

## Where's The Paperless Loan?

Every few months I come across a press release from a company that has proclaimed they have develop the industry's first paperless loan or they have built a significant building block to the paperless loan. Yet, for all the years we've heard about the paperless loan, we are hardly any closer today.

Defining the paperless loan alone is a tough proposition. Some consider it a paperless closing while others see it as eliminating documents from the point of application through to servicing. Some say there must be a digital signature while others view signature pad technology as viable. Still others consider that we've passed the paperless loan milestone if the only paper is at the closing table and it's all digital images before and after. Regardless of which of these options constitute the real paperless loan, I think all of us would be happy just having one of these versions become mainstream.

I should point out that all the technology that's needed for any of these scenarios is readily available. There really isn't anything stopping the industry from using this technology other than ingrained processes, slow human adoption and the lack of real leadership to put it all in place with conviction. It's this last aspect that is probably the largest hurdle. We really need the leaders of the industry to adopt some common methods and for everyone to jump on board. When you really analyze the entire environment, you'll find that the real issue isn't technical, it's political.

The reason it's political is because whoever owns the paperless loan repository (the primary systems where all that's digital is stored), has a tremendous power and profit position. Neither Fannie Mae nor Freddie Mac should be the sole owner as then the other GSE wouldn't participate. If any one of the major lenders owned the solution, the other lenders wouldn't want to join. So who's left? We have the same problem with any one MI company or any large loan servicer. It's clear that any solution is going to require the participation of many of these major players and no single firm could own even a decent size chunk. Thus, it's likely to require an all-new company with ownership and investment from most of these major players (similar to Orbitz for the airline industry). Ideally, we'd have a company with about 20 owners with no firm having more than 10%.

Assuming this major hurdle is overcome, we can then look forward to a solution the entire industry could embrace. Imagine that from the point of application, every piece of data and every form becomes stored in this single repository. Third party firms like title companies, Realtors, appraisers, credit reporting companies and others, would all pull/post data and documents. Anytime the

mortgage company, borrower, secondary marketing company or loan servicer needed data or a document, it would go to the repository. Each access would ring up a small fee for the owners of the repository.

The savings of such a solution would be tremendous as each step of the loan process is streamlined and all company to company data and document movements are eliminated. The cost savings could run into hundreds of dollars per loan. If the repository collected just \$25 per loan, it's revenue could reach \$250 million per year. It's costs would easily be under \$50 million per year but the startup costs would exceed \$100 million and take several years to become entrenched and successful.

Yes, there's many companies attempting to be the central repository but for political reasons, they hardly have a chance at being successful. For all of us waiting for the benefits of the paperless loan, we've still got years to go.

In the meantime, we'll see various firms attempt to automate various parts of the loan origination process. Each of this will offer some incremental savings but to really accomplish the big goal, a whole new solution is needed with full industry cooperation. Some day... it'll happen.