenders, technology solution providers, warehouse banks, servicers, and title/settlement providers – about their perceived obstacles/barriers to broader industry adoption of eMortgages.

How did the GSEs collect this data?

The GSEs worked together to design joint surveys with questions tailored to the stakeholder segment (i.e., lenders, warehouse providers, servicers, title/settlement agents, and other stakeholders including technology solution providers) which totaled 78 questions.

- A collective list of key industry stakeholders was identified based on the following factors:
  - All technology service providers active in the space today.
  - Sellers and servicers delivering eMortgages today.
  - Sub-servicers actively servicing eNotes today.
  - Warehouse lenders who expressed interest in participating through the MBA eWarehouse Group call.
  - Sellers and servicers who have engaged with us and are actively seeking eMortgage solutions.
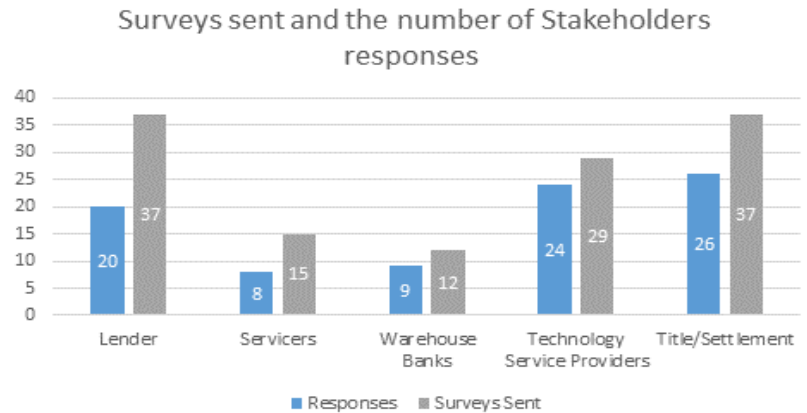 - Other industry partners such as title/settlement service providers.

- We utilized similar language for questions and methodology for collecting data, but sent separate surveys for confidentiality reasons.

- The identified stakeholders were divided between GSEs, and each GSE used its respective survey tool to reach out and collect the data.

- Through our analysis, we identified barriers/obstacles, collected the quantitative and qualitative data, categorized the potential/proposed solutions, and identified areas of opportunity to move the industry forward.

Response Rates

We surveyed 130 stakeholders and received 87 responses, representing a **66%** response rate – well above what is reportedly the typical 5% to 20% survey response rate, reflecting the importance of this feedback tool to participants.

The response rate per industry >>

- **Lenders, 54%**
- **Servicers, 53%**
- **Warehouse Banks, 75%**
- **Technology Solution Providers, 83%**
- **Title/Settlement Companies, 70%**

Surveys sent and the number of Stakeholders responses

	Lender	Servicers	Warehouse Banks	Technology Service Providers	Title/Settlement
Responses	20	8	9	24	26
Surveys Sent	37	15	12	29	37

What We Learned

Survey participants were asked to rate a series of items in terms of degree of significance as an obstacle/barrier to adoption of eMortgages. We found that eMortgage adoption continues to gain traction with lenders; however, the adoption has been slow due to various factors. Ultimately, the survey showed that lenders are willing to spearhead the process while warehouse banks, servicers, and title/settlement partners will adopt when requested by lender partners.

Our research also revealed other common concerns across industries, such as:

- Acceptance by a limited number of investors.
- Warehouse line availability.
- Lack of key stakeholder readiness (servicers, document providers, custodians, title/settlement agents, etc.).
- Implementation complexity.
- Inadequate return on investment (ROI) based on industry volumes.
- Lack of uniform adoption of eNotarization and eRecording.
- Resource/financial constraints.
- GSE policy alignment.

In the sections to follow, we have listed the key pain points identified by the survey for each of these stakeholders, and have provided takeaways. The GSEs will consider all results and will work to identify the most impactful way to address the barriers and ultimately increase mortgage industry adoption.

Results

Lenders: Perceived Obstacles to eMortgage Adoption

> **We asked: What barriers do you perceive as the greatest challenges?**

The top pain points, including comments, were:

Lack of Warehouse Lenders

"Only a few warehouse lenders allow eNotes resulting in an added hurdle…the warehouse lenders will delay as long as possible since this changes their revenue model."

Lack of Investor outlets/varied Investor requirements and policies

"Currently this is an agency-direct product only; there's no active investor appetite in the secondary market."

"Lack of other investors and possible execution outlets limit the correspondents."

"Lack of other investors and possible execution outlets limit the correspondents. In addition, the fear is what if an investor will not buy the loan. How do you unwind and sell with limited outlets?"

Lack of Business Partners

"Title companies are well behind in moving to eSign option. Especially in small counties, etc., where technology is often outdated."

"Custodians are not ready for eNotes."

"Technology required is developing at different paces. Must keep vendors on track with overall initiative."

"A top five LOS does not support. We need to use a third-party document service for eClosings."

TAKEAWAYS

- The lack of availability of warehouse funds for eNotes is a significant issue to lenders looking to enter this space.

- Lack of broad investor acceptance limits best execution options for lenders, which impacts adoption.

- There is a need for turnkey implementation options to offset for the varying pace of adoption among key stakeholders.

Mean Score

1 = Marginally Significant, 2 = Moderately Significant, 3 = Extremely Significant

Category	Score
Lack of Warehouse lenders	2.50
Lack of Investor Outlets	2.41
Varied Investor Requirements/Policies	2.31
Lack of Support by Business Partners	2.23
Lack of eRecording in Counties	2.19
Lack of Document Custodian(s)	2.14
Lack of eNote Support by Document Providers	2.14
Resource (People, Budget) Constraints	2.08
Lack of eNotary Acceptance at State Level	2.00
Servicer(s) Not Ready for eNotes	1.94
Current eNote Not in the Latest Version of MISMO	1.86
Lack of eSignable Documents by Vendors	1.83
Title/Settlement provider(s) Not Ready for eClosings	1.71
Technology Too Complex	1.67
Variable GSE Requirements/Policies	1.64
Burdensome GSE requirements	1.54
Legal Concerns Around eSignatures	1.50

This document relates to the Uniform Mortgage Data Program, an effort undertaken jointly by Freddie Mac and Fannie Mae at the direction of their regulator, the Federal Housing Finance Agency.

We asked: What barriers do you perceive as the greatest challenges?

The top pain points, including comments, were:

Lack of Customer Demand

"We need more servicer and custodians on board with a process and endorsement."

"Pricing – mortgage bankers need to see an incentive."

Lack of Investor Outlets

"The lack of broader investor acceptance will be an obstacle to early adopters."

"Limited acceptance by investors."

Technology Requirements too Difficult

"To facilitate eNotes, warehouse lenders and mortgage bankers have to invest in technology to establish an eVault to accept eNotes vs. having the custodian as a designee."

"The initial estimate to implement eNotes is a significant six-figure amount. No one on our staff is familiar with the concept or IT architecture."

TAKEAWAYS

- Warehouse customers are not asking warehouse lenders to offer lines for eNotes.

- Technology investment costs are too high for the current volume – little ROI.

- Investors are not fully on board (not enough investor outlets).

Mean Score

1 = Marginally Significant, 2 = Moderately Significant, 3 = Extremely Significant

Category	Score
Lack of Customer Demand	2.75
Lack of Investor Outlets	2.67
Technology Requirements too Difficult	2.25
Inadequate ROI Based on Industry Volumes	2.13
Concerns with GSE Triparty Agreements for Bailee Letters	2.00
Concerns with the Security Interest Being Perfected in MERS eRegistry	2.00
Impacts Revenue Model	1.86
Lack of Support from Document Custodians	1.86
Variable GSE Requirements/Policies	1.75
Variable Investor Requirements/Policies	1.75
Resource (people, budget) Constraints	1.67

Technology Solution Providers: Perceived Obstacles to eMortgage Adoption

We asked: What barriers do you perceive as the greatest challenges?

Similar to the lender sentiment, limited investor outlets/varied requirements and lack of warehouse lines were the top pain points. Additional pain points were:

Lack of Readiness of Settlement Services

"Each settlement company may use a different solution and approach. This makes it difficult for the lender as now they have multiple closing settings and methods and must train their closing department."

"Depending on the transaction, refi or purchase, the lender may or may not control who the settlement provider will be."

"The lack of willingness of settlement service providers to conduct eClosings is closely tied to the lack of title insurers willing to ensure an electronic notary process."

eNotary/eRecording Limitations

"The electronic notary space is becoming the wild wild west. Many variations, lack of centralized direction, lack of education, lack of understanding, and acceptance."

"The lack of eNotarization is a significant roadblock."

"There is very much a lack of education and awareness of the legal requirements around eNotes, eMortgages, eRecording, eNotarization, eWarehouse funding. We are attempting to remedy this with a small collaboration of industry colleagues."
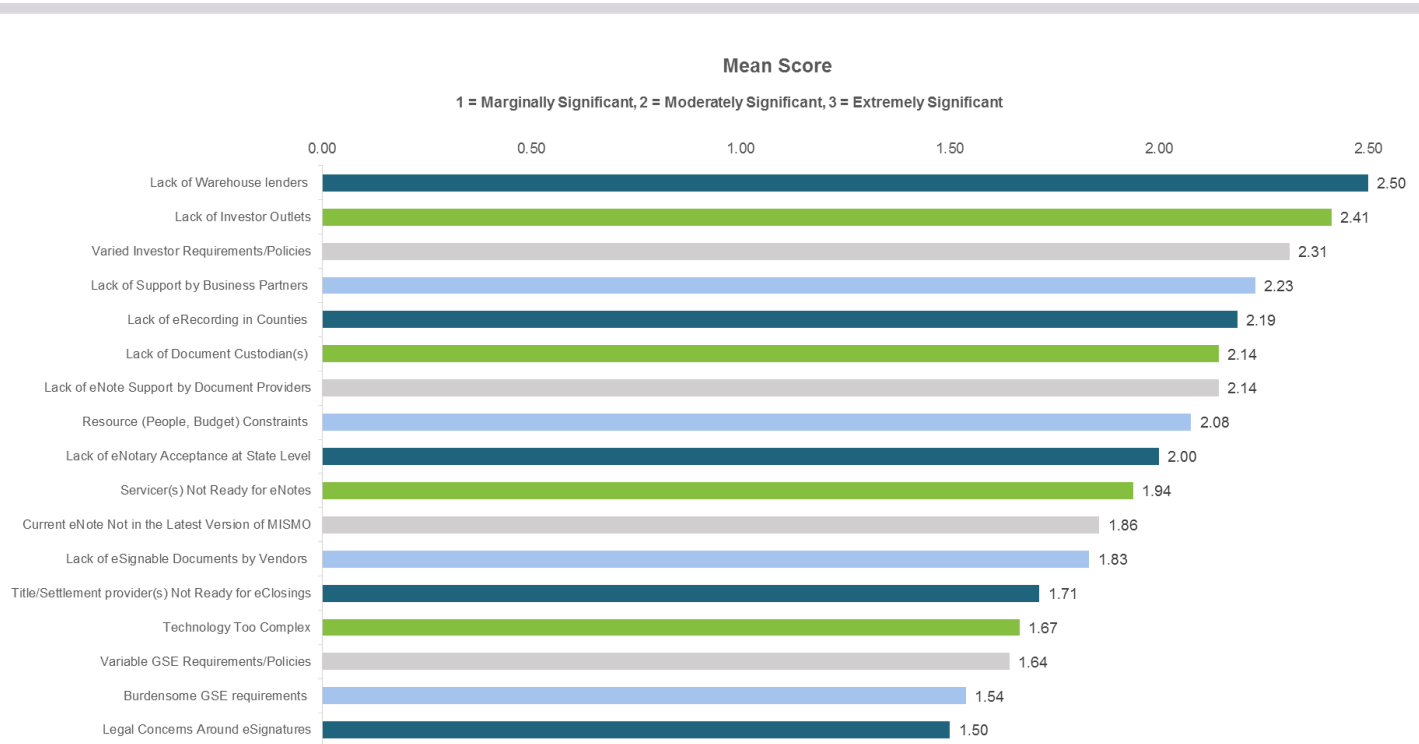
Complexity of SMARTDoc 1.02

"The single biggest challenge is that the GSEs are accepting the Closing Disclosure in MISMO V3 SMARTDoc format, but the eNote is in a different version, 1.02. This requires three different systems: one to produce the Closing Disclosure in an electronic form, one to create the eNote, and another to create paper."

"Acceptance of eNotes in PDF or SMART Doc V3 with PDF view would ease implementation for vendors. SMART Doc 1.02 presents significant challenges and requires a bifurcated eSigning process because the rest of the closing package is eSigned PDF."

TAKEAWAYS
▪ Lack of consistent and uniform set of processes/policies forces industry to adopt different closing processes depending on the market and that is a major hindrance for adoption.
▪ eNotary/eRecording limitations make delivery of a full end-to-end eMortgage process difficult.
▪ Industry needs broader title insurer and settlement agent adoption.

Mean Score

1 = Marginally Significant, 2 = Moderately Significant, 3 = Extremely Significant

Category	Score
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Resource (People, Budget) Constraints	2.08
Lack of eNotary Acceptance at State Level	2.00
Servicer(s) Not Ready for eNotes	1.94
Current eNote Not in the Latest Version of MISMO	1.86
Lack of eSignable Documents by Vendors	1.83
Title/Settlement provider(s) Not Ready for eClosings	1.71
Technology Too Complex	1.67
Variable GSE Requirements/Policies	1.64
Burdensome GSE requirements	1.54
Legal Concerns Around eSignatures	1.50

Servicers: Perceived Obstacles to eMortgage Adoption

Q: What barriers do you perceive as the greatest challenges?

The top pain points, including comments, were:

eNote Servicing Technology Requirements

"As a sub-servicer without a direct relationship with an eVault and MERS reporting vendor, a financial and audit investment needs to be made to facilitate a total eNote servicing solution."

"eNote vault is the biggest obstacle at this point."

"Not enough clear documentation of the process to set up a vault, the requirements and the flow of information through the process. We had to build it ourselves."

Default Servicing Processes

"In the event of default, some courts need additional clarification on the product type to allow us to move forward with foreclosure actions."

"More information related to the general flow of closing documents, registering with MERS, and the management of data thereafter would be helpful."

"The requirements related to default need to be detailed."

Lack of Support by Servicing Platforms

"It would be helpful to be able to store eNotes in a sub-servicer's vault, but foreclose in the name of the registered master servicer. Adding the designated role of the sub-servicer would be helpful to the process and not allow management of the default process."

"The GSEs should finalize policy on subservicing and discuss alignment."
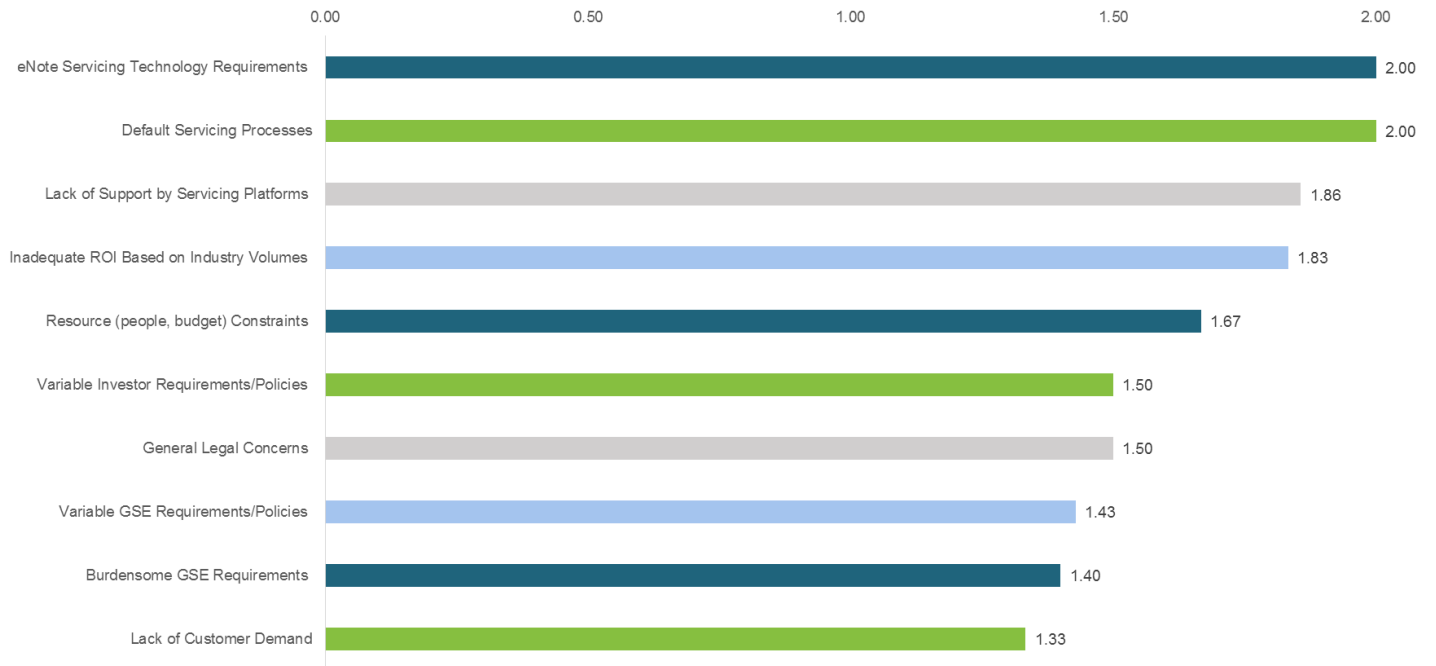
"Servicing platform integration to other eVaults … would be ideal."

TAKEAWAYS

- Technology investment costs are too high for the current volume – little ROI.

- Sub-servicers play a role, but policies need to be more clearly defined.

- Servicers would like more clarity on default servicing policies/requirements.

Mean Score

1 = Marginally Significant, 2 = Moderately Significant, 3 = Extremely Significant

	0.00	0.50	1.00	1.50	2.00

- eNote Servicing Technology Requirements — 2.00
- Default Servicing Processes — 2.00
- Lack of Support by Servicing Platforms — 1.86
- Inadequate ROI Based on Industry Volumes — 1.83
- Resource (people, budget) Constraints — 1.67
- Variable Investor Requirements/Policies — 1.50
- General Legal Concerns — 1.50
- Variable GSE Requirements/Policies — 1.43
- Burdensome GSE Requirements — 1.40
- Lack of Customer Demand — 1.33

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Title/Settlement: Perceived Obstacles to eMortgage Adoption

We asked: What barriers do you perceive as the greatest challenges?

The top pain points, including comments, were:

Multiple eClosing Solutions Difficult to Manage

"I see real difficulty if each lender has a different eClosing system, then we must learn and navigate numerous types of systems."

"Each system has different software, hardware requirements, and training needed. In addition, most have costs to us to sign up."

"These vendors should not only have the technology to execute the eNote and any accompanying documents, but also be tightly integrated into settlement systems."

Lack of Demand from Lenders

"Haven't seen a lot of other lenders using eClosings yet."

"There is not an understanding among lenders regarding eNotes."

"Title Underwriters and agents are holding back from eClosings due to risk aversion. When lenders begin asking for this, title side will be ready to accommodate."
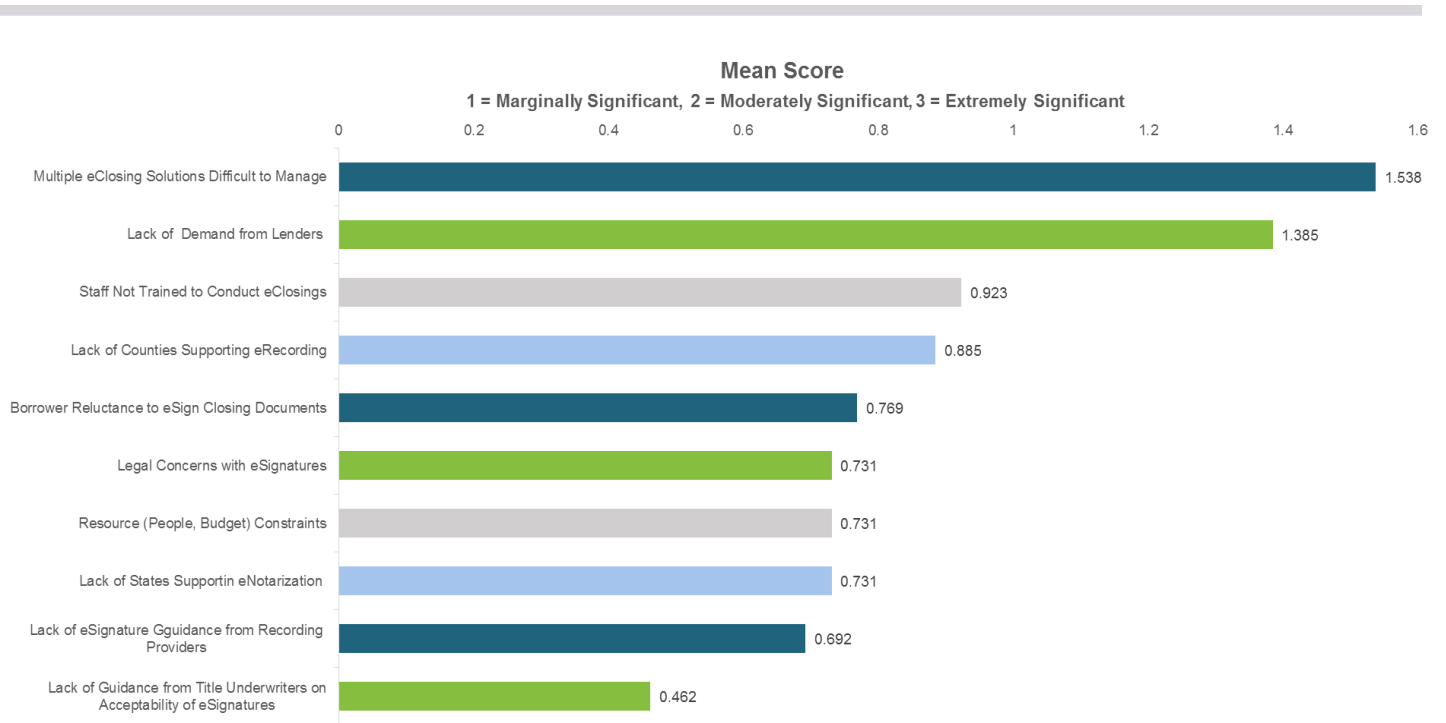
Staff Not Trained to Conduct eClosings

"Having more than one employee trained has caused some stress."

"Training 20 escrow officers on multiple systems would be challenging."

"Some level of concern regarding independent agents having to use/learn multiple lender systems."

TAKEAWAYS

- Lenders must drive adoption to their title/settlement partners.

- Training and education on eClosing platforms is essential for title agent acceptance.

- eClosing process integrated into most widely used LOS systems could be key for adoption.

Mean Score
1 = Marginally Significant, 2 = Moderately Significant, 3 = Extremely Significant

Barrier	Mean Score
Multiple eClosing Solutions Difficult to Manage	1.538
Lack of Demand from Lenders	1.385
Staff Not Trained to Conduct eClosings	0.923
Lack of Counties Supporting eRecording	0.885
Borrower Reluctance to eSign Closing Documents	0.769
Legal Concerns with eSignatures	0.731
Resource (People, Budget) Constraints	0.731
Lack of States Supportin eNotarization	0.731
Lack of eSignature Gguidance from Recording Providers	0.692
Lack of Guidance from Title Underwriters on Acceptability of eSignatures	0.462

Next Steps

In the upcoming months, the GSEs will analyze the data collected to identify the most impactful way to address barriers and provide recommendations in order to alleviate some of the challenges the industry faces. The GSEs anticipate producing a follow-up report to demonstrate the work that we completed and provide updates on our plan for GSE strategy and policy alignment.

For More Information

To learn more visit the FannieMae.com eClosings and eMortgage page or FreddieMac.com eMortgage page.