Calling on MERS

Vienna, Virginia–based MERS is a great example of how technological solutions can work for the betterment of our industry. MERS' story is more typical, though, in terms of how long it took the company's solution to become mainstream.

I've found that typically new technologies or new technology firms take five to seven years to become successful in this industry. Of course, it is difficult for startup companies to last that long, which is one of the main reasons there is such a high failure rate among these firms. From the start, MERS had widespread support from the Mortgage Bankers Association (MBA) and all the major mortgage companies. Originally, MERS wasn't well-funded ($5.2 million), but in 1998 it was recapitalized with significant contributions from MBA, Fannie Mae and Freddie Mac—mostly in terms of a line of credit. Still, it took five to seven years until MERS was handling millions of loans. Today, it has handled more than 30 million loans and just launched its next endeavor, called the MERS® eRegistry. It's a great success story overall.

MERS' eRegistry for eNotes was started in March 2003 (see www.mersinc.org for details). Its purpose is to provide a "pointer" to the location of the eNote, and it holds the legal identity of the controller. Any lender can then find the vault where the eNote is stored, as well as who controls it.

MERS provides the very valuable solution of tracking the eNote's location without trying to compete with the private industry for all of the other actions that occur around an eNote, such as storage in a vault. By MERS' own admission, this solution will take years before it becomes mainstream.

R.K. Arnold, MERS' president and chief executive officer, stated at the time of the eRegistry's launch, "Although it will take many years for the industry to fully adopt this system, it will become widely used because the marketplace is demanding a move toward less paper in the home-buying process." As you might guess, I'll say it will take five to seven years.

I applaud MERS in taking this step and for building the eRegistry in short order. Still, I'm calling on MERS to take it to the next level. In its current form, I expect the eRegistry might save the industry a few dollars per loan. Yet, MERS is so close to providing the one key component of a solution that I believe will save the industry hundreds of dollars per loan. This solution is what I call the virtual loan folder (VLF), and I consider it the holy grail of mortgage technology.

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VLF is the use of an electronic vault where the entire loan file is stored—not just the note but every document from all the various parties. MERS would be the pointer so the industry's computer systems will know where to look to post, retrieve or just view a document. Every person involved in the loan process would use the VLF. A few examples follow.

- *Realtor:* The Realtor would post a purchase agreement and other supporting documents, and might also view the Good Faith Estimate to know about the terms of the loan.
- *Loan Officer:* The loan officer would post the loan application and other supporting origination documents. He or she would also retrieve documents such as the appraisal, preliminary title and credit report.
- *Borrower:* The borrower could view his or her predisclosure and closing documents, and could post documents such as a copy of a W-2.
- *Appraiser:* The appraiser could view the loan application and would post the entire appraisal.
- *Loan Underwriter:* The underwriter could view all of the documents and post a list of conditions.
- *Loan Closer:* The closer could view the upfront disclosures and post the entire closing package.
- *Loan Servicer:* The servicer could view all of the documents, even while talking on the phone with the borrower, at any time during the life of the loan.

Today, most of the aforementioned parties are shipping the documents at great cost through carriers such as Federal Express. With VLF, all such shipping and the manual handling of the traditional loan folder is eliminated. In fact, all the paper in the process is gone. Yes, this is a form of imaging that some mortgage companies are using today. However, it goes much further, in that it would be used by all parties involved with each loan. In addition, it would also store the electronic data file of the loan and do so in a Mortgage Industry Standards Maintenance Organization Inc. (MISMO) format.

All of the software systems in use by our industry would need to be modified to support the VLF system. Each system (such as title plant software, Realtor systems, appraiser software, loan origination systems, etc.) would interface to the VLF to store and retrieve the documents and the data.

MERS is an important piece because it contributes to marketplace competition and adds validity to the system. The known problem with the VLF system is that if the vault is owned by a single entity, the power of that entity would become enormous (generating almost unlimited profits).

There have been reports that the government-sponsored enterprises (GSEs) have considered promoting the development of a VLF system for the industry, and they would then own the vault. However, it's better if we have many vaults that would each compete on price and service. MERS would simply provide the pointer for every VLF. The vault would charge fees for posting and retrieving documents. Having many vaults would keep such transaction fees to a bare minimum.

If MERS adopts a VLF solution, I believe the industry would move faster to adoption. MERS would certainly add validity to the concept, and it would push others to build the needed technological pieces.

Another significant contribution that MERS provides is the industry-standard MERS Identification Number (MIN). The MIN is more crucial than it might otherwise seem, because it's the only way to uniquely assign an identification number for every new loan originated. Without the MIN, it would be almost impossible for all the computer systems to correctly identify each loan for such circumstances as a borrower applying for the same home loan with two different mortgage companies at the same time.

The step MERS has taken with eRegistry is a good one, but it's just a baby step in terms of what needs to be done. I challenge MERS to announce a broader initiative with the hope of having something tangible in a year or so. From that point in time, I know it'll be five to seven years before the industry will be operating far more efficiently, and originating loans for about half the cost of what it takes today, in my opinion.

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