

## E-Sigs Gaining Wider Approval in the Disclosure Process

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People have been entering into contracts for centuries. The phrase, "sign on the dotted line," dates back to the 1870s when typewriters were the rage in forms' technology. Typewriters could generate a series of dashes on a contract, showing someone exactly where to sign their name. While not revolutionary, it offered consumers a simple and convenient place to endorse a contract.

While times have changed and technologies evolved, consumers continue to opt for simplicity and convenience in their financial affairs. Lenders should recognize that simplicity and convenience, not technology or the law, are what motivate consumers. In fact, consumers have shown a growing acceptance of electronic financial transactions when they are simple and secure. ATM deposits, electronic pad signatures for credit-card transactions, and online banking and bill paying are all so common that we now have to distinguish between traditional "wet signatures" and the newer e-signatures.

Today, an estimated 790 million people use the Internet; \$5 trillion was spent electronically in 2003, and that trend will only increase. As people grow more accustomed to conducting transactions electronically, online lending practices must follow suit. According to the California Association of Realtors survey, "2004 Internet Versus Traditional Buyer Study," more than half of all consumers use the Internet when buying a home. Jupiter Research estimates that Internet home-loan originations will rise to \$74 billion and online refinancing to \$78 billion by 2009.

If lenders want to capitalize on the growing online mortgage market, it is imperative that they focus as much on creating a simple, convenient and safe experience for the borrower as they do on providing low rates and instant loan approvals.

With more and more consumers applying and being approved for home loans online, lenders must implement electronic processing innovations that align with consumer demand. If approval is instant, why can't the disclosure process be equally swift? Electronic disclosures can help lenders lock consumers psychologically into the lending process and reduce the risk of the consumer turning elsewhere -- likely to an online competitor.

Both convenience and legal acceptance are driving the willingness to dispense with "snail mail" and ink-signed disclosure documents, especially since the contractual risk is low to both the consumer and the lender. In fact, many disclosure documents do not need signatures to be in compliance, just proof that the disclosures were sent and received by the consumer within a certain period of time.

Leading the business efforts to create industry guidelines is Standards Procedures for electronic Record & Signatures (SPeRS), a cross-industry initiative to establish commonly understood "rules of the road" based on regulations created by UETA and ESIGN. SPeRS recommendations, published in September 2003, helped financial institutions better understand the various paths to compliant and secure processes and specifically identified eight or more types of electronic signatures. One of the most helpful recommendations was that the risk of the transaction be assessed when choosing a type of e-signature. Applying the right technology to the right process is crucial for both lender and consumer acceptance.

Unfortunately, many technology vendors were looking at e-signatures with traditional business eyes. Using or adapting a PKI e-signature process that was meant for closings was too complicated for consumers to grasp and lenders to implement. On the other hand, technology designed specifically for making the electronic disclosure process more like what consumers are used to in their other electronic transactions will lead to increased acceptance and adoption.

Consumers have shown that they will transact business electronically as long as it is easy, quick and convenient. The best electronic disclosures process will offer:

- The ability for a loan officer to send disclosure and application documents immediately so they can be reviewed together by phone
- A simple authentication process without compromising security.
- The ability to view documents without downloading new software.
- The ability to print documents easily even if the borrower's printer can't print on legal paper.
- The ability to view the documents whenever and wherever borrowers want -- at midnight, at work, with their morning coffee.

- The ability to get immediate support, at any time, if customers have a problem.
- The less clicks, the better.

Lenders want what consumers want -- ease of use, efficiency, security, as well as time and cost savings. To those ends, the most effective technology should:

- Build compliance and auditing right into the process.
- Provide flexibility in the level of automation desired.
- Not require document conversion and the maintenance of two document sets.
- Not require complicated implementation.
- Have real-time status reports.
- Save time and be easy to use.

The most successful electronic disclosure vendors are using their technology expertise to keep the technology simple and practical for both the consumer and lender. Vendors are now creating processes, workflows, and user interfaces that provide simplicity and convenience without compromising security. When evaluating prospective vendors, lenders should look for products that:

- Use the consumer's browser to view documents.
- Offer multiple ways of viewing and printing.
- Offer the option to shrink legal to letter printing, if necessary.
- Can automate authentication.
- Supply 24/7 user and borrower online and phone support.
- Provide flexibility in meeting specific compliance needs of the lender.

While legal acceptance and convenience drive consumer willingness to dispense with personally signed documents, lenders, regulators and consumers themselves still have concerns about privacy and security. Convenience is good, but protection cannot be neglected. E-mail attachments are insecure and prone to viruses. Any technology vendor must be able to prove that security and privacy is the cornerstone of their solution and back that up with documentation. Lenders must continue to do their own due diligence with any technology partner to be guaranteed that Gramm-Leach-Bliley and other privacy regulations are being addressed.

Sending electronic disclosure documents to consumers may be a new concept for many lenders, but consumers are ready and the technology is available. Lenders that are able to meet this growing demand will find quantifiable benefits. At a time when margins are shrinking, interest rates are rising, and applications are down, eliminating time and costs in processing will enable lenders to increase the bottom line by capturing a greater share of this growing consumer segment.

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