

A man and a woman in an office setting are looking at a computer monitor. The man is in the foreground, wearing a blue shirt and glasses, looking intently at the screen. The woman is behind him, also wearing glasses and a white top, looking at the same screen. The monitor displays a graph with a red area. The background is slightly blurred, showing office equipment and windows.

# Implementing Digital Mortgages

A QUICK START GUIDE

*Let Texas Capital Bank guide you through the benefits of eMortgages, and the seven steps you'll need to take as you enter the brave new world of digital mortgages.*





## WHY DIGITAL MORTGAGES?

*There seems to be a lot of buzz about the digitalization of the mortgage industry these days, but does it really make sense for your business? After weathering many upgrades and implementations to keep up with compliance requirements, you may be hesitant to tackle the next technology implementation project. So what value can digital mortgages provide to your business and your stakeholders that makes now the time to implement?*

### **Both borrowers and regulatory agencies favor implementation of digital mortgages.**

The Consumer Finance Protection Board (CFPB) believes digitalization is pro-borrower and means fewer errors in paperwork. According to a CFPB study, borrowers report better understanding and feel more empowered by having the opportunity to review documents online at their own pace. Borrowers also say that it's a more efficient way to progress through the loan process, which makes sense given how increasingly integrated our lives are with technology.

### **It can be financially beneficial to your business.**

The entire digital process requires less manual work, allowing you to reallocate expenditures on operational head count. Removing transit time for paper notes can also shorten the time to loan purchase, meaning a shorter time on the warehouse facility and therefore less warehouse capacity is required. With faster purchase times, you can choose to lessen your carrying costs, or take advantage of positive carry — whatever works for your strategy.

### **It unlocks some of your working capital.**

Digitalization can lessen the amount of participation dollars you have outstanding at any given time, a plus for your working capital.

## TERMINOLOGY

Below are some common terms you'll need to know when researching and talking with vendors, investors, government-sponsored enterprises (GSEs), and government entities.

### **"Paper-Based" Mortgage Loan**

The application, disclosures, security instrument and note are all printed in hard copy and executed by the borrower.

### **"Hybrid" Mortgage Loan**

All or a portion of the application and disclosures are electronic and are signed digitally, but the security instrument and/or note is executed in hard copy.

### **"Digital" Mortgage Loan or "eMortgage"**

Each step of the process from loan origination to the execution and filing of the note itself has been completed digitally and no hard copies exist. In this case, the note is said to be an "eNote." It may also be referred to as a loan closed electronically.



# 7 STEPS TO GET STARTED

Though eMortgages can greatly benefit your business, the implementation of them can be complex. Follow these seven steps to make sure your implementation gets off to a successful start.

- 1 **Know your markets.** Not all jurisdictions currently recognize electronic notarizations on closing documents. Contact a document provider or eNotary to determine if the markets you do business in will accept an eNotary. They can provide status by state, municipality or county.
- 2 **Research digital mortgage vendors,** such as DocMagic, Notarize or Pavaso, and meet with a representative to discuss document preparation, electronic signatures, remote notary capabilities, their eClosing portal and vaulting technology. Look for one that works with your loan origination system (LOS) for ease of implementation.
- 3 **Determine if your warehouse facility provider accepts eNotes as collateral.** If they do not, talk to one that does — like Texas Capital Bank.
- 4 **Have a takeout strategy** — sell to an investor like Texas Capital Bank that can purchase digital mortgages, or seek approval from Fannie Mae or Freddie Mac. (Ginnie Mae currently does not purchase digital mortgages.)

## TIPS FOR SUCCESSFUL IMPLEMENTATION

**If you decide digitalization is right for your business, keep the following tips in mind as you prepare for implementation:**

The key to successful implementation is to **put together a formalized plan and have leadership committed to the implementation** and driving it, with a clear vision as to the why and the how. This is best accomplished with a Senior Operations Manager as the project lead. Be sure to get the entire team — including branches — on board with the vision.

**Separate implementation into stages;** you may want to implement an online application and disclosures, and accept digital signatures (essentially the first half of the process) and then focus on digitizing the closing and note recordation in a separate stage.

**Test thoroughly before implementing.** It's also a good idea to roll out offices or geographic areas in waves instead of all at once to ensure a smooth transition.





## 7 STEPS TO GET STARTED *continued*

- 5 **Make sure you can close electronically**, meaning that you have settlement providers who can close eMortgages and who are comfortable using your secure closing room.

If you do not have eMortgage-ready settlement providers in all areas, you still may be able to implement eMortgages. Check to see if you can have an eNotary close the loan electronically in the settlement agent's office.

- 6 **If you retain servicing and utilize a sub-servicer, be sure that your sub-servicer can service the loan.** Not all can; if yours does not, you may need to service the loan in-house. If you plan to service digital mortgage loans, you will need to be approved to service these loans by the applicable GSE.

- 7 **Integrate with the MERS® eRegistry**, the national mortgage registry and system of record for identifying the controller (holder) and location (custodian) of the authoritative copy of registered eNotes. When the eNote is sold or transferred, a lender initiates a transfer of control transaction to the new Controller, typically via an interface with an eVault. MERS® System Membership is required to go live with the MERS eRegistry. If you're not a MERS System Member, you can engage in one integration effort with MERSCORP Holdings. If you are a Member, simply leverage your existing relationship with MERSCORP Holdings to become a MERS eRegistry participant.

## FAQs

### How long should it take to implement digital mortgages?

Like most things, the answer is "it depends." It's a function of how digital your company already is, the complexity of your business (number of locations and systems), the expertise of the project team and what pace is optimal for your business. It could be a matter of weeks, months or well over a year. What's most important is commitment and time from the executive management team and a senior operations manager to oversee the project to completion.

### How much will this cost/save?

You'll need to develop a solid business case to evaluate the benefit of moving to digital mortgages. Be sure to include the following:

- **Expenses:** Upfront expenses like project and technology expenses, and ongoing per-unit expenses such as transaction fees, vault expense (in-house or in the cloud) and electronic registry
- **Savings:** Operational savings (head count, time, etc.), interest savings from fewer days on warehouse facility and lower shipping costs

## LEARN MORE

Technology is rapidly changing the way we do business, and Texas Capital Bank is at the forefront in supporting innovation by funding digital mortgages through our Warehouse Lending division, and purchasing them through our Correspondent Lending group.

Contact us to learn how we can support your business today and in the future.

### Warehouse Lending

warehouselending@texascapitalbank.com  
1.866.503.6365

### Correspondent Lending

correspondentlending@texascapitalbank.com  
1.866.355.7214

## RESOURCES

Click the links below to view these materials

### Fannie Mae

- [eMortgage Online Resources](#)

### Freddie Mac

- [eMortgage Online Resources](#)

### CFPB

- [CFPB Study Finds Electronic Mortgage Closings Can Benefit Consumers](#)

*Texas Capital Bank is a wholly owned subsidiary of Texas Capital Bancshares, Inc. We are a commercial bank that delivers highly customized financial services to businesses across the country, including credit, liquidity and treasury solutions designed for mortgage lenders through our Mortgage Finance division. All services are subject to applicable laws, regulations and service terms. NMLS 460547.*