CUSTODIAL WORKFLOW:

THE FINAL FRONTIER OF DIGITAL MORTGAGE

IRON MOUNTAIN®

Introduction

There are approximately 55 million custodial files in today's mortgage environment, all dependent on physical documentation and archaic processes. While many elements of the mortgage landscape are being transformed with technology, custodial workflows are one of the few areas where a digital approach has not yet been successfully adopted.

This white paper will outline the benefits of digitizing custodial workflows and provide a look at one possible solution for introducing automation into the process.

Current landscape of custodial documents

The pandemic has acted as a catalyst officer to accelerate digitized process adoption across the mortgage industry. eSignings, remote online notarization (RON) and eNotes registered on the Mortgage Electronic Registration Systems (MERS) have all increased significantly over the last year. In fact, RON adoption increased 547% during 2020 compared to 2019, and December 2020 ended with 462,671 eNotes registered on the MERS eRegistry—3.6X the number recorded in December 2019. [1,2] Although these dramatic increases were fueled by the need for alternative methods during COVID social distancing mandates, the momentum toward digital is likely to maintain a solid growth rate.

Even as adoption of electronic records and workflows skyrocket, the value propositions for digitized documents—security, cost-effectiveness, accuracy, convenience, speed—have not carried over to custodial workflow, which remain dependent on physical files.

Custodial guidelines published by the government-sponsored enterprises (GSEs)—Fannie Mae and Freddie Mac—remain unchanged. They require mortgage document custodians to store tangible paperwork on behalf of the investor for each loan throughout its lifecycle, which is a labor-intensive and costly process. The documents stored typically include the promissory note, security instrument recorded in the correct jurisdiction, title policy, assignments, note endorsements and a curative lost note affidavit or corrective documents, as required.

Only banks and credit unions are qualified to act as custodians, as GSE requirements dictate that qualified entities must be regulated by the FDIC, Federal Reserve, Comptroller of the Currency or the National Credit Union Association. Custodians are typically selected and paid for by the mortgage servicer from an approved investor list.

Custodian banks must employ qualified staff who are trained to investor and regulatory requirements to ensure compliance, and their storage facilities must meet security and internal control specifications. At a high level, these include such things as the following:

[1]https://www.housingwire.com/articles/ron-transactions-increase-547-in-2020/

[2]https://www.housingwire.com/articles/mers-enotes-increase-261-in-december/

Current landscape of custodial documents

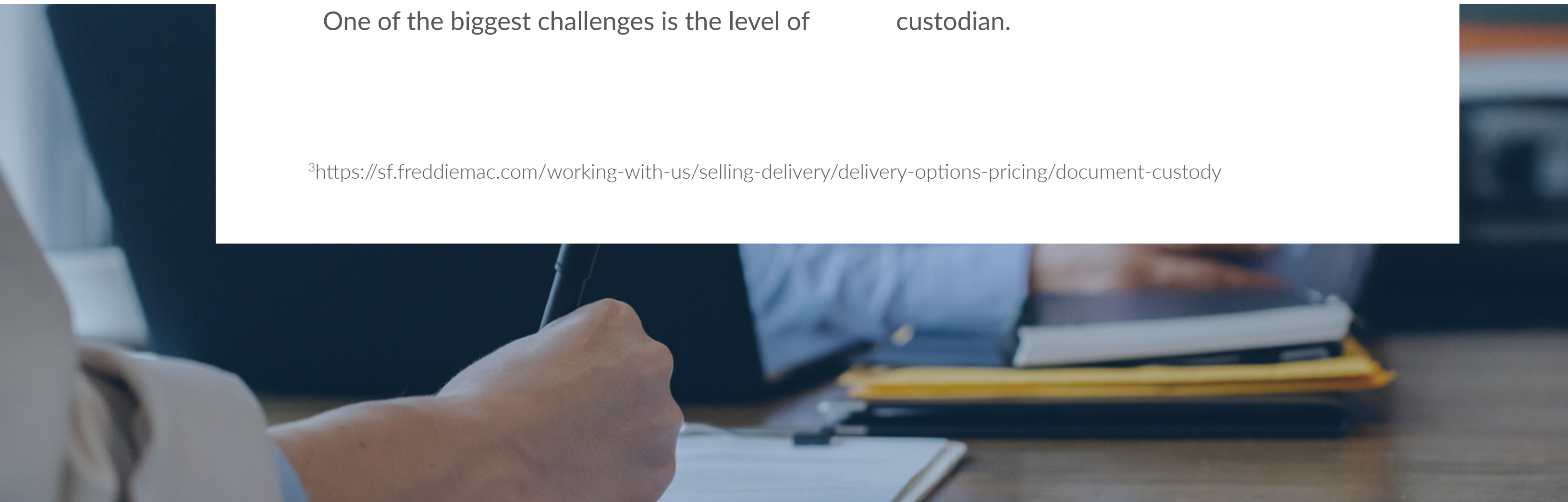
- Performing an initial certification to confirm that documents are complete and accurate.
- Releasing inventory and exception reporting on document deficiencies, documents received and pool-level data.
- Providing access and releasing requested documents to authorized parties through a controlled document custody platform.
- Implementation of stringent security requirements that include access cards, tracking logs and escorting only authorized guests in the facility.
- Storing collateral in a secure facility protected against unauthorized access, fire, water and other environmental hazards.
- Maintaining a business continuity (disaster recovery) plan that is tested and updated annually, at a minimum. [3]

The labor-intensive processes involved present numerous pain points for the custodian sector.

One of the biggest challenges is the level of manual labor and intervention required to manage, store and access files. Custodians must conduct duplicative file reviews and certifications as documents transfer—redundant work that is both costly and inefficient. The time-sensitive requirements of the file-certification process can lead the custodian to over-staff in order to ensure that client service levels are met. Such processes that require human intervention also serve as a root cause for lost or damaged documents, which are costly to cure and, in a worst-case scenario, can make the loan unsaleable or unenforceable.

Another pain point is that current technology solutions target document custody rather than process optimization. While physical documents are being phased out of other workflows, the custodian sector receives nominal technology focus and investments. The lack of innovation will prove even more glaring as the user experience differs between a native electronic closing (eClosing) in the eRegistry and the manual processes required of a physical document custodian.

[3]https://sf.freddiemac.com/working-with-us/selling-delivery/delivery-options-pricing/document-custody



Current landscape of custodial documents

Currently, there are approximately 55 million files held by document custodians, and that number is expected to rise to 61 million by 2025. Custodians recognize that physical paper storage is not a sustainable, long-term solution, especially as eSigning adoption continues to increase. This will become a financial and operational challenge as custodians focus on managing a declining variable volume of paper in an efficient and financially viable manner.

eSignings will impact the longevity of the physical document custodian and accelerate the growth of eCustodians. While adoption is still well under 10%, if 2020 acceleration is indicative of the future, strategic planning, budgeting and technology investments for custodians will prove challenging. A shift from an Opex to Capex model will invariably include partners or solutions intended to shepherd the variable decline.

Why should custodial workflows be modernized/digitized?

The current system is inefficient in a tech-driven world, expensive to maintain in comparison to the potential digital alternatives and leaves too much room for human errors and mismanagement. Updating this archaic process can offer numerous benefits to all stakeholders.

As eSignings and eClosings gain momentum, the physical storage of custodial files creates a disjointed experience for borrowers. Since these mortgage documents are retained as unstructured data, they are also not leverageable for workflow automation or enhancements. Digitizing them opens up the potential for process optimization, which will eliminate bottlenecks, improve accuracy and tighten security, thereby mitigating operational and compliance risks.

Modernization will also prove cost-effective. Fixed and variable expenses related to the current process include file storage, initial certifications, pulling files, lost documentation and much more. Digitization requires initial investments in technology and training; however, storage facilities, internal access controls and security personnel costs can all be greatly reduced.

How can we achieve custodial workflow digitization?

The journey to digitization will require cooperation, agreement and coordinated action among stakeholders. Luckily, there is a blueprint for achieving the desired outcome.

Digitized custodial files will need to be registered to a secure portal, and the model for that is the MERS eRegistry for eNotes.[4] First, however, it will be necessary to work with GSEs to modify the servicing guide to allow trusted third parties to serve as document custodians and include new requirements for digital document conversion and custody.

[4]https://www.mersinc.org/products-services/mers-esuite/eregistry

Iron Mountain’s solution

Iron Mountain is a leading provider of document storage solutions that has been working with the mortgage sector for decades. The company recognized the opportunity to modernize custodial workflows and has developed a short-term business process outsource solution as well as a next-level vision to close the gap between legacy physical documents and electronically borne files.

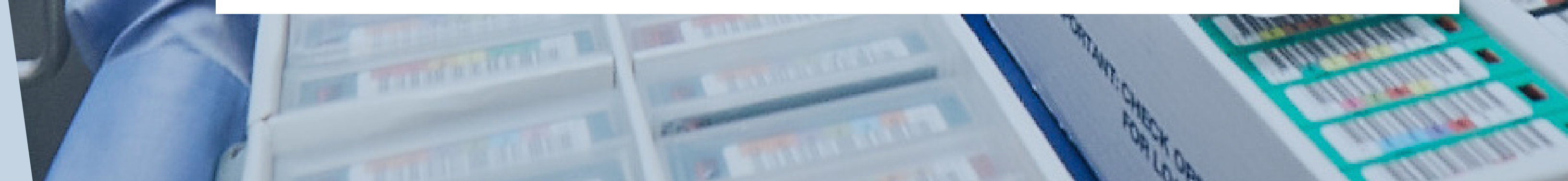
Current solution

Today, Iron Mountain is able to fulfill custodial functions for custodial servicers. This solution allows custodians to maintain their current client relationships, as they are critical to future growth opportunities, and continue custodial file storage to comply with investor requirements. Iron Mountain also has dedicated document custody teams that are trained to client and regulatory obligations.

Through Iron Mountain’s current solution, the custodian is able to expand client value by electronically classifying documents and extracting structured data sets, which are compared across documents and loan-level servicing data using AIML-based technology (artificial intelligence modelling language). Each digitized file provides additional metadata that the client can analyze for future growth, expanded reporting and risk management. This allows for scalability that is not restrained by local talent pools and inefficient processes.

Some of the key benefits that are achieved from this enhanced process include:

- Enhanced efficiencies and accuracy through a data-driven automated workflow solution that can readily engage client-consented global resources.
- File-level service level agreements are honored or reduced through automated workflows.
- Integrated paid-in-full solutions to release promissory notes to borrowers and fulfill the lien release process, eliminating the need to engage multiple vendors.
- A shift from a fixed to a variable-cost structure, allowing the custodian to mitigate the financial risk of rapid eSigning adoption.
- Improved client experience for the servicer as industry expectations are raised through the eRegistry experience.
- Reduction in the shared services that are required to support a large workforce, such as human resources and training.



Iron Mountain’s solution

The paid in full solution is capable of being expanded to include lien release fulfillment through a proven industry partner.

Through its automation of the custodial review process, Iron Mountain has delivered optimized workflows, transparent reporting, a variable-based cost structure, integrated paid-in-full note fulfillment and note certifications. With an eye to a future, Iron Mountain has invested in ongoing efforts to achieve a next-level solution that will further digitize the process.

Tomorrow’s vision

Iron Mountain’s goal is to deliver a seamless, physical collateral management solution from origination through paid-in-full that mirrors the custodial experience of a native eClosing.

Here is an overview of what this will look like in practice:

1. Perform an initial file certification, creating a data and document output that becomes the single source of collateral validation. The validation seal is transferable, eliminating downstream stare-and-compare processes on the same collateral. This helps to control costs associated with initial certifications and mortgage servicing transfers.
2. Create a leverageable data record for each physical-born collateral that includes closing document data validated against origination data, and later appended with data on trailing documents, assignments, transfers, investor information, servicer information, MERS data, partial releases, foreclosure documents and paid-in-full events.
3. Build an industry eBridge Platform to track collateral certification and lifecycle updates of physical collateral that has been digitized and converted into structured data. The eBridge Platform will provide rules-based access to multiple concurrent users, with governed and monitored update privileges.
4. Automated paid-in-full updates will trigger borrower note release and lien release processes.
5. Provide a transparent view into the loan-level chain of title through both data and supporting images.
6. Shadow updates to MERS to support mortgage identification number (MIN) updates.
7. Collateral will be stored and managed by Iron Mountain, the nation’s most-trusted document storage solution.

Iron Mountain is positioned to serve as the industry conduit to digitize today’s active physical custodial files, certifying both the collateral and related data elements. This exposure will also position Iron Mountain to function as a custodian for non-agency and home equity lenders, as these lenders will not be restricted to a bank or credit union-owned custodian.

Conclusion

The custodian sector is the final frontier in the digitization of the mortgage process. Iron Mountain has a proven, decades-long track record for storage and data security and compliance, and has built a high level of trust and integrity within the mortgage sector. [5] It is well-positioned to lead the digitalization of an archaic process that is currently inefficient, expensive and risk-filled. Using technology to modernize custodial files and workflows stands to benefit all stakeholders and deliver a seamless physical collateral management solution from origination through paid-in-full that mirrors the custodial experience of a native eClosing. The costly headaches of managing the hybrid environment through transition can now be mitigated with more attractive options.

For more information, **click here** to visit Iron Mountain.

[5]https://www.ironmountain.com/data-centers/about/data-center-compliance-security