Electronic Loan Delivery

The Whys and Hows of a Powerful Mortgage Industry Trend

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Executive Summary

By almost any measure, the mortgage loan industry is behind the times when it comes to the use of technology-based solutions, relying instead on physical delivery of paper documents to execute business transactions. The results of this lag include inefficient processes, increased errors and missing documents, difficulty in meeting time commitments, increased costs and penalties, and reduced return on investment (ROI). Why is the industry so far behind? Perhaps it is because of familiarity and a comfort with existing processes, as well as confusion and caution when it comes to implementing new technologies.

But there is a powerful, growing trend in the industry – electronic delivery of mortgage loan documents to investors. Electronic loan delivery, especially through the use of a collaborative document network, is the answer to bringing the mortgage loan industry to its optimal state while gaining the greatest benefits for its members. Leading industry participants are already using this model and seeing success, including increased efficiencies, improved workflow and stipulations resolution, faster loan turn times, reduced warehouse funding costs, and increased ROI. As more and more industry members begin using collaborative document networks, the benefits will increase exponentially. Sellers will be able to deliver loan documents more quickly, see faster stipulation resolution, and reduce warehouse lines of credit; investors will see faster loan turn times and increased ROI.

This paper will discuss challenges facing the mortgage loan industry, including the negative effects of working in a paper-based environment. It will share insights on challenges and needs associated with electronic loan delivery, and will discuss how electronic loan delivery can respond to those needs. Details on how the process of electronic loan delivery works will be shared, from packaging to delivery, providing details on the various options available with each. How the use of electronic loan delivery solutions can benefit both sellers and buyers and open the door to collaborative approaches will also be revealed.

Finally, this paper will highlight one solution, BlitzDocs® Collaboration Suite, which offers advanced capabilities of electronic loan delivery. Using a collaborative electronic loan folder, the BlitzDocs solution offers participants access to a collaborative document network ("the BlitzDocs network") where communication and collaboration is easy. BlitzDocs also answers the apprehension many may have about adopting new solutions, providing immediate financial benefits with minimal up-front capital investment.

An Industry Evolving Toward Paperless

Imagine waking up one day and discovering that e-mail and the Internet have been abolished, along with the speed, efficiency, productivity and resulting revenue both bring to business. The concept is unfathomable, archaic even. How would companies and executives keep up with the onslaught of requests, needs, and opportunities arising each minute? How would business get done? Many in the mortgage industry are living this reality, trapped in a "pre-technology" state. From origination to post-closing and sale to the secondary market, many rely heavily on paper and the physical delivery of data and documents. In fact, in any given year, the industry generates more than six billion new pages of paper – equivalent to a paper stack over 370 miles high.

The mortgage industry has surely evolved over the last decade and beyond, with new mortgage loans and refinancing occurring at a record rate. Smaller lenders are giving way to industry consolidation. The loan environment is becoming more competitive, and the loan lifecycle is shrinking. Now, as in any cyclical industry, mortgage lenders are seeing a downturn in volume, and must seek ways to reduce costs and increase revenue while gaining maximum efficiencies associated with the cost structure and overhead of a loan. This is felt even more intensely in the post-closing stage of the loan, where investors negotiate intensely with lenders to gain additional basis points on loans in return for faster loan delivery, while lenders seek faster funding so they can turn over new loans and increase their pull-through rate. One of the most assured means of achieving these goals is to tackle the paper quagmire weighing down the industry. The process of creating, copying, sorting and stacking, and physically delivering loan folders, not to mention the challenge of finding a specific loan folder among mountainous stacks of other folders, can be compared to what is now known as "snail mail." And, like snail mail, the industry should view it as an unacceptable means of practicing business in the 21st century.

There is a better way to handle mortgage loan delivery. A powerful emerging trend will change the way we work, and will bring process improvements and increased ROI. The answer lies in electronic loan delivery, and better yet, in a collaborative network approach to loan delivery. Electronic loan delivery offers numerous benefits. It can ease the paper onslaught, reduce loan purchase turn times, and drastically decrease loan suspensions and deficiencies and the resultant basis point penalties and roll costs.

Investor Loan Delivery – Paper vs. Electronic

Paper-based Loan Delivery – Challenges and Consequences

Two of the biggest issues with the current investor delivery process are incomplete loan files and the inability to ship loan files in a short timeframe. These issues are magnified with the current, paper-based loan delivery process, which is frustrating, inefficient and costly.

Consider today's common post-closing experience. A seller (lender) preparing a group of loans for a prospective buyer (investor) must first physically locate the individual loan folders associated with a pool of loans. Once the loan folders are located, the papers contained within each folder must be unsecured, copied, placed in the respective buyer-preferred stacking order, and then repackaged and physically delivered via a secure delivery method. On receipt of the loan folders, the buyer has to unsecure the paper stack and start validation or due diligence on the file. It is a highly inefficient process. And, in addition to the time investment and frustration, associated labor costs decrease profitability and returns on each loan.

Once due diligence is underway, the buyer typically finds issues with many of the loans, such as missing required documents. These "stipulations" must be managed and resolved before the sale can be completed. It is not uncommon for a buyer to find 25 to 40 percent of a loan pool to have stipulations in some form, especially when files are outsourced.

In addition, sellers must meet agreed-upon time commitments in delivering complete files to the seller, or be hit with basis point penalties. Paper-based loan delivery bogs down the process and makes it highly difficult for sellers to meet these commitments. The result is often a negative financial impact, especially as loan margins become thinner.

Electronic Loan Delivery – A New Paradigm

A top trend in mortgage lending today is automation. For the post-closing phase of mortgage lending, this means electronic loan delivery. For this paper, we define electronic loan delivery as the secured transmission of imaged loan documents – a paper-free delivery system for loan documents.

Electronic loan delivery provides a myriad of advantages over paper-based delivery, the most obvious of which is the reduction of the paper glut associated with day-to-day loan processing and delivery. Further, it makes it easy to sort loan documents in the buyer's preferred stacking order, and can speed stipulation resolution. Electronic loan delivery eliminates the need to search through mountains of loan folders. Most importantly, it can shorten delivery and settlement periods, allowing secondary marketing managers to sell and trade loans more quickly, while returning funds to the seller to fund new loans. In the mortgage loan industry, time truly is money. Moving from a paper-based system to electronic loan delivery can result in saving thousands of dollars in basis point penalties and suspension fees, shorter delivery and settlement periods, and financial benefits to both the buyer and the seller. Table 1 outlines the benefits to correspondent sellers and buyers.

Seller Benefits	Buyer Benefits
• Shorter trades = better execution = better pricing • Reduced suspension fees • Quicker stipulation resolution • Faster turn time • Lend more/scale more • Electronic notification and status • Cleaner files = better investor relations • Reduced warehouse cost of funds	• Scalability – common format • Better/faster/lower cost due diligence • Fewer errors • Less overhead

Table 1: Benefits of electronic loan delivery to the secondary market

The Methods of Electronic Loan Delivery

While automation is the wave of the future for the mortgage loan industry, the current state of electronic loan delivery insists several considerations be made. From delivery and transmission, to packaging and post-delivery reconciliation, buyers and sellers are still trying to get their processes coordinated, leading to further mismatches and inefficiencies in the industry. This section will discuss delivery options, packaging and formatting, and post-delivery reconciliation of electronic loan documents.

Paperless Loan Delivery – Delivery options

When it comes to electronic loan delivery, there are four options, from the lowest common denominator to the best possible scenario. Electronic delivery and transmission of loan documents can occur via physical transmission, e-mail transmission, point-to-point web-based delivery, or through a collaborative document network solution, each using a number of media and transmission methods.

Physical transmission

At the lowest level of process improvement is electronic loan delivery via physical transport of magnetic media such as a diskette, CD, tape, fiche or other magnetic media. The process is easy, inexpensive and familiar, but it retains many of the aspects of paper-based loan delivery, such as the cumbersome, labor-intensive media-preparation process for both the sender and receiver. In addition, this method is laden with security risks due to the potential for the media to be lost, misplaced or stolen. This approach also works only in a bulk or batch environment, and is not practical for a flow environment.

E-mail transmission

The next best method of electronic loan delivery takes advantage of the speed of e-mail, delivering exported imaged files electronically to an investor in a common Windows format, such as a PDF file. The ability to create a directory with document profiles makes this an improvement over magnetic media, but mismatched document names and file types must be sorted through, and the buyer has the manual task of assigning files and mapping them back to an internal imaging system. Though senders are legally required to encrypt financial data before it is transmitted, potentially sensitive information can be compromised. Finally, e-mail submission does not offer the necessary scalability to efficiently manage increasing loan volumes.

Point-to-point web-based delivery

Nearing the top of the electronic loan delivery scale is delivery via the Internet. Point-to-point web-based delivery allows direct transmission from the seller to the buyer's systems, eliminating the need for physical media, and requiring limited human interaction. This method works primarily in a flow environment with the user initiating the electronic shipment. From a connectivity perspective, it requires the seller to maintain and manage point-to-point connectivity for each investor, providing files in the preferred format for each. Some may argue that the Internet poses a potential security risk, but the use of secure transmission protocols (e.g. HTTPS, SecureFTP, PGP) reduces that risk.

Collaborative document network

A collaborative document network model optimizes the Web-based approach. Using a collaborative electronic loan folder that visually parallels the familiar paper-based loan folder, users have immediate simultaneous access to loan documents and related information, including status and conditions. Communication and transmission are managed online, improving workflow and streamlining the loan process for everyone on the network. Buyers can electronically notify sellers of stipulations, which can be tracked, managed, and satisfied through the network. Faster resolution of stipulations greatly simplifies the process and increases the probability of meeting the settlement date. More advanced systems can even allow for due diligence, document/folder validation and remote access by authorized parties. The system can package and format dates and documents to meet investor-specific requirements, including document names and preferred stacking order. Smart systems also automatically create an electronic audit trail, eliminating the question of when a loan document was delivered or received. Electronic delivery with an electronic loan folder enables the seller to gain better loan execution, greatly reduces roll fees, and simplifies the investor loan delivery process. For the mortgage industry to reach a paperless state, a collaborative network approach will be critical.

Table 2 details the pros and cons of the four methods of electronic loan delivery.

Delivery Method	Pros	Cons
Physical delivery of electronic media	• Easy, familiar and inexpensive • Eliminates the need to physically transport paper files	• Retains the cumbersome manual task of document preparation • Increased security risk
E-mail transmission	• Speed • Ability to include a directory of document profiles	• Requires the buyer to manually import information • Compromised security • Not scalable • Receiving party must support multiple custom file types
Point-to-point Web-based delivery	• Direct transmission from seller to buyer's system • Eliminates paper • Typically used on a flow basis • May support standard (MISMO) and other investor specific formats • May support lender stacking order • Better security with https or sFTP delivery More advanced point-to-point solutions have: • Effective for flow and bulk environments • Supports standard (MISMO) and other investor specific formats	• Poor or no handling of workflow and stipulations • No shipping logs for electronic transactions • Point-to-point connections must be developed and maintained • If developed in-house, multiple lender formats must be developed and maintained
Collaborative network model	All advantages of web-based delivery plus: • Translates stacking order and maps document names • Provides workflow capabilities • Includes sophisticated stipulations tracking and management • Provides audit trail of all activity • Allows access to files by both seller, due diligence provider, and buyer via a secured network • Allows temporary access by authorized third-parties	• Connection is limited to members of the collaborative network

Table 2: Electronic Loan Delivery – Pros and Cons

Packaging and Formatting of Loan Documents

Packaging and formatting loan documents for electronic loan delivery falls into one of three categories -- industry standard, such as the one offered by the Mortgage Industry Standards Management Organization (MISMO®), custom specification, or no specification at all. Each option carries additional burdens and benefits for the seller.

Standard specification

Use of a standard industry format, such as the standards defined by MISMO, enables a common format for packaging and document classifications, offering interoperability and interchangeability. The challenge with a standard industry format lies in the adoption rate and consistent use of the standard. Consider the initial launch of e-mail. When e-mail was first introduced, there were several independent e-mail providers. E-mail users could only communicate with other users under the same provider. However, as standards were developed and adopted, e-mail became an open communication forum for people around the world, regardless of their e-mail provider. Members of the mortgage industry are proving to be slow adopters to standard specifications. If a standard industry format is not agreed upon and adopted by all, then the possibility of a complete paradigm shift as was seen with e-mail may never happen.

Custom specification

If a buyer receives all loan packages in the same preferred or customized format, significant savings can be seen, both in time and in expenses. Errors and overhead requirements would be greatly reduced. However, custom specification requires the seller to deliver loan files in investor-defined formats. Because sellers work with multiple investors, this means the seller must write loan files to a number of different formats, eliminating efficiency and creating even more work for the seller.

No specification

While electronic loan delivery can improve efficiencies in the industry, these efficiencies are greatly diminished for the buyer if the seller uses no common packaging format.

Post-delivery Reconciliation

For buyers and sellers alike, post-delivery reconciliation is a burdensome process, even in a paperless environment. Stipulations must be discovered and resolved; trailing documents must be recovered and added to the appropriate loan file -- all while trying to improve workflow and increase efficiencies. It is like a mad dash to the funding, as each reconciliation issue is a step backward in the race against time.

As increasing loan volume further burdens underwriters, processors, closers and post-closers, they may rush to put files together. This can result in missing documents or erroneous information in files. Missing documents must be found and delivered via e-mail or fax, and then require processing and input into the seller's system. These stipulations can put a wrench in even the best efforts to meet shortened delivery timeframes, and can be a costly issue due to basis point penalties for missed time commitments. This problem is even more common when files are outsourced, and occurs whether loan packages are paper-based or electronic.

Adding to the problem is the lack of any efficient audit trail for both parties. A seller may send a document without the buyer's knowledge. Delivery deadlines may be missed, and basis point penalties assessed, simply because there is no electronic proof or notification the document was sent on time. While proprietary packages can deliver a provable electronic audit trail, few parties use these highly advanced systems.

Incomplete loan files and the inability to ship files within short timeframes pose the greatest issues with investor delivery processes today. But, in the same way other industries have changed course by adopting technology that greatly improves processes and results, the mortgage loan industry needs to leave its comfort zone, move beyond the familiar, and look for technology solutions to answer the needs of its participants.

A Networked Solution for Loan Delivery

The future of electronic loan delivery, and the answer to the frustrations and challenges the industry is experiencing today, lies in a collaborative document network. A collaborative network approach will be felt with as much impact as the move from snail mail to e-mail to Instant Message (IM). With advanced solutions, buyers and sellers alike will have the opportunity to easily transport loan folders electronically, track the delivery and receipt of documents through electronic audit trails, and see greater financial returns on the sale and purchase of loans.

The Building of Collaborative Networks

Collaborative networks have already moved beyond the theoretical, and are fast emerging as the new way to handle the investor loan delivery process. In fact, the most forward-thinking industry participants are already gaining the benefit of electronic loan delivery, using the BlitzDocs Collaboration Suite from Advectis. The Web-based suite mirrors the way the industry works, from loan origination through post-closing sale, integrating with existing systems and complementing and enhancing current practices and processes.

Through BlitzDocs Collaboration Suite, lenders and investors have access to the BlitzDocs collaborative network to deliver electronic loan documents with lightning speed, identify and resolve stipulations electronically, know exactly when a document was delivered and reviewed, and share documents through an on-line synchronization process. This increases the potential for investors to enhance their ROI, and enables lenders to see faster turnover of lending funds.

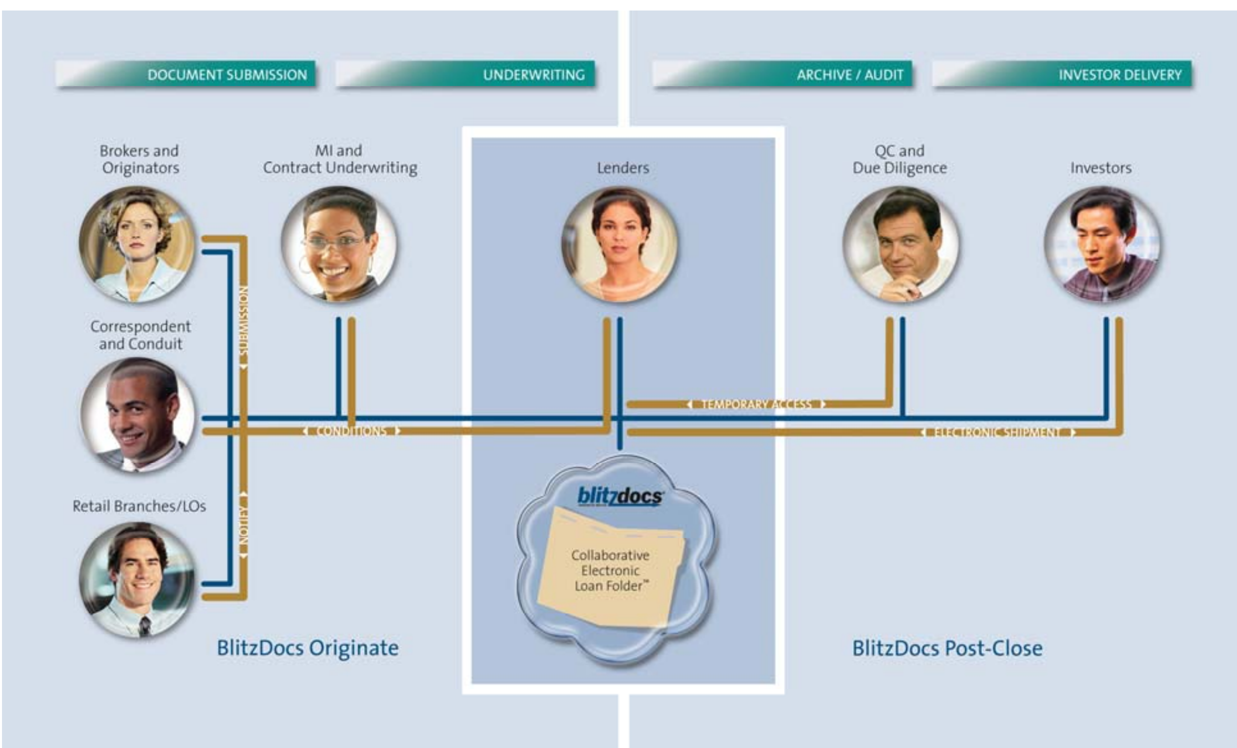

Diagram 1. The #1 Network for Mortgage Document Collaboration

BlitzDocs Collaboration Suite allows participants to deliver loans electronically to existing BlitzDocs customers through BlitzDocs Deliver, or with non-BlitzDocs customers through BlitzDocs Connector. BlitzDocs also offers secure temporary access and the ability to export files to authorized third-party constituents.

BlitzDocs Deliver

BlitzDocs Deliver offers the ultimate in electronic loan delivery for correspondent buyers. BlitzDocs Deliver provides authorized correspondent sellers with immediate Web-based access and delivery of electronic loan folders that include all submission and closing documents. Loan packaging and formatting occurs automatically behind the scenes. Due diligence, document/folder validation and archiving are made easier through remote access available to any user with a Web browser and proper authorization, greatly improving workflow. Loan documents are automatically sorted in the buyer's preferred stacking order and mapped to the appropriate naming convention. Using a shared document folder, BlitzDocs sends e-mail notifications when documents are placed into the folder by the seller or buyer, and allows each user to view documents within the shared folder.

Benefits of BlitzDocs Deliver include:

- Improved workflow, faster stipulation resolution, and an electronic audit trail that can decrease basis point penalties by tracking when a document is delivered and opened
- Significant reductions in transfer, shipping, storage and audit/review costs
- Electronic sharing and access of loan documents by authorized users across the network
- Optional transfer to back-office image archives via BlitzDocs Connector
- Immediate viewing of loan documents, via a Web browser, by third parties such as due diligence providers and quality control firms, sorted in their preferred stacking order

BlitzDocs Connector

BlitzDocs users also have the option of delivering loan folders to investors or BlitzDocs Networked Providers through BlitzDocs Connector. BlitzDocs Connector enables lenders and sellers to receive or deliver loan documents from or to third-party systems such as proprietary document management or image archiving systems. BlitzDocs delivers the loan documents in the recipient's required format, and also manages converting these documents should the recipient change formatting requirements, a common practice with some companies. Using BlitzDocs Connector, lenders can deliver loan documents to other lenders or investors regardless of the recipient's choice of imaging system.

Loans delivered via BlitzDocs Connector can be packaged in MISMO format, in an investor-defined format (typically non-MISMO) or in BlitzDocs non-MISMO format.

Benefits of BlitzDocs Connector:

- Export document images and metadata with document mapping
- Investor-defined delivery specifications
- Supports MISMO standards
- Synchronizes trailing documents
- Connectors for investors, contract underwriters and image archive systems

Other Delivery and Access Options

In addition to BlitzDocs Deliver and BlitzDocs Connector, BlitzDocs allows sellers and buyers to provide temporary access to authorized internal or third-party constituents, allowing them to view individual closed loan folders or a user-defined pool of closed loan folders. Using BlitzDocs temporary access, sellers provide temporary viewing of electronic documents to allow for validation, and then easily export loan documents to the investor when the purchase is completed.

Summary

Electronic loan delivery is key to the future of the mortgage loan industry. A collaborative network approach will provide widespread benefits to both buyers and sellers, including improved workflow and stipulations resolution, easier meeting of time commitments, and increased ROI. The BlitzDocs network provides immediate financial benefits with no upfront capital investment and minimal risk, allowing users to implement the system in a matter of weeks. Sellers can see faster loan turn times, reduced suspension fees and reduced warehouse costs of funds, allowing them to lend more. Buyers can experience better and faster due diligence with fewer errors and less overhead, and can securitize loans more quickly, leading to better ROI. In addition, a collaborative network environment virtually eradicates the paper glut, eliminate shipping and storage fees, and improves security of personal financial information.

The mortgage loan industry is on the brink of a major shift in the way business is conducted, primed to go paperless and implementing new loan delivery processes. Lenders and investors are already moving toward a paperless environment, delivering loans through physical transmission of magnetic media, e-mail transmission and web-based delivery. The most advanced lenders and investors are using the collaborative document network model, which is anticipated to grow rapidly. As the industry continues to evolve and adopt new technologies, its members will be rewarded with increased efficiencies, financial benefits, and a better way of working.