BackSpace

By Rob Crow

E-closings aren't ready for prime time yet

The Consumer Financial Protection Bureau (CFPB) in August released findings from a pilot program focused on electronic closings, or e-closings. The results, according to the agency, were clear: Borrowers who used e-closing felt better about the homebuying experience than those who had a traditional closing experience involving the signing of a large stack of documents.

Perfecting e-closings represents one of the biggest hurdles remaining in the effort to create a fully electronic mortgage process, and the CFPB has made its intentions clear when it comes to the future of e-mortgages.

"We envision a world where most of the mortgage transaction is facilitated by technology, and where consumers have adequate time to review documents and access tools to help them break down the complexity of the process," CFPB Director Richard Cordray said in announcing the results of the pilot study.

With the CFPB's push, and with the world becoming more digital every day, it seems inevitable that e-closings will eventually become a nationwide reality. But why hasn't the mortgage industry reached that point yet? Finalizing that home-loan process is still a paper-driven process.

Status check

For 10 years, Xerox Mortgage Services has conducted a survey called "The Path to Paperless" to monitor the industry's progress toward achieving paperless mortgages. The most recent edition of the survey, released last year, showed that 70 percent of mortgage professionals make use of paperless origination and underwriting, but only 17 percent allow for e-signatures at closing.

The reasons for the low number are varied, with 68 percent of respondents indicating that their e-mortgage plans had been hampered by the CFPB. Ninety percent said compliance issues were restricting their e-mortgage plans.

The CFPB's conception of what constitutes an electronic mortgage or an electronic closing could be part of the reason some mortgage professionals feel hampered in developing plans. The agency's definition encompasses both the process in which all documents are viewed and signed electronically, and a "hybrid" process in which some documents are signed electronically and some are signed in person. In the fine print of the pilot-program results, the agency states: "Most often, when we are referring to an 'e-closing,' we are referring to a hybrid process."

"It could cause confusion for borrowers when ink to paper is required for some documents, such as the promissory note and the security instrument, and not others," says Rachael Sokolowski, president of Magnolia Technologies.

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Some of the other issues could be tougher to overcome. As an example, ensuring that every U.S. county has the capability of performing electronic notarization will be a difficult and timely process, but it is a necessary step for the entire mortgage and closing processes to become fully electronic.

"It's tough for a bank to say it can offer e-closings to all customers no matter where they are. That's a real challenge right now," says Michael Laurie, co-founder of e-SignLive by Silanis and a board member of the Electronic Signature & Records Association. "There are some counties where you can do it, and maybe you can find a notary, and maybe you can get the rest of the services, or maybe not. It's kind of a patchwork of places where it's available, and places where it's not."

Feeling secure

Security also could be a bump in the road to traverse when it comes to e-closings. Although many within the mortgage industry say cybersecurity is not a concern in the e-closing process, some consumers remain wary of having sensitive personal information transmitted electronically.

The CFPB study asked borrowers to rate how secure they felt the e-signing procedure was on a scale of 1-100, and the average net score was 80. The study quoted one borrower who had to restart the signing process three times and another who wished the encryption process had been better explained to the homebuyers. "One potential cause of security concerns in an e-closing is technology glitches, which may reduce consumer confidence," the study notes.

Sokolowski, however, says there is no reason for borrowers to fear cybersecurity breaches when it comes to e-closing on a mortgage loan.

"For some reason, there is a misconception that paper is more secure than an electronic environment," Sokolowski says. "Information security of paper mortgage files has been more insecure than any online security breach to date."

There have been several instances of paper mortgage documents being improperly handled, such as being discarded in dumpsters, resulting in the potential compromise of personal information about homebuyers, according to media reports. Many of the highest-profile data breaches, however, have involved retail chains such as Target and Home Depot.

"Anyone who's in financial services has really been subject to a very high level of scrutiny that comes to them," Laurie says. "That scrutiny comes from the industry and the government agencies who oversee that whole industry. … The banking industry has had much higher security standards than other industries had for many years."

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E-mortgages seem to be favored by the public and are often touted by industry professionals as a step that can be taken to make the homebuying process more appealing to the tech-savvy millennial generation.

To reach the point of having true electronic mortgages, though, the industry needs to figure out how to make the closing process fully digital. And from finding e-notaries in every county, to convincing the public e-closings are secure, to even agreeing on a definition of e-closing, there is considerable progress to be made.

"We know that much work and further study lies ahead," Cordray said in the agency's e-closing pilot-study report.

Sokolowski is even more pointed in her assessment of e-closings.

"This," she says, "is a big challenge for the industry."

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