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Smart Documents: Forming the Foundation of e-Mortgages

Roger Gudobba
Vice President Strategic Alliances
VMP Mortgage Solutions
Mortgage Business Unit • Bankers Systems, Inc.

THE FOUNDATION: AN INTRODUCTION TO E-MORTGAGE TECHNOLOGY

Electronic mortgages (e-mortgages) have the potential to completely transform mortgage lending from a paper-saturated process to a system of efficient electronic transactions. The ability to share data among a multitude of systems without re-keying information, as well as the functionality to preview, sign, store, and record mortgages electronically, will provide the industry with dramatic time and cost savings through increased speed, efficiency, and flexibility. To make e-mortgages a widespread reality, however, the industry must develop and agree on standards for exchanging information electronically as well as create and utilize a methodology for adopting them.

A range of issues, from e-sign legislative factors to technology requirements and industry acceptance, influence the development of the already complex proposition of paperless mortgages. With such a wide variety of issues to address, one of the greatest hurdles for the e-mortgage initiative seems to be simply deciding where to begin.

The establishment of MISMO (Mortgage Industry Standards Maintenance Organization) by the MBA and the development of specifications for Secure, Manageable, Archivable, Retrievable, and Transferable (SMART) Documents is such a starting point. Quickly becoming the cornerstone of e-mortgage technology, SMART Documents are electronic documents that bind data and presentation together in a single file to provide the framework required for secure, legally valid electronic transactions.

By offering a single, fixed electronic file for representing mortgage information, SMART Documents can:

- Capture, store, and record data in a reliable electronic format
- Significantly reduce manually intensive processes involved in loan origination, processing, and closing
- Provide convenient electronic access to accurate and reliable information in mortgage documents
- Maintain data and information in a format that can survive frequent changes in technology.

As the foundation of the start-to-finish paperless mortgage, SMART Documents house a multitude of benefits waiting to be delivered by e-mortgages. In an effort to inform the industry about the abundant opportunities that e-mortgages present, this document provides an overview of the benefits that lie ahead for the mortgage lending industry and explains the technology and specifications behind SMART Documents.

THE BENEFITS OF E-MORTGAGES

Every area of the mortgage lending process, from loan production and secondary marketing to servicing and information technology, will reap the benefits of e-mortgages. While the advantages to paperless mortgages vary in importance within these sections of the industry, all of them clearly result in time and cost savings.

In terms of loan origination and closing, the benefits of e-mortgages will be realized mainly through the standardization of data collection. One of the most obvious improvements resulting from set collection methods will be the decrease in errors on loan documents. Loan data will become more accurate because the e-mortgage platform allows data to be passed to each process from application, processing, underwriting, closing, funding, recording, investor delivery and post-closings. The sharing of data, without reentering or re-keying it into different systems, means fewer opportunities for errors. In addition, using the same standardized format for gathering data will enable new business relationships to be added easily between brokers, lenders, and service providers.

The process of data collection using industry defined transaction sets will also produce less obvious benefits. For example, uniform electronic data collection will reduce the amount of recurring questions found in paper-based mortgages. While this benefit is not as easy to quantify as others, it will certainly work to maximize the borrower's experience.

Investors will favor the way e-mortgages reduce delivery times. Due to the speed and efficiency of electronic document delivery, the delay time between the signing of the loan and the arrival of the collateral package can be reduced to hours. Secondary marketing will also benefit from the higher quality of data that e-mortgages deliver. Subsequent new demands for shipping and delivery will place paper-based deliveries at a disadvantage.

For loan servicing, e-mortgages are attractive because of their potential to lower costs by reducing the shipping, storage, and manual tracking of paper documents in post-closing/new loan setup, sale/acquisition of servicing, repurchases and foreclosure, payoff/lien release, and in customer service.

Electronic mortgages will benefit the area of information technology by providing a platform that makes data flexible and able to withstand changes and updates in technology. Automated interfaces between various systems can be cost effectively built and maintained using defined transaction sets. SMART Documents offer information technology professionals the advantage of an easily exchanged format that guarantees the integrity of data.

THE BUILDING BLOCKS: MISMO'S SMART DOCUMENT SPECIFICATIONS

To realize the benefits of paperless mortgages, however, the industry must invest a great deal of effort and commitment into collaboratively creating and implementing an e-mortgage platform. Perhaps the most fundamental requirement involved in this task is the ability to accurately display original paper loan documents electronically while accommodating e-mortgage requirements, like electronic signature technology and specifically tagged data fields.

Created to meet such requirements, MISMO's SMART Document is an XML file that contains three sections: the header, data, and view. The specification defines five levels with these three sections combined in different ways.

The header section of a SMART Document is comprised of metadata that provides information on the document itself, such as document type (mortgage, assignment, etc.) and version. The header section also describes the current state of the SMART Document, which indicates any additional elements that should be included in the form. For example, if the header specifies that the form is in a signable state, a signature model element must be included in the document.

The data section contains raw data according to MISMO's data DTD. Containing the "real" data of the form (borrower name, property address, etc.), the data section of a SMART Document may have arc and convert tags that link the data elements in the data section with their counterparts in the view section. These tags specify formatting attributes and one-to-many relationships while validating that the data in the two sections of the SMART Document are identical. The Data section is required depending on the "Smart Document Level Definition" of the document.

The view section is the actual document presentation. It can be XHTML, PCL, PDF, etc.

The foundation for a SMART Document is clearly the MISMO Logical Data Dictionary (LDD) tags. These are the individual XML tag names used to define the various data elements. The use of these tag names ensures document consistency. The caveat here is that not all lenders and software providers will use the same rules and logic in selecting and applying the data to the document.

Fannie Mae's requirement for delivering an e-note is Level 1, which contains the header, linked data section and a XHTML view. Locked in a single file, the data and presentation are guaranteed to remain together and their relationship to each other — data with specific location of that data within the

document — is also locked down. The format guarantees the integrity of the electronic data as well as its exact likeness to the presentation viewed by the end user.

This ensures – without reliance on software programs to link the data with the presentation – that the data set used for downstream processing exactly matches the data in the document signed on the screen by the borrower. This also allows system validation to ensure that what the borrower sees and signs on the computer screen is the exact document that will be stored. Therefore, in a system using Level 1 SMART Documents, the data and document can be trusted by the system as “original,” without certification of the software that created the document.

The arcs in Level 1 allow a tremendous amount of flexibility. Primarily used to validate that the “raw” data indeed matches the “presentation” of that data in the view, this specification also makes it possible to validate that the required data values are present based on the document type. Tags could also be used to distinguish a note from a mortgage or a fixed rate note versus an ARM note. They may even be beneficial for validating data values across documents for consistency and accuracy.

Following is a summary of the different levels of SMART Documents and the structure of the components:

Level	Header	Data	View
1	Yes	Data (Arcs)	XHTML
2	Yes	No	XHTML
3	Yes	Data	Image view
4	Yes	No	Image view
5	Yes	Data	No view
6 (Other)			

THE FRAMEWORK: BUILDING THE SECURE, INTELLIGENT E-MORTGAGE

The creation of the SMART Document specification, which describes the structure and format for a single document, marks significant progress in the e-mortgage initiative. There is still much work to be done, however. For example, the initial data requirements apply to just a select subset of mortgage documents. Hence, the formidable task of analyzing the requirements for all the other documents, and putting these data tags through the process to add to the Logical Data Dictionary where necessary, needs to be completed to move the initiative forward. But even after this massive undertaking is accomplished, substantial effort will still be required to create the technology that will further enable e-mortgages, such as the development of a structure that allows multiple SMART Documents to be incorporated in a package.

The success of any construction project isn’t just the sum of the quality and appropriateness of the available tools. Rather it is a product of the tools and the knowledge of those who wield them. Such is the case with the e-mortgage platform: it will not be built with SMART Documents alone. MISMO is currently addressing a variety of implementation issues, including the storage of SMART Documents in a vault, moving them from one vault to another and tracking the note in a National e-Note Registry.

There is an abundance of implementation issues surrounding the methodology by which technology like SMART Documents will be used by the industry. But one factor that is important to remember

is that e-mortgages will not result in a lending process completely void of paper. Rather, the lending environment will be a hybrid of both paper and electronic documents that will grow in complexity as additional documents are required and as more paper forms are converted into electronic documents.

THE FUTURE OF E-MORTGAGE TECHNOLOGY

Through the work of industry representatives, SMART Documents are establishing the basis for technology that could ultimately transform the mortgage lending process. By increasing speed, efficiency, and flexibility, e-mortgages offer revolutionary time and cost savings to the industry.

While interest in MISMO's SMART Document specification is growing rapidly, it will clearly take substantial time and effort before an e-mortgage platform is fully in place. To be sure, e-mortgages are a complex proposition that entail a range of legal and technology issues. The development of MISMO's SMART Document specifications, however, provides a foundation on which to build an electronic lending platform and support the inherent benefits of e-mortgages.

To view MISMO's SMART Document specifications, visit www.MISMO.org

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The Author:
Roger Gudobba

Roger Gudobba, Vice President Strategic Alliances for VMP® Mortgage Solutions, develops and maintains relationships with VMP's business partners while focusing on future technology advances. A member of the MBA ResTech committee in 2002 and a member of the MISMO Governance Committee since its inception, Roger has been a key collaborator in the migration of pre-printed forms to electronic documents and forms automation for the last 15 years. With numerous mortgage conference presentations to his credit, Roger actively participated in the development of XML standards for the mortgage lending industry and currently commits his efforts to advancing the e-mortgage initiative.

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