

Home-Equity Lender Details E-Mortgage Successes and Hurdles

BY ANTHONY GARRITANO

COSTA MESA, CA—Secured Funding has embarked on an electronic mortgage strategy that has literally cut four days out of the process for them as they have automated their closing documents using electronic signatures.

In detailing their experience, Casey Turner, VP of production at Secured Funding, said, "We came to this point because we have

an internal initiative to create a paperless environment. In looking at the process from start to finish we got to a point where we were looking at automating closing docs.

"We started thinking how do we do this and cut days out of our process? The e-mortgage was a natural solution, which is where the idea came about. Of course, this is nothing new, but it hasn't seen much industry traction to date."

Standard & Poor's Structured Finance Ratings group, said, "Although it may be too early to call this reversal the start of a longer term trend, current economic conditions may be starting to shape individual property segment performance."

As for the impact of last year's hurricanes — Katrina, Wilma and Rita — S&P reports that they were responsible for only about 7% of the delinquencies in S&P-rated CMBS in the first quarter.

Multifamily properties were the ones that accounted for the majority of the hurricane-related delinquent amount.

S&P believes this is because multifamily borrowers "which tend to be smaller and less capitalized, have delayed making debt service payments while they wait for insurance settlements to recover lost rental income or to repair or rebuild a property."

CMBS Overdues at 7-Year Low

NEW YORK—Delinquency rates on U.S. commercial mortgage-backed securities fell to a seven-year low of 0.58% in the first quarter, its lowest level since 1999, Standard & Poor's reports.

The delinquency rate also dropped from 0.84% at the end of 2005, according to the rating agency. "Since its peak of 1.96% in December 2003, the delinquency rate has declined 70%, partly due to record volume issuance," said Eric Thompson, a credit analyst/director in Standard & Poor's CMBS Surveillance group.

What he sees as "more telling" is that the actual amount delinquent fell by a substantial 38%. At the end of the first quarter, delinquencies totaled \$2.48 billion on a base of \$445.7 billion of S&P-rated CMBS, the rating agency reports.

Larry Kay, a credit analyst/director in

In developing their strategy, Secured Funding sees their technology as a way to stand out and differentiate themselves.

"For us, the technology piece is vital," explained Ms. Turner. "That's where we can start to cut days out of our process. Before we went down this road we would turn out the closing documents, overnight those to the closing agent, whether it be different escrow companies across the country or different notaries.

"From there, the docs were signed and overnighted back to us for review. We've taken steps to be able to securely e-mail the docs, which did cut some time out of the process, but with our e-mortgage initiative we're talking cutting four days off of that process. In effect, we're building a paperless process right now. By going e-mortgage the docs will be mapped using digital signatures and returned automatically from the notary at that point."

"We originate the loan electronically and do everything up to the creation of docs digitally," added Brian King, director of marketing at Secured Funding. "The big step here was instead of printing the docs to overnight them or e-mail them, we can do a true digital signing on SMART Docs using Worldwide Notary's Digisign technology to map all the signatures and capture all the pressure points.

"That's the big step we've taken. We're doing origination electronically, pushing it through our system digitally and we're

going up to e-signing. Now, the only problem we're having is dealing with county recorders that aren't online.

"Now we're completely digital, but we still have to hit print for the county recorders," said Mr. King. "Most states are passing laws dictating that their recorders have to go digital, but there will still be issues because not everybody will be on the same system."

Beyond dealing with county recorders, lenders also have to be more aware of their own processes as well. "The first challenge is building the system," said Ms. Turner. "We chose to build our system from the ground up. The whole process from the moment the call comes into the company through to signing is done in the system without us having to print anything.

"In building any system like this there are always hiccups," she said. "First, we had to build our workflow so we could all process the loan and communicate freely as well. So, all the departments came together to make sure the loan flows seamlessly. From there, taking it further and doing this with our loan documents was a natural progression."

"Lenders need to find the right process and partners when going down this road," said Mr. King. "There are going to be hiccups because you have to evaluate and re-evaluate your own internal processes as well. This is our first e-sign, but we want this to be our standard practice going forward."