snapdocs

# Digital Closings Are Easier Than You Think

## Busting 5 Common Lender Misconceptions

# Contents



# Introduction

Digital closings are an excellent way for mortgage lenders to become more competitive and efficient, but many lenders are holding off on adoption due to confusion and misinformation about the process.

This white paper challenges five common lender misconceptions about digital closings and highlights the ways in which lenders can successfully adopt digital closings with Snapdocs' digital closing platform.

# Defining terms


When examining common misconceptions around digital closings, it's clear that some of the confusion is due to the terminology involved. Some terms may be entirely unfamiliar. Other terms might appear to be similar enough that they could be interchangeable, but they aren't. Before we dive deeper into clearing up common misconceptions, let's first define and clarify some of the terms that will be used in this white paper.

**Digital closing:** A digital closing is a mortgage closing that includes one or several digital components in the process. At least some, but not all, of the closing process must be digitized. Wet closings, hybrid closings and eClosings are all types of digital closings.

**eClosing:** In an eClosing, the closing process is digitized and the entire loan package is electronically signed and notarized. This includes the promissory note, which is referred to as an eNote when digitized. Because everything is done digitally, the closing appointment can happen either in-person or remotely using audio-visual technology. When completed, the necessary documents are electronically transferred to and recorded by the county.

**Hybrid closing:** A hybrid closing is a mix of a wet closing and an eClosing, where some of the loan package is signed or notarized in ink and the rest is completed electronically. Which documents are wet-signed versus which are electronically signed are usually decided based on the lender or investor's preference.

In a hybrid closing, the borrower either electronically signs some documents before arriving at their closing appointment, or they electronically sign those documents at the closing table. If the borrower electronically signs some of the documents before their closing appointment, they will only need to wet-sign the remaining documents at the closing table.

In a hybrid closing, the promissory note can either be signed on paper or digitized and electronically signed as an eNote. Because hybrid closings always have some documents that are wet-signed, they require an in-person closing appointment. The documents that need to be recorded with the county are either physically sent to the county recording office, or they are electronically transferred and recorded.

**Wet closing:** In a wet closing, the entire loan package is printed on paper and signed and notarized in ink. Although wet closings involve wet-signing documents, the workflows around the closing can be digitized. The borrower can electronically preview their documents before they arrive at the closing table, and the completed documents can be scanned and electronically recorded with the county. Because wet closings can involve digital components, they are also considered a type of digital closing.

**eSign:** The act of electronically signing digital documents.

**eNote:** An electronic promissory note, which is eSigned.

**eNotarization:** The act of electronically notarizing digital documents. A digital notary stamp and eSignature are used, instead of a physical ink stamp and ink signature.

**In-person electronic notarization (IPEN):** The act of conducting eNotarizations in person.

**Remote online notarization (RON):** The act of conducting eNotarizations remotely via the Internet. Instead of meeting in-person, consumers and notaries connect digitally through audio-visual technology, such as a webcam.

**eRecording:** The electronic transfer and recording of completed loan documents.

With these key terms defined, let's move on to busting five common misconceptions about digital closings.

Misconception 1:

# My investors don’t accept digital closings.

Lenders often believe their investors don’t accept loans that have been eSigned or eNotarized. While requirements may differ depending on the investor’s preferences, there are actually many investors who are buying digitally closed loans of varying degrees today.

Many investors — including Fannie Mae, Freddie Mac, Ginnie Mae and the Federal Home Loan Banks — accept eSigned documents. There’s also increasing acceptance of eNotes. As of November 16, 2019, there are 15 investors currently accepting eNotes on the MERS® eRegistry.[1]

Fannie Mae accepts eSignatures on most documents used to originate or service a loan, but lenders looking to deliver or service eNotes must seek prior approval.[2] Freddie Mac recognizes electronic signatures on electronic loan documents that comply with ESIGN (Electronic Signatures in Global and National Commerce Act) and UETA (Uniform Electronic Transactions Act) as valid. In states where RON is permitted, eNotarized loans are also eligible for sale to Freddie Mac.[3]

While Ginnie Mae and the Federal Home Loan Banks are a few steps behind Fannie Mae and Freddie Mac, they clearly recognize the value in digital closings and are taking steps toward supporting them. Ginnie Mae is planning to launch a pilot program to begin accepting eNotes.[4] The Federal Home Loan Banks are working to establish agreed-upon requirements for the acceptance of eNotes as eligible collateral by the end of 2019.[5]

eSigned documents see the most acceptance in the secondary market. There are some investors that accept eNotes and a select few who accept eNotarized documents.

Since every investor has different requirements when it comes to which documents can be eSigned or eNotarized and when, it’s best for lenders to work directly with each of their investors. Some investors have public guidelines that can be found online, but others may not. Regardless, lenders who want to adopt digital closings should be ready to have a discussion with their investors.

---

1. https://www.mersinc.org/products-services/mers-esuite/eregistry/eregistry-participants
2. https://www.fanniemae.com/content/guide/selling/a2/5.1/03.html
3. https://sf.freddiemac.com/faqs/faqs-on-electronic-loan-documents
4. https://www.housingwire.com/articles/ginnie-mae-moving-closer-to-accepting-enotes/
5. https://www.fhlbdm.com/member-support/collateral/enotes/

Because hybrid closings involve some wet-signed documents and some eSigned documents, they are currently more widely accepted by investors than eClosings. Hybrid closings, whether they include the eNote or not, face fewer blockers since they typically do not involve eNotarization. This makes hybrid closings more scalable than eClosings currently.

Snapdocs has found that 75% of the typical closing package can be eSigned. This drastically cuts down the number of pages that borrowers need to wet-sign at the closing table.

Lenders can configure their eSigning preferences with Snapdocs to provide whatever combination of wet-signed and eSigned documents their investors accept. Lenders also have complete control over their closing mix, which is the combination of wet closings, hybrid closings and eClosings, on Snapdocs. As more investors accept hybrid closings with eNotes and eClosings, lenders can adjust their closing mix to incorporate more of those types of closings.

75% of the typical closing package can be eSigned.

Misconception 2:

## I have to go from paper closings directly to eClosings; it's eClose or nothing.

Many lenders are under the impression that the only way to adopt digital closings is by making the leap from paper to fully digital in one go. Naturally, this can sound overwhelming to lenders, who may choose to give up on digital closings before even getting started. Taking this approach can also decrease the chances of success, as it's a huge undertaking to make such a drastic change.

Other lenders believe that digital closings are only worth it if they're doing eClosings. This is why they try to make the direct jump to eClosings or why they hold off on doing digital closings until eClosings are accepted by everyone.

Instead of approaching digital closings with an all-or-nothing mindset, lenders can find value and success today by focusing on hybrid closings. You can think of hybrid closings as sort of a middle step between paper and fully digital. They offer a practical path to eClosings, while also providing lenders with many of the benefits of eClosings.

Beginning with hybrid closings helps lenders lay the foundation for eClosings in the future. By setting up the infrastructure and digitizing parts of the closing today, lenders will have an easier time adding on additional digital components, like RON, as they become more widely accepted.

Hybrid closings are also more widely accepted than eClosings currently, which means that lenders can do them at scale. As a result, lenders can see a return on investment from day one.

Snapdocs' lender clients are able to do the majority of their loan volume as hybrid closings and ramp digital closings quickly. It only takes an average of four months for lenders to digitize 99% of their loan volume on Snapdocs. One success story is The Mortgage Firm, an independent mortgage bank headquartered in Florida, who was able to close 50% of their loan volume as hybrids within the first month of implementing digital closings.

**The Mortgage Firm** was able to close 50% of their loan volume as hybrids within the first month of implementing digital closings.


Misconception 3:

# My state doesn't accept digital closings.

Lenders and settlement companies sometimes mistakenly believe that the state in which they operate doesn't allow hybrid closings or eClosings, for a number of reasons. This misconception often stems from confusing eNotarization with eNotes or eClosings. There's also some uncertainty around the impact of being in a dry funding or wet funding state.

In terms of state acceptance of digital closings, lenders and settlement companies need to look at the individual components that are necessary for a hybrid closing or an eClosing. The laws around eSigning, eNotarization and eRecording are all different.

Due to UETA and ESIGN, eSigning is recognized and considered valid by all 50 states in the U.S.[6] For eNotes, the CFPB specifically states, "the law is clear under ESIGN and UETA: eNotes can be originated, validated, and enforced on a nationwide basis, assuming stakeholders follow the legal requirements."[7]

This means there are no state problems with eSigning loan documents, including the eNote. Hybrid closings, with and without eNotes, can be conducted throughout the country.

On the other hand, eNotarization is not currently accepted in all 50 states. Remember that there are two forms of eNotarization: IPEN and RON. Most states accept IPEN, though acceptance is often further restricted to counties that accept eRecording.[8] Even fewer states accept RON, but that number is growing.[9] However, you don't need eNotarization to do hybrid closings; eNotarization is only required for eClosings.

In order to do a full eClosing, eRecording is also required. Although the primary users of eRecording are settlement companies, eRecording does benefit lenders. With eRecording, lenders can receive the recorded documents instantly. Unlike most other digital closing components, acceptance of eRecording varies by county instead of state.

6. https://signeasy.com/esign-act/
7. https://files.consumerfinance.gov/f/201404_cfpb_report_mortgage-closings-today.pdf
8. https://www.stewart.com/en/eclosing/state-by-state-guides/enotarization-not-remote.html
9. https://www.nass.org/initiatives/remote-electronic-notarization

As of 2017, 80% of the American population lives in counties that support eRecording.[10]

State acceptance of digital closings is not affected by whether the state is a dry funding or wet funding state. This is because dry funding and wet funding refer to when all the loan documents need to be completed, but these terms do not specify how the documents should be signed.[11]

Depending on whether a lender is interested in adopting hybrid closings or eClosings, state acceptance of the various digital components may or may not be a blocker.

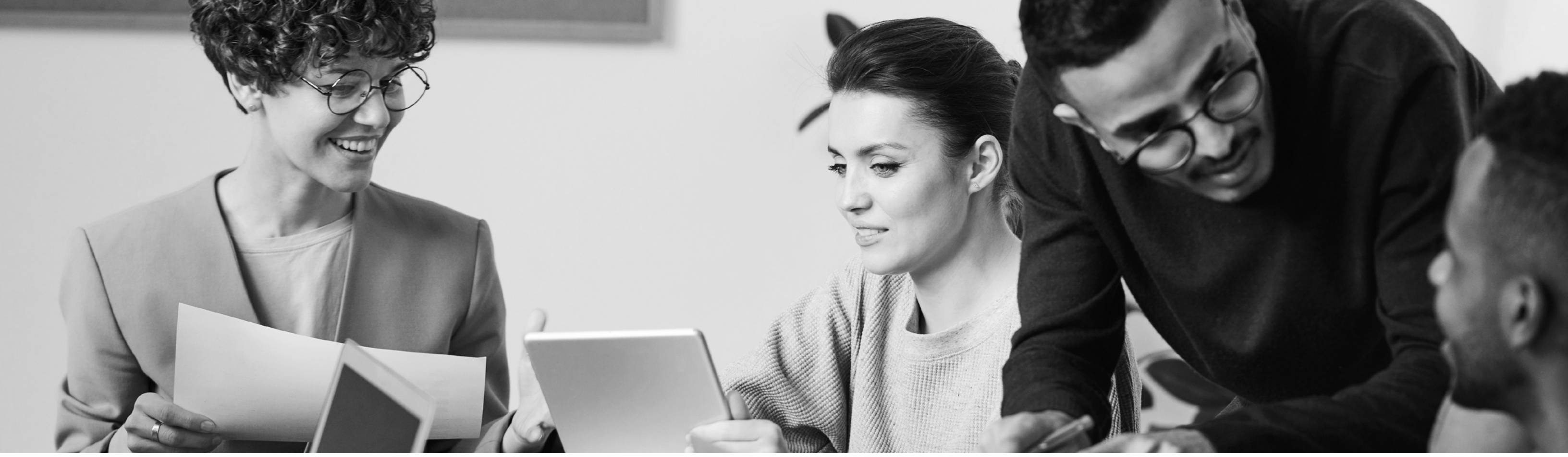
Hybrid closings don't require lenders to look to state regulations. This includes hybrid closings with eNotes. Since hybrid closings typically don't involve eNotarization and don't have to include eRecording, there's no need to be concerned about state acceptance. Hybrid closings can be done at large volumes today because they're supported across all 50 states and among most investors.

eClosings, however, require lenders to take into account each state's legal requirements for eNotarization. Additionally, settlement companies have to be aware of each county's eRecording capabilities.

Hybrid closings can be done at large volumes today because they're supported across all 50 states and among most investors.

10. https://www.consumerfinance.gov/about-us/blog/eclosing-and-buying-home-technologys-role-closing-mortgage/

11. https://www.cmgfi.com/News/Read/the-difference-between-a-wet-and-dry-funding-state?channel=corporate



Misconception 4:

# Digital closings require more work.

One of the biggest challenges to digital closing adoption is the additional work that digital closings typically come with. Notably, hybrid closings require someone to separate the eSign documents from the wet-sign documents. Both eClosings and hybrid closings require someone to annotate or tag the documents with fields for eSignatures, dates, initials and other information that will need to be filled in.

This work is usually done manually, taking up precious time and resources. When digital closings actually require more work than paper closings, it's clear why adoption has been slow. However, some digital closing technology providers have developed either semi-automated or fully automated ways to do this work.

Some solutions use templates, which require someone to perform the initial setup. An employee must set up the templates, dragging and dropping each eSignature field onto the different types of documents. Then, those fields can be automatically applied to future documents.

Other template-based solutions require someone to provide coordinates of where the eSignature fields should be placed on the document. The setup process for template-based solutions is often time-intensive, and templates must be updated as documents change.

Fortunately, when lenders use the right tools, doing eClosings or hybrid closings requires no more work than a traditional paper closing.

The best digital closing solutions can intelligently and automatically sort documents into wet-sign and eSign packages and tag documents for eSignatures. This can be done by leveraging AI, which can detect where eSignature fields need to be and add them automatically. A completely automated solution like this is even more efficient than templates.

By leveraging automated solutions, lenders and their settlement partners don't have to take on additional work in order to offer a hybrid closing or eClosing. They can truly experience the efficiency benefits that digital closings promise.

Snapdocs makes this possible for lenders. Its unique AI automatically classifies, sorts and annotates loan documents for eSigning, based on the preferences of the lender or investor. This process takes an average of 11 minutes, and there's no manual work required from the lender. Best of all, Snapdocs' AI can process both lender and title documents. Lenders and their settlement partners can offer borrowers a digital closing experience without taking on additional work.

Misconception 5:
## It’s only worth doing digital closings if it includes an eNote.

eNotes provide many benefits to lenders, including faster funding, reduced costs and quicker warehouse turntimes.[12] However, eNotes aren’t the only way to achieve efficiency gains.

Here are some of the benefits that lenders can get by simply offering document preview and by giving borrowers the ability to eSign their loan documents — not including the promissory note:

- Reduced printing and shipping costs
- Fewer document and signing errors
- Faster funding and post-closing processes

When documents are digitized and eSigned, this cuts down on printing and shipping costs. Instead of having to mail papers back and forth between multiple parties, lenders can instantly send electronic files. This also eliminates the waiting time that comes with snail mail.

With document preview and eSigning technology, lenders can reduce document and signing errors. When borrowers preview their documents before the closing, they can spot errors that might have prevented them from signing at the closing table. The earlier these mistakes are caught, the more time lenders and settlement companies have to redraw the documents and still make the original closing appointment that was scheduled. eSigning technology ensures that documents can only be completed once all the necessary fields have been correctly filled in, eliminating missed signatures and information.

eSigned documents are immediately available to lenders once they’ve been completed. Lenders don’t need to wait for the completed documents to be physically delivered or mailed to them. As a result, they can kick off post-closing processes and fund faster.

Aside from these benefits that are a result of offering document preview and eSigning, lenders also get value from digitizing the overall closing process. Digital closings provide increased transparency to all parties. The mortgage closing is no longer a black box. Lenders, settlement and borrowers can all see the status of the closing, which reduces emails and phone calls.

12. https://www.mersinc.org/publicdocs/Benefits_of_eNotes.pdf

While there's growing acceptance of eNotes among investors and warehouse lenders, retail lenders may not be able to execute eNotes for all of their loans today. Instead of waiting for industry-wide acceptance of eNotes and missing out on the benefits listed above, lenders should move forward with digitizing wet closings and implementing hybrid closings that include a paper promissory note.

Evergreen Home Loans, a direct home loan lender with 65 offices, is a great example of a lender who has seen tremendous results without implementing eNotes. By just digitizing their wet closings and implementing hybrid closings that don't include eNotes, Evergreen Home Loans was able to eliminate so much manual work that they repurposed five employees. Instead of having these staff members do costly and repetitive tasks, like downloading and printing documents, Evergreen Home Loans moved them to areas where they could help grow the company and generate revenue.

**Evergreen Home Loans** was able to eliminate so much manual work that they repurposed five employees.

# Conclusion

Lenders are facing increased competition, shrinking profit margins and consumer expectations for digital experiences. It's more important than ever for lenders to leverage technology, like digital closings, to be more efficient and wow their customers.

Lenders who hesitate to adopt digital closings due to confusion and misinformation can soon find themselves behind the curve and struggling to remain in business. This is why it's important to seek clear and accurate information on digital closings.

While there are some barriers to adopting hybrid closings and even more obstacles to adopting eClosings, they shouldn't block lenders from making overall progress with digital closings. Lenders should digitize wet closings and implement hybrid closings today, as eSigning is legal across the U.S. and widely accepted by investors.

**Click here to get the truth behind more common misconceptions in The Definitive Guide to Digital Closings.**