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How Lenders Can Take the Next Step Toward eClosings with Settlement Partners and Investors –

No Matter Where You're Starting From

Introduction

Adoption of digital closing technology has been gradual but growing over recent years. As a result, lenders across the industry are at varying stages of digitizing the mortgage closing experience for their business and their borrowers.

When the coronavirus (COVID-19) pandemic took hold in March 2020, lenders who weren't prepared for digital closings had their borrowers participate in porch signings or window-separated closings, but these workarounds weren't sustainable or scalable. One momentous effect that the pandemic had on the industry was bringing into sharp focus the important role of digital closings.

With digital closings now being viewed as a necessity, lenders are working to piece together the steps that will successfully take them from paper closings to full eClosings. This white paper helps lenders understand the current digital closing landscape, what's required to transition from paper to eClosings, and how to work with settlement partners and investors to successfully adopt digital closings.

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Defining the digital closing

Lenders, settlement agents, and even the vendors who supply digital closing technology don't always share a common vocabulary when talking about digital closings. While the terms they use may be the same, like "hybrid closing" and "eClosing," there are nuances in how each party defines these terms.

"For example, the term hybrid closing can mean many things to many different people," said Aaron King, CEO and founder of Snapdocs. "For lenders who are looking for digital closing solutions, when you talk to a vendor or partner, define these terms up front. It's going to save you a lot of time and confusion as you go through and understand the capabilities they offer and what the workflow changes are going to be."

This is why a shared vocabulary needs to be adopted. Here are some common digital closing terms and their established definitions that are used throughout the industry, which will be used throughout this white paper.

Digital closing

In this type of mortgage closing, one or several digital components are included in the process. Wet closings, hybrid closings, and eClosings are all types of digital closings. The difference between these three types is how much of the closing process is digitized.

Wet closing

In a wet closing, workflows are digitized and the borrower can electronically preview their documents before going to their in-person closing appointment. All of the loan documents are printed on paper and signed and notarized in ink. The documents that need to be recorded with the county can be sent via courier or mail, or they can be scanned and electronically recorded (eRecorded).

Hybrid closing

On the spectrum of digital closings, hybrid closings fall between wet closings and eClosings. In a hybrid closing, some of the loan package is signed or notarized in ink, while the rest is completed electronically. The lender or investor's preferences will dictate which documents will be wet signed versus electronically signed (eSigned). The borrower can eSign documents at the closing table or they may be able to eSign some documents beforehand. The remaining paperwork is wet signed during the closing appointment.

Because hybrid closings consist of any combination of wet-signed and eSigned documents, there are many variations of hybrids. Most commonly, hybrid closings differ in whether the promissory note is signed on paper or is digitized and eSigned. When the note is electronically executed, it is known as an eNote.
Since 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 recorder's office or eRecorded.

eClosing

An eClosing is a fully digital closing. The entire loan package, including the eNote, is eSigned and electronically notarized (eNotarized). eClosings use either in-person electronic notarization (IPEN) or remote online notarization (RON).
With an IPEN eClosing, the closing appointment takes place in-person. With a RON eClosing, borrowers and notaries use two-way audiovisual technology to virtually meet and conduct the closing online. Once the closing has been completed, the documents are eRecorded.

The digital closing landscape and environment

The technology that's needed for digital closings has been available to the mortgage industry for more than a decade. However, digital closing adoption has steadily increased only in recent years, as barriers to acceptance have been gradually reduced by states, counties, underwriters, and investors.

eClosings saw significant progress when Virginia became the first state to enact legislation authorizing the use of remote online notarization in 2011.[1] However, it wasn't until August 2017 that the first fully remote digital closing was completed.[2] Since then, many states have authorized eNotarization.[3] Additionally, over 2,000 recording jurisdictions, which cover more than 86% of the U.S. population, have set up eRecording support.[4]

In the secondary market, the government-sponsored enterprises (GSEs) are among the investors that buy loans closed through both the hybrid and eClose processes. While Fannie Mae and Freddie Mac have kept up with these advancements, many investors have yet to evolve their infrastructure and acceptance policies to match the current environment.

Even though changing policies allow for further digitization of the closing process, every party involved in the closing has different risk tolerances, priorities, and funding. This results in uneven adoption of digital closings across the industry, and this is why eClosings still aren't standard practice.

However, in March 2020, the coronavirus pandemic hit the U.S. and significantly transformed how the industry views digital closings.

> "The market is starting to view eClosings as more of an imperative. It's not just about borrower experience. In my opinion, it's changing to a conversation of business continuity, and I think that's the type of thinking that will continue to drive these changes."

Camelia Martin
Managing Director of the Digital Mortgage Advisory Group at Falcon Capital Advisors

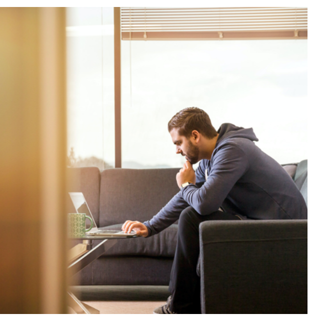
During this time, many state and local governments issued shelter-in-place or stay-at-home orders that forced people to work and conduct transactions remotely. For business to still occur, lenders needed a way to offer a safe closing that would minimize in-person physical contact. All of a sudden, digital closings changed from being a way to make the borrower's closing experience better to a necessity.

The pandemic not only accelerated the industry's desire to adopt eClosings, but also the federal government's desire to enable remote electronic solutions. Many states issued executive orders authorizing the temporary use of RON, and the federal government introduced the Securing and Enabling Commerce Using Remote and Electronic (SECURE) Notarization Act of 2020.[5] The SECURE Act would authorize the use of RON nationwide. As of June 29, 2020, the bill has not yet been passed.[6]

Best practices for transitioning to eClosings

The transition from paper closings to eClosings is not an undertaking that can be completed overnight. There are many stakeholders who need to be actively involved in the process. Also, your strategy for achieving eClosings will impact how successful you are. With multiple failure points along the way, here's how you can successfully transition to eClosings and get the most value out of digital closings.

Standardize your closing workflows



At Waterstone Mortgage, an iterative approach has proven successful in their transition to eClosings. Tom Knapp, Waterstone Mortgage's Chief Information Officer, said that the organization treats each of its closing packages the same way. They process all packages through the Snapdocs Digital Closing Platform, regardless of the loan type and whether they need to be wet signed or eSigned.

"We deliver that closing package to the borrower and to the title company, and we flag whether it can be eSigned or not. Everything is going to go down this path. Even if the borrower decides not to eSign, they still have the documents. They can still preview them."

Tom Knapp
CIO at
Waterstone Mortgage

"Keep in mind, no matter how aggressive you are with your digital closing strategy, you're going to have a mix of transactions for the next couple of years while the rest of the country, states, counties, and investors get up to speed with these different closing types," said King. Additionally, the fact that consumers have different technical aptitudes and appetites means that it's not possible for lenders to close all loans in the same way.

Because you'll have a mix of wet, hybrid, and eClosings, a standardized way of managing and processing your closings will save you a lot of time and effort. Otherwise, having a different workflow for each type of closing quickly becomes unmanageable and makes it difficult to switch from one type of closing to another.

"You should really be thinking about how do you standardize and operationalize the workflow on your side while giving all of these parties the flexibility to close with the most digital process possible," King advised.

Begin with hybrid closings and layer on additional digital components

Standardizing workflows is just the first step in what Knapp views as a building-block process. "As acceptance grows, we're looking at this as a phased rollout. Now that we have hybrid, we're working with eNote and eVault now," he said. "We're working with the MERS eRegistry as the next step, and then we'll get to the full eClose."

This strategy of starting with hybrid closings and managing all documents and all closings on a single platform is the most scalable. Due to the Uniform Electronic Transactions Act (UETA) and the Electronic Signatures in Global and National (ESIGN) Commerce Act, eSigning is valid in all 50 states.[7] Since eNotes only need to be signed and not notarized, there are also no state barriers to eNote acceptance.

eSigning is widely accepted among investors, and eNote acceptance is growing. While 17,000 eNotes were registered on the MERS® eRegistry in 2018, there were 19,000 eNotes registered in just the first quarter of 2019.[8]

Since hybrid closings are more widely accepted than eClosings, this is where lenders should start in order to get the most value out of digital closings quickly. When you have a foundation of hybrid closings and your workflows are consistent, you can easily layer on additional digital capabilities once you and your stakeholders are ready.

"Once you roll out and implement a hybrid closing ... everything else starts to get a lot easier. ... When it comes time to do a webcam closing or a RON closing, all you're left with are the handful of documents that need to be notarized. It's not a huge lift to tag on that additional technical capability," said King. "The lender really has their hand on the slider. You control how many of those [loans] are hybrid closings. You select your early candidates for RON closings."

Getting settlement partners on board

Buy-in is crucial for the successful implementation of any new process or technology. If your colleagues and partners aren't invested or don't recognize the benefits of digital closings, even the most powerful digital closing technology won't have the desired impact.

Lenders have to keep settlement adoption top of mind when selecting digital closing technology and during implementation.

"It's important to understand that settlement agent adoption is where most lenders who have tried to roll out digital closings have failed," King explained. "If you're a single lender working with 2,500 settlement agents, that's a pretty big ecosystem to get on board with a single process."

The digital closing solution you choose shouldn't just make work easy for you as a lender, it must also "make sure that settlement agents are empowered, connected, controlling the process, making it easy for them to do the work on their side, and integrated with their title production platforms," King emphasized. Selecting a mutually beneficial digital closing platform is the first step. High settlement adoption also requires education, training, and clear communication.

Jan Valencia, Residential Mortgage Systems Project Manager at KS StateBank, recommends a two-pronged approach of communication and education. First, talk to your settlement partners to see where they are in the process of transitioning to digital closings. Valencia found that many of KS StateBank's preferred title companies were already conducting hybrid closings and therefore familiar with the process.

Next, Valencia and her team held training and question-and-answer sessions. They also created a comprehensive how-to guide that they included with each of their closing packages. This gave settlement agents an understanding of what to expect, as well as an idea of KS StateBank's expectations for the closing process. "Once we rolled it out, we really felt like everyone was already familiar," she said.

Settlement agent adoption is where most lenders who have tried to roll out digital closings have failed.

Working with investors

Acceptance of digital closings in the secondary market is increasing as digital closings become more common and investors view them as less risky. While investors vary in terms of whether they'll accept eSigning, eNote, and eNotarization, lenders can do digital closings today and prepare for when investors are ready to accept the full eClosing.

Knapp has implemented a building-block approach at Waterstone Mortgage to drive consistency for all of its closings. It's centered around a baseline hybrid closing process that phases in a new capability when Waterstone Mortgage and their partners are ready. "We're creating a process and an infrastructure that we can build on incrementally to get us to that full eClose objective," Knapp said. "We think we've got the foundation that allows us to adapt when investors and state regulations start accepting the technology."

Valencia's team at KS StateBank vetted their investors before choosing a digital closing provider. "We made sure that we clearly defined which documents could be eSigned and which documents needed to be wet signed, so that our hybrid-closed package could be sold to any investor. We made sure we understood those investor requirements early on," said Valencia.

One common instance of investor pushback is when borrowers eSign some documents prior to the closing appointment. Lenders may assume the issue is that the documents were signed on different dates. However, that isn't what concerns investors.

"If the lender wants to have the borrower eSign some of the documents ahead of the closing date, they can do so. At the closing table, they can wet sign the critical documents," said Raj Penugonda, eMortgage Program Lead at Freddie Mac. "The two key requirements are notarized documents need to be signed in front of a notary — virtual or physical — and the note date has to be correctly referenced in the security instrument, regardless of when the documents are signed."

As long as these two requirements are met, investors should be able to accept these documents. However, it's possible that some investors will continue to push back and require same-day eSigning, depending on their perception of risk.

KS StateBank is still requiring same-day eSigning to support its investors' restrictions. "Right now [during COVID-19], with the volume and the risk with the secondary market, we want to take the path of least resistance," Valencia said. "Once things settle down to normal, we'll make sure that we have in writing from all of our investors that they'll accept this [eSigning some documents prior to the closing appointment] and we'll move back to that."

When lenders require borrowers to eSign on the same day as the wet-sign, Snapdocs has found that only 60% of borrowers successfully eSign. When lenders don't place any eSigning constraints on borrowers, up to 90% of borrowers successfully eSign. If you want to provide borrowers with an easy, quick, and convenient closing, then you should give borrowers the ability to eSign prior to their closing appointment when possible.

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For lenders who aren't able to lift this restriction, they should still offer borrowers the ability to [preview documents]() as early as possible. By giving borrowers plenty of time to carefully review their documents before the closing appointment, they're able to ask questions upfront and become familiar with what they're going to sign.

"We've seen did-not-signs almost disappear, so long as you allow them to read through the documents before the closing," King said. Additionally, Snapdocs has seen that errors surfaced at the closing table are reduced by 80%. This is because borrowers can look through their documents and identify potential errors, giving the lender and settlement agent enough time to fix the documents before the closing appointment.

Conclusion

The industry has made a lot of progress in moving digital closings forward. Investor acceptance is increasing and legislative actions point toward a promising future. Now is the time for lenders to take the next step toward eClosings.

Whether your business is still working with paper closing packages or has already implemented hybrid closings, the most successful and scalable path to eClosings is starting with a foundation of hybrids and then adding on eNote and eNotarization. Take one step at a time and talk to your external partners. By choosing a solution that creates value for your settlement partners and understanding your investors' requirements early on, you'll greatly increase your likelihood of successfully implementing digital closings.

Continue on your eClosing journey by learning how to differentiate between digital closing solutions on the market and understanding how to evaluate eClosing technology in this webinar.

Sources

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Ask Me Anything About Digital Closings webinar, hosted by Snapdocs

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