

## Open House: Mortgage industry pushes for e-mortgages despite drawbacks

by *Jim\_Woodard*

The dream of today's mortgage lenders and brokers: paperless e-mortgages. The Internet and the digital era have opened the door to almost everything else - why not replace those piles of mortgage paper documents with a fast and easy paperless digital system? It could save a lot of time, money and frustration. But there are formidable problems in its development.

For the past eight years, the Mortgage Bankers Association has been trying to establish voluntary e-mortgage standards. However, originating and securing a mortgage is a complicated procedure. For beginners, you have to know that there's a real property securing the mortgage, and the worth of that property, and whether or not it has a clear title. It's vitally important to have everything properly checked and recorded.

Also, a lot of people are involved in processing and closing a mortgage loan - loan officers, underwriters, appraisers, surveyors, termite companies, title firms and others. They all play a role in processing a mortgage application. It's a real challenge bringing them all together in a practical, efficient e-mortgage system.

Another key problem: Mortgage fraud schemes are on the increase. Real people must take a hands-on approach to review details of every application to determine if fraudulent activity is taking place.

This doesn't mean that a highly sophisticated software program can't handle these concerns. So far such a system has not surfaced that fully satisfies industry leaders, but it inevitably will come, perhaps quite soon.

Another troubling problem with the e-mortgage concept is consumers' reluctance to enter their personal financial information into an electronic system. The frequent news stories about ID theft and other fraud schemes make consumers reluctant about exposing that information to the cyberspace world.

The only system that will really work is one that equally benefits both mortgage professionals and borrowers. If it's a one-way benefit for mortgage lenders and brokers, it will never be accepted by consumers. Applying for a mortgage represents a huge commitment for most families. It's only natural that applicants are extremely cautious about communicating their personal information. There's some talk now about offering mortgage applicants a discount on their fees if they agree to use a paperless electronic system. It's one way to push the public acceptance of the e-mortgage concept.

Writing for Mortgage Technology magazine, mortgage banker David Zugheri said this: "Mortgage technology is rapidly adapting to keep up with the ever-changing industry environment. In order for lenders to keep up with the curve, they must invest in technology and make the commitment to bring about the complete paperless workplace as quickly as possible."

Q: Are state governments getting involved in mortgage problem solutions?

A: Some of the most effective efforts to keep homeowners in their homes and out of foreclosure come from actions taken on the state level, according to the National Governors Association Center for Best Practices.

Several states have passed legislation to strengthen consumer protection, impose harsher penalties on predatory lenders and provide access to education and counseling for homeowners, the organization said. Other strategies include the creation of foreclosure-prevention funds and the adoption of regulatory guidelines for subprime and non-traditional mortgages.

In many states, task forces have been created in order to identify the impact of foreclosures in their state and come up with solutions.

"Through our association, states are working to find effective ways to protect consumers and prevent foreclosures," said Michigan Governor Jennifer Granholm, chair of the National Governors Association's Economic Development & Commerce Committee.

Q: Why are so many ridiculous claims made in radio ads sponsored by mortgage companies?

A: An increasing number of mortgage lenders and brokers are complaining about highly deceptive ads, often carried on radio stations. A saturation schedule of radio ads costs a lot less than many other forms of advertising, and certain loan companies are using that media to hawk their offerings in unethical ways. Some sponsor "advertorial" type of radio programs.

Many of the ads slam competitors and make misleading claims that barely comply (if at all) with advertising requirements in the federal Truth-in-Lending Act. Here's an example copy:

"If your mortgage broker charges any fees at all, they are predatory lenders. Come to us, an honest broker. We charge no fees."

Some consumers will bite on that bait. That's the reason they keep carrying the ads. But many more understand that there is no such thing as a no-fee mortgage. The lender may offer a mortgage that does not

require any upfront cash for fees. But those fees are either wrapped into the balance of the loan, or the interest rate or points are bumped up to compensate for not charging the fees upfront. One way or another, the fees are paid.

Most mortgage lenders and brokers are professional and honest business people. They understandably object to and fight such deceiving claims by a few unscrupulous loan companies that will make any claim in radio or print ads that might attract prospective borrowers.

When seeking a mortgage, try to obtain referrals from people you know who have had a positive experience with a particular lender or broker. Don't rely on claims you hear on radio or read in print media.

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