



Residential eNotes as Eligible Collateral

Industry Standards, the MERS® eRegistry, and eNote Origination

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Speakers



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- Industry Standards
- Mortgage Industry Standards Maintenance Organization (MISMO)
- MERS[®] eRegistry
- eNote Origination
- Steps to eNotes

There will be opportunities to ask questions throughout the presentation.

INDUSTRY STANDARDS

The Importance of eNote Industry Standards



- Every organization has information and data in various forms and needs to exchange information with others
- Most information is locked in some type of proprietary form and/or internal groups don't know what others are doing
- Information assets in proprietary forms require a “handshake” for exchange of data

- Ease of integration of technology systems
- Streamlines workflow for interconnected processes and systems
- Ensure data integrity
- Create efficiencies
- Provide common language

- Standards for eMortgages and mortgage services provide
 - End-to-end data consistency from loan origination to payoff
 - Electronic document formats
 - Transmission
- MISMO develops, promotes, and maintains standards for the real estate finance industry using XML (eXtensible Markup Language)
- Enables mortgage-related information to be exchanged between borrowers, lenders, service providers, investors, and servicers more efficiently and economically

Questions

MISMO

What is MISMO?

- Mortgage Industry Standards Maintenance Organization
 - MISMO refers to the organization and/or the standards
- MISMO creates residential and commercial mortgage standards, eMortgage guidelines and standards, guides, and white papers
 - Standards are established using voluntary consensus
- Membership in MISMO is open to the mortgage industry – lenders, mortgage insurance companies, title insurers, appraisers, property records, document companies, and GSEs
- Formed in 1999 and incorporated in 2005 as a 501(c)6 nonprofit subsidiary of the Mortgage Bankers Association

Who Uses MISMO Today?



- Front-end service providers
 - Application, credit, mortgage insurance, title, flood, automated underwriting, appraisal, etc.
- Originators
 - Automated underwriting and related services
- Secondary market and servicers
 - Uniform mortgage data program and servicer transfer and loan setup
- “e” solution providers (eClosing, eMortgage, etc.)
 - eDocument providers, eSignature platforms, eClosing rooms, eNotary, eVaults, eRecording

- The MISMO SMART Doc was developed as an electronic document to include system consumable data and to support the mortgage document life cycle
- Locks together data, signatures, and presentation in such a way that it can be system-validated to guarantee that the document is exactly what the borrower saw and signed on the computer screen
- Complies with state and federal laws governing real estate transactions and eSignature
 - Uniform Electronic Transactions Act (UETA)
 - Electronic Signatures in Global and National Commerce Act (E-SIGN)
- Required for pledging collateral and for delivery to Fannie, Freddie, and the Federal Home Loan Banks for promissory notes and the closing disclosure

Questions

MERS[®] eREGISTRY

- The industry's response to some of the requirements imposed by UETA and E-SIGN
- MERS® eRegistry is an electronic registry that is the system of record for eMortgage ownership
- Allows eNotes to be registered and uniquely identified for tracking and verification using MINs (Mortgage Identification Number)
- Identifies the current Controller (Holder) and Location (Custodian) of the Authoritative Copy of an eNote

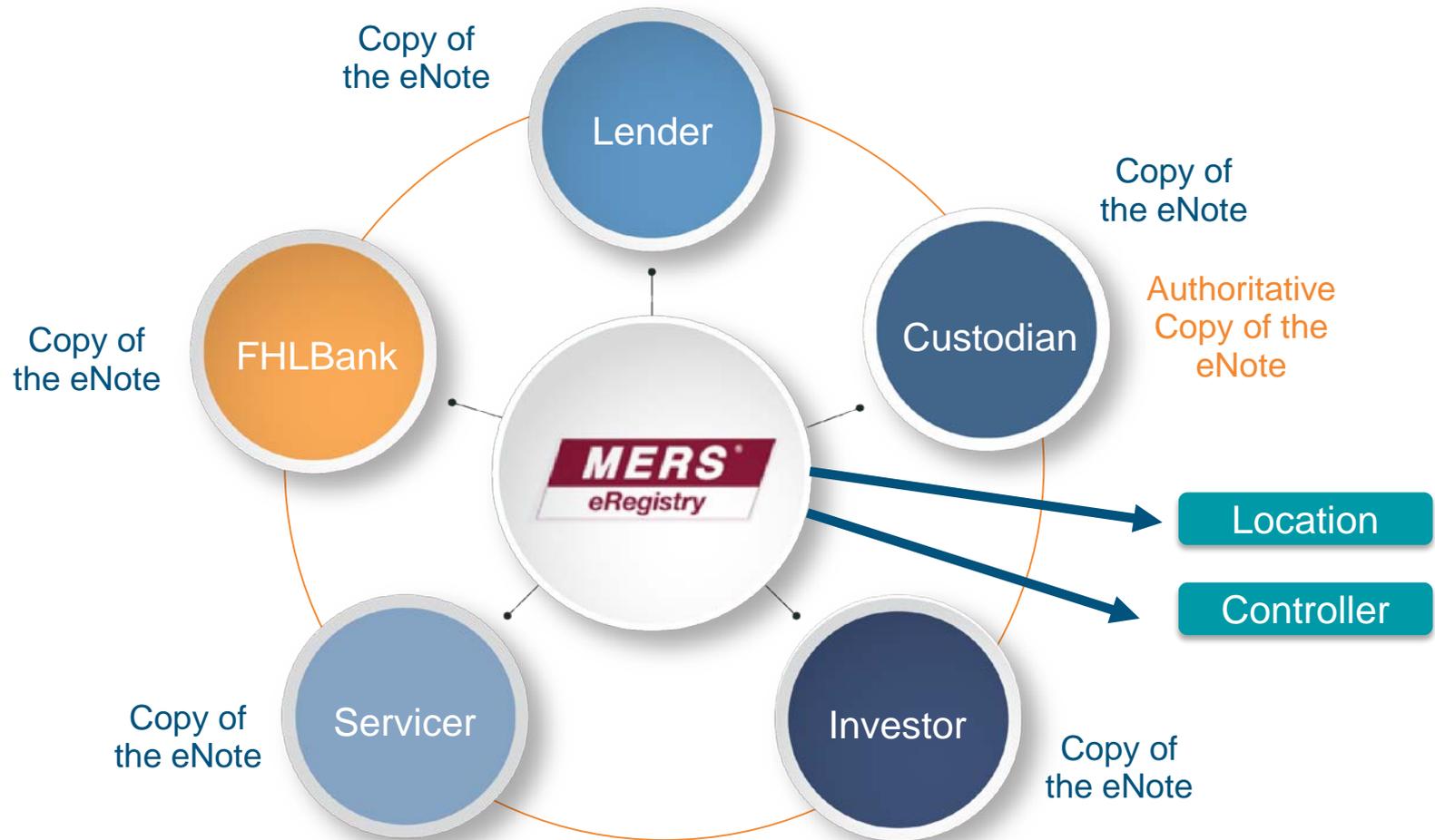


- Tracks beneficial ownership and servicing rights for over 75 percent of all U.S. mortgages
- Transactions can be performed via user interface, batch files, or XML
- Maintains data quality through member rules and procedures



- System of record for identifying the Controller (Holder) and the Location (Custodian) of the Authoritative Copy of registered eNotes
- All Transactions are system-to-system usually performed via eVault integration and are processed real time
- Stores the tamper evident digital signature; does not store the eNote

Where is the Authoritative Copy? Who is the Controller?



Data Source – MERSCORP Holdings

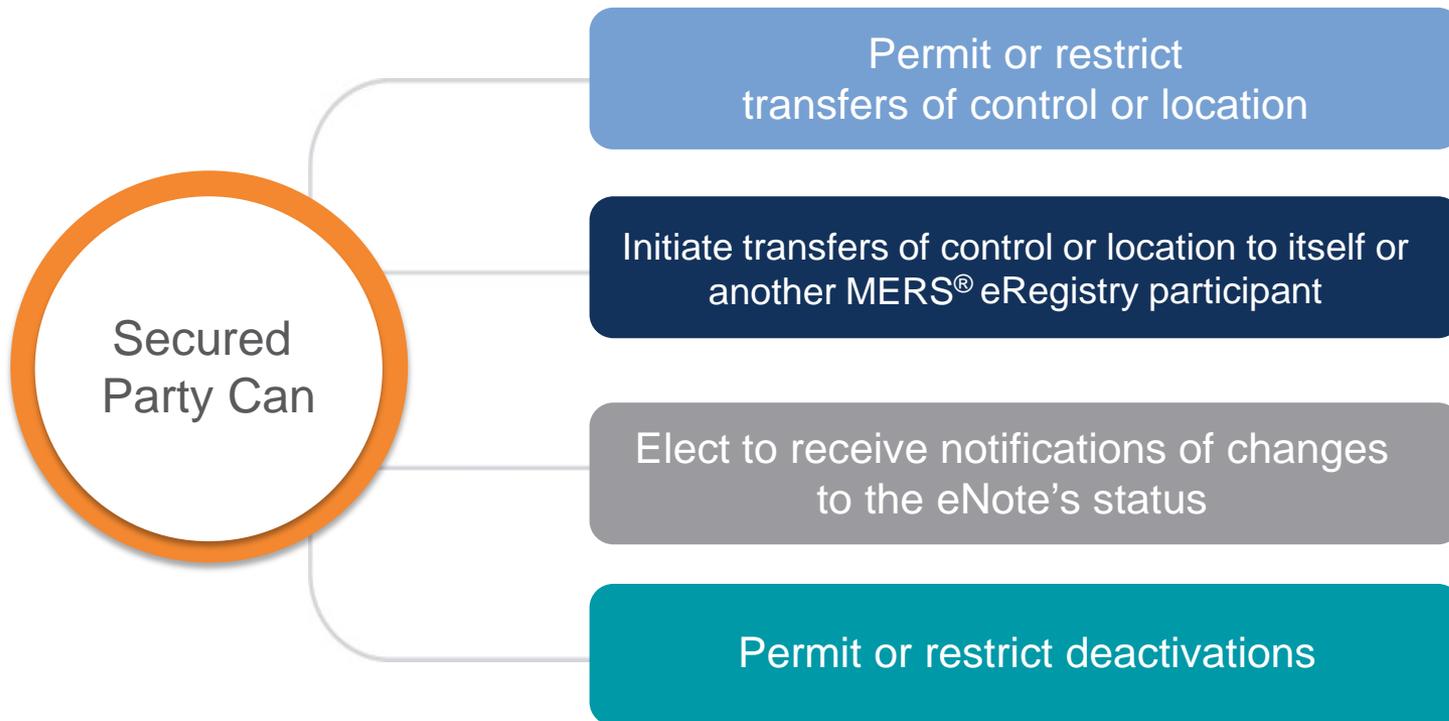
eRegistry Roles and Participants



	CONTROLLER	LOCATION	MASTER SERVICER	SECURED PARTY
The party named on the MERS eRegistry that ...	Has control of the Authoritative Copy of the eNote	Maintains the Authoritative Copy of the eNote on behalf of the Controller	Is authorized by the Controller to perform certain transactions on the Controller's behalf	Has been sold, pledged, assigned or granted a security interest in the eNote by the Controller
Who can be named?	<ul style="list-style-type: none"> • Originator • Warehouse Lender • Investor • Servicer (or the party foreclosing on a loan) • Other participants as appropriate 	<ul style="list-style-type: none"> • Originator • Warehouse Lender • Investor • Document Custodian • Other participants as appropriate 	<ul style="list-style-type: none"> • Servicer • Subservicer • Other participants as appropriate 	<ul style="list-style-type: none"> • Warehouse Lender • FHLBanks • Other collateralized lenders/creditors

- Objectives and definition
 - Enables warehouse lenders, FHLBanks, and other industry participants to have their security interests in eNotes represented on the MERS® eRegistry
 - The person named on the MERS® eRegistry that has been assigned or granted a security interest in the eNote by the Controller
- Summary of functionality
 - Functionality relies on a MERS® eRegistry “relationship” between Secured Party and Controller
 - The Secured Party may be named to an eNote record at registration and added/removed in change data transactions

Secured Party Objectives: Protect Collateral



- Controller (or its Delegatee) names the Secured Party on the MERS[®] eRegistry at registration or post registration
- When named on an eNote record, the Secured Party:
 - Must approve transfers of control and location initiated by the Controller (or its Delegatee) in order for the transfer to be processed
- Once a transfer of control/location is confirmed and processed, the Secured Party field will be cleared

- MERS® eDelivery transactions use the MERS® eRegistry infrastructure to securely send copies of eNotes (or any document or file) to other participants of the MERS® eRegistry
 - Sender initiates
 - Recipient accepts/rejects
 - Recipient feedback to sender
- Deliver in seconds
- Multiple recipients are allowed
- Audit trail

Questions

ENOTE ORIGINATION

- Are accustomed to
 - Performing closing with paper documents
 - Scanning documents
 - Retaining mortgage data and documents scattered across multiple systems
- Experience
 - Lost documents
 - High costs to process and retain the paper
- In transition to electronic systems for
 - Document preparation, closing, and vaulting
- Primarily focused on
 - Electronic documents and signatures for the application and origination process – usually does not include the promissory note
 - Scanned images of paper documents for closing

- eClosing is much more than just eSigning
 - Centralizes the process and transaction for everyone
 - Consolidates communication for the consumer
 - Provides consistent educational materials
 - Sets up documents for digital consumption
 - Includes tracking mechanisms to ensure delivery, receipt and acknowledgement of documents
- Consumer
 - More informed, every step of the way
 - Has time to review documents

Three Varieties of Closings

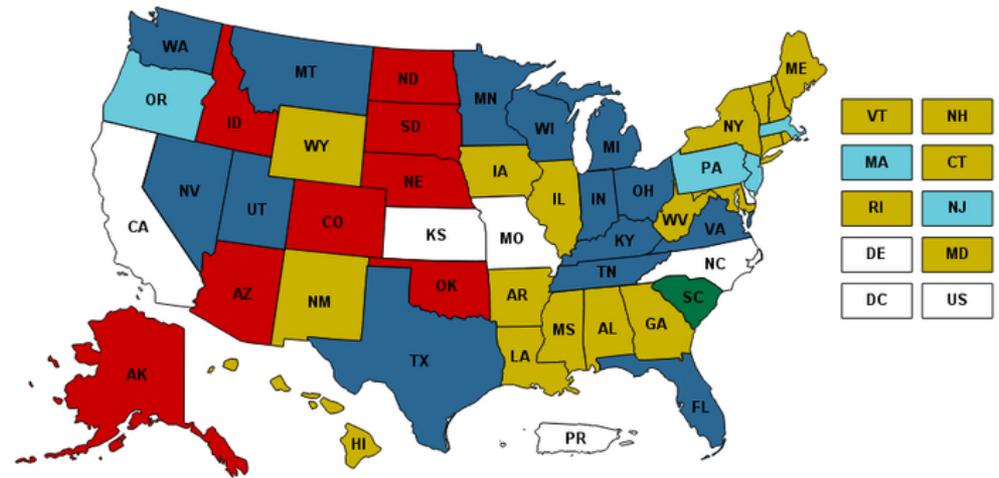
- Fully paper closing
 - All documents on paper and wet-ink signed
- Hybrid eClosing
 - Wet-ink signed documents including the promissory note
 - Electronic documents
 - Electronic notarization
 - Electronic recording
- Fully paperless all documents
 - Are electronic
 - And electronically signed

- Permits electronic notary signature
 - Eliminates requirement for stamp or seal
- Preserves any other features of notarization required by state law
 - Personal appearance
 - Confirmation of identity
 - Awareness
 - Freedom from duress
- There are over 1,380 eNotary counties, which represents about 74 percent of the population

- Patchwork of differing rules and laws on a state by state basis
 - Some states have published rules for eNotarization, or have stated it is allowed but have not provided any guidance
 - There are states that have remained silent on the issue
- Three types of electronic notarial acts
 - In-Person electronic Notarization (IPeN)
 - *Face-to-face with electronic signatures*
 - Remote Online Notarization (RON)
 - *Electronic signing over the Internet when a notary public and a signer are not in the physical presence of one another*
 - *Twenty six states have enacted RON legislation*
 - Remote In-person Notarization (RIN)
 - *Wet-ink signing over time and over the Internet when a notary public and a signer are not in the physical presence of one another*

eNotarization and RON Adoption Map

Adoption Map



KEY	
	States with Enacted RON Laws & Rules
	States with Enacted RON Laws
	States Enabling Remote Notarizations or RON through Temporary Executive Order
	States in Session with Active RON Bills

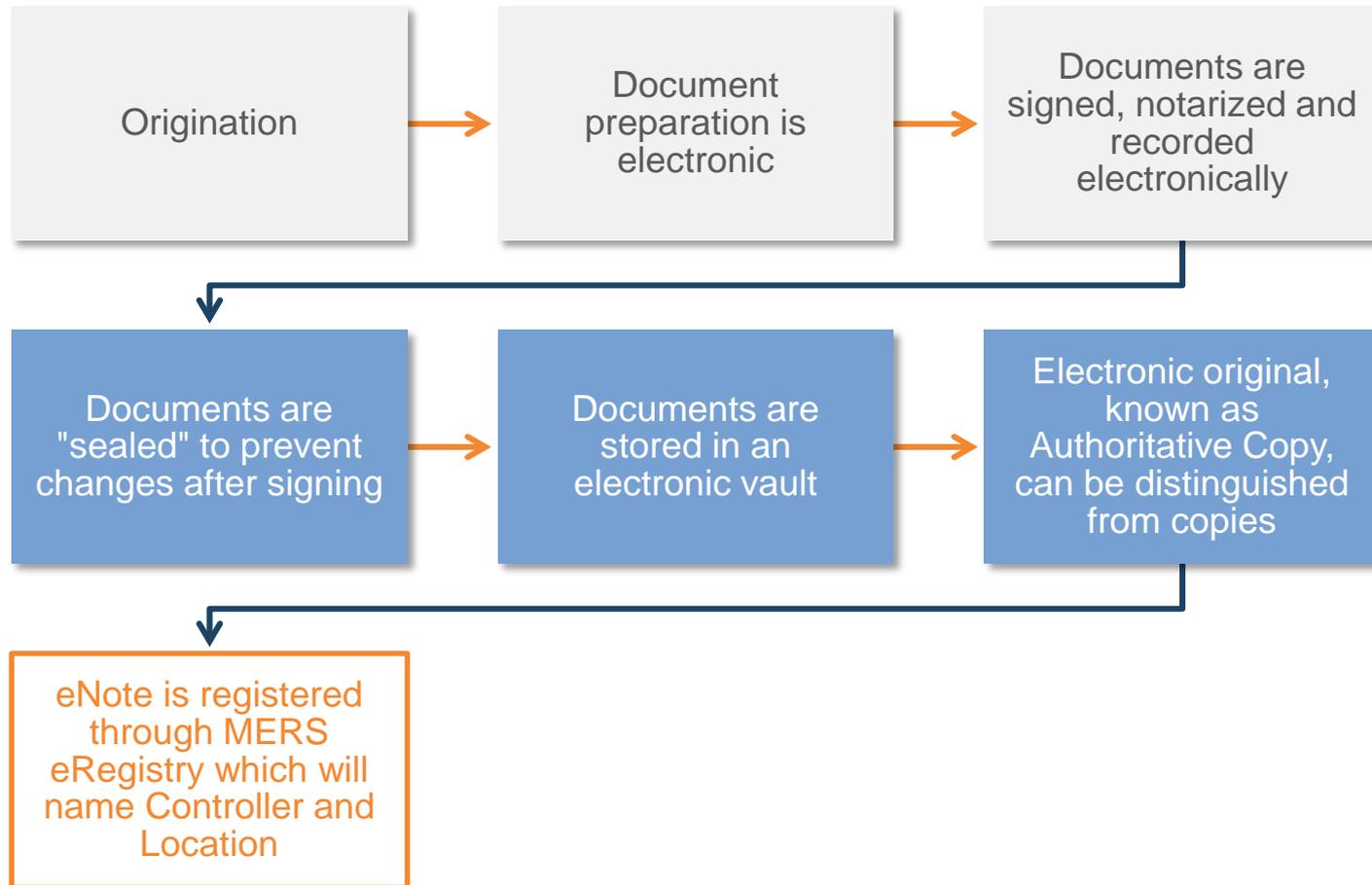
Source: Mortgage Bankers Association

Moving to eOrigination – Benefits



- Borrowers can review loan documents prior to closing at their convenience
- Faster and easier signing process
- Fewer errors
- Flexibility in closing locations
- Less paper
- Faster funding
- Improved audit capabilities
- Elimination of lost notes
- Increased collateral control

The Path of an eNote



- Technology
 - How will different systems integrate within the enterprise?
 - What technologies are in place and what needs to be developed?
- Industry standards: MISMO
 - How will you define a common language to communicate internally and externally?
- Law
 - What legal issues must be considered?
- Information security
 - New requirements?
- Collateral acceptance and investor requirements
 - What is required for pledging, selling, and delivery?

Final Comments



Final Questions

- FHLBank eNotes Requirements: <http://corp.fhlbatl.com/resources/future-acceptance-of-enotes-as-collateral-within-fhlbank-system/>
- MISMO eMortgage Closing Guide: <https://www.mismo.org/standards-and-resources/emortgage-specifications/emortgage-closing-guide>
- MERS[®]: <https://www.mersinc.org/products-services/mers-esuite/registry>
 - Sale Support: <https://www.mersinc.org/about/sales>

Thank You