



## The Ultimate Technology Solution

**T**HERE IS A TECHNOLOGY SOLUTION that the industry hasn't adopted, and yet it would have a more profound impact on the industry than any solution adopted to date. Yes, this solution could do more to streamline the industry than a loan origination system, automated underwriting system or any other mainstream industry application. It doesn't require new technology and could be built rather quickly by any number of companies. The solution would save at least hundreds of dollars per loan and benefit every segment of our industry.

I call this solution the Virtual Loan Folder (VLF), but it could also be called an imaged loan file, digitized shared loan document folder, centrally stored paperless loan file, etc. This column defines what this solution is and proposes that the industry work together to help build it.

The technology needed to build the VLF is rather straightforward and could be built today with existing systems. The system must store an image of every single document collected by every party involved in the loan process. This includes Realtors, appraisers, mortgage brokers, credit companies, flood certificate companies, mortgage wholesalers, title companies, tax service companies, doc prep companies, loan servicers and any additional company that needs to read or provide a document at any time during the life of a mortgage loan. This central repository of loan documents allows participants to post a document such as a purchase contract, appraisal or preliminary title report, or participants may request a document such as the loan application, asset verification or signed deed of trust. In short, anything that has to do with a loan and needs to be shared by two or more people should be placed in the VLF.

From a technical standpoint, this solution would require a lot of storage, large pipelines to the Internet, backup

systems and some fairly robust file servers. However, such solutions are widely used today and are certainly attainable. At its core, it's simply a system to post and retrieve documents over the Internet. I've found numerous companies that could build and host such a solution. Given the potential value of VLF, I believe many companies would be willing to invest in and build such a system.

VLF would offer efficiencies in

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— SCOTT COOLEY

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many ways. For example, all faxing and overnight shipping of documents would be eliminated. Even borrowers would be able to access the documents they need to view or sign. For all the companies involved in the processing and closing of a loan, there would no longer be a need for re-entering data or scanning existing documents. All the information each firm needs would be accessible from the VLF. Instead of information and documents flowing back and forth between all the companies, the flow would be in and out of the VLF. The image of every document would be stored, as well as all the data—likely in a format that meets Mortgage Industry Standards Maintenance Organization (MISMO) standards.

VLF would be efficient and not too

difficult to develop. Actually, there have been several companies that have a version of VLF or are attempting to build it. There have been a few companies in the past that tried to market such a solution unsuccessfully. I don't have much hope that VLF will become a success with any of the existing firms trying to build it. I do, however, believe that someday we will all use VLF and rely on it religiously.

So if VLF is easy to build and would be so helpful, why doesn't it exist yet? We have to look at some of the issues that would surround such a system. The first is the power that the owner of the VLF system would have. Its systems would control virtually all the data and documentation in the industry. Almost by definition, the system needs to be monopolistic (think of the Sabre Airline Solutions™ system used in the airline industry). Efficiencies are maximized by having just one firm owning the VLF. This firm would charge an access fee to every participant. Pennies would be earned each time data or a document was retrieved. Once usage became widespread, the firm could increase the fees substantially. It could also control access and who could see what, under what conditions. Indeed, it would be a powerful company similar in stature to the government-sponsored enterprises (GSEs). Not surprisingly, a lot of companies in the industry have a lot of interest in who would or wouldn't be the owner of the VLF.

So just who should own the VLF and all of its systems? If either Fannie Mae or Freddie Mac owned it, it's unlikely the other GSE would participate. For similar reasons, it couldn't be owned by one of the large title operations, since all title companies need to fully participate. We really need broad participation from all of our industry segments. The ownership problem is probably the most significant hurdle. The ideal solution is for dozens of firms in the industry to all

have very small ownership positions and commit to adopting the platform, similar to the airline industry's adoption of Orbitz LLC.

The next hurdle is to gain adoption once it's been built. We really need some strong leaders to hustle broad participation. No doubt it will be a very political process. It will require a lot of very large companies to spend some resources and commit to making it happen. Given how slow the industry is with adoption (witness how many years it took MERS® to be successful), we can't expect this overnight. Another problem with our industry is slow human adoption. Getting the leagues of loan processors, closers, title employees and so many others to make a change

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won't be easy. The company that makes the VLF a reality will require some powerful leaders with the ability to change an industry.

VLF makes a lot of sense for the industry, and everyone would save money with such a system. It's also easily developed, and something I think everyone in the industry would agree we need. However, adoption issues and political challenges are the major hurdles. Perhaps, similar to MISMO, we need to gather the major industry firms together to create a plan and provide the funding. However it's done, it needs to get done so that the industry and consumers can gain all the advantages VLF can provide.

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