



Digital Disclosures

OVER THE YEARS, I'VE SEEN A NUMBER of surveys of mortgage origination companies that ask what these firms are looking for in software. They typically poll companies' management teams about what applications and solutions they want. While this information is useful, it's not nearly as useful as most would think.

When I ran Contour Software, a loan origination software company, I would often tell my staff we don't want to build what our customers *want*—we want to build what our customers *need*. There's a huge difference between the two, and it runs counter to the conventional wisdom of "always listen to your customers." I can't explain why there is such a huge disconnect, but there is.

In my time following this industry, I have seen so many mortgage companies plan to build the "best production system ever invented," only to waste millions of dollars as they try to build and implement it. Even the very largest lenders make these mistakes.

Most often, the system they end up designing ends up being trashed and replaced by a mass-marketed solution that was available all along. In fact, I just found out about another top-name lender that has embarked on a plan to reinvent a loan origination system, building it from scratch with talent mostly in India. Personally, I'll place my bets that it'll be scrapped or end up costing far more than it might ever save in terms of better productivity. But that's just my view.

Only the very best mortgage technologists are good at determining what a mortgage company can actually use and what will prove productive. Some of these technologists have proven they are really good, but even some of them have ended up steering their companies in the wrong direction, and then moved on to the next company.

In my time in the industry, I found that the best software designers (those

who design what an application will do) often worked for vendors that had long served the mortgage industry. It's a very valuable talent, and good mortgage technologists are hard to find.

Over the last half-dozen years there have been a large number of technology and mortgage companies working to automate the closing process. The ideas

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of imaged documents and eSignatures do have merit. Yet, I don't think it's the closing table where the most efficiency can be obtained—I think we are still years away from seeing any sort of real productivity increases at the closing table. Where I think we should be concentrating our efforts currently is in the upfront disclosure packages.

The upfront disclosure package includes a large number of documents, which can easily exceed 25 pages. Generally, the legal requirements stipulate that these documents be delivered within three business days after the lender's receipt of a loan application. The packages are printed and mailed by every mortgage company at a fairly high cost—postage alone can run several dollars per package. Each package must be printed, stuffed into an envelope and mailed. It's my belief that this area will be the highest technology growth adoption area over the next couple of years.

Carson, California-based Document Systems Inc. (DSI) has built a new solution just for the upfront disclosure process. DSI is one of those companies in our industry that has a dominant market share. I've always found that those with such a position usually are doing something right.

DSI's new product automates the production and delivery of the upfront disclosure package, and it's entirely electronic, using portable document format (PDF) documents with eSignature compliance. On behalf of the mortgage company, DSI will communicate with the borrower through the Internet and deliver the package. Every step the borrower takes is tracked, and the mortgage company can be assured that the borrower indeed reviewed the documents.

This is a solution that works better for both the borrower and the mortgage company. In addition, it's cheaper, faster and easier—just the three characteristics I look for in a new application. It removes all of the manual processes, ensures compliance and helps eliminate common staff mistakes.

It starts when a mortgage originator or processor completes the borrower and loan information using its loan origination system. DSI's eDisclosure software can then retrieve this information from the loan origination system and transmit it to DSI's computer servers. An e-mail is then sent to the borrower with simple, step-by-step instructions on how to review the documents.

The system ensures that customers are who they say they are, and then logs into a database every document customers reviewed and each step they took. The mortgage company can then access this database to see what borrowers have reviewed/accepted and can also indicate if a borrower didn't review the documents. If the borrower didn't perform a timely review of the package, DSI will snail-mail a printed package. The borrower can print and save the docu-

ments as well. The price for this eDisclosure system runs \$5 to \$10 per loan, depending upon volume. It would be difficult if not impossible for a mortgage company to meet this price in-house.

I checked the Web sites of most of DSI's competitors, and couldn't find a similar solution. Still, I'd guess that most of the document service companies are working on such a solution (if they don't already have such a product); if they aren't, they very well could be missing the next big market.

If you currently use a document service company for your closing documents, check with the company about where it is with such a solution and consider adopting it.

If you currently use a document service company for your closing documents, check with the company about where it is with such a solution and consider adopting it. There are some companies that allow you to use your own loan origination system to generate and send documents in a similar fashion. However, they don't help with the compliance side—it can be more time-consuming, and you still have to print and mail the set of documents yourself if you find the borrower didn't review them electronically.

It's important that we try to build solutions that mortgage companies really need, as opposed to what they really want. Yes, we still need to listen to users—their feedback is invaluable. It's just that a lot of experience is needed to take their feedback and use it to help build a product that is truly more productive. While many users may want a better automated closing solution, they are probably better-served today by a better upfront disclosure system.

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