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Residential eNotes as Eligible Collateral

eVaults and FHLBank Operational Requirements

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Speakers

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Agenda

- Overview
- eNote Vaults
- eVaults and MERS®
- Collateral Eligibility Requirements
  - Industry
  - FHLBanks
- Closing Remarks

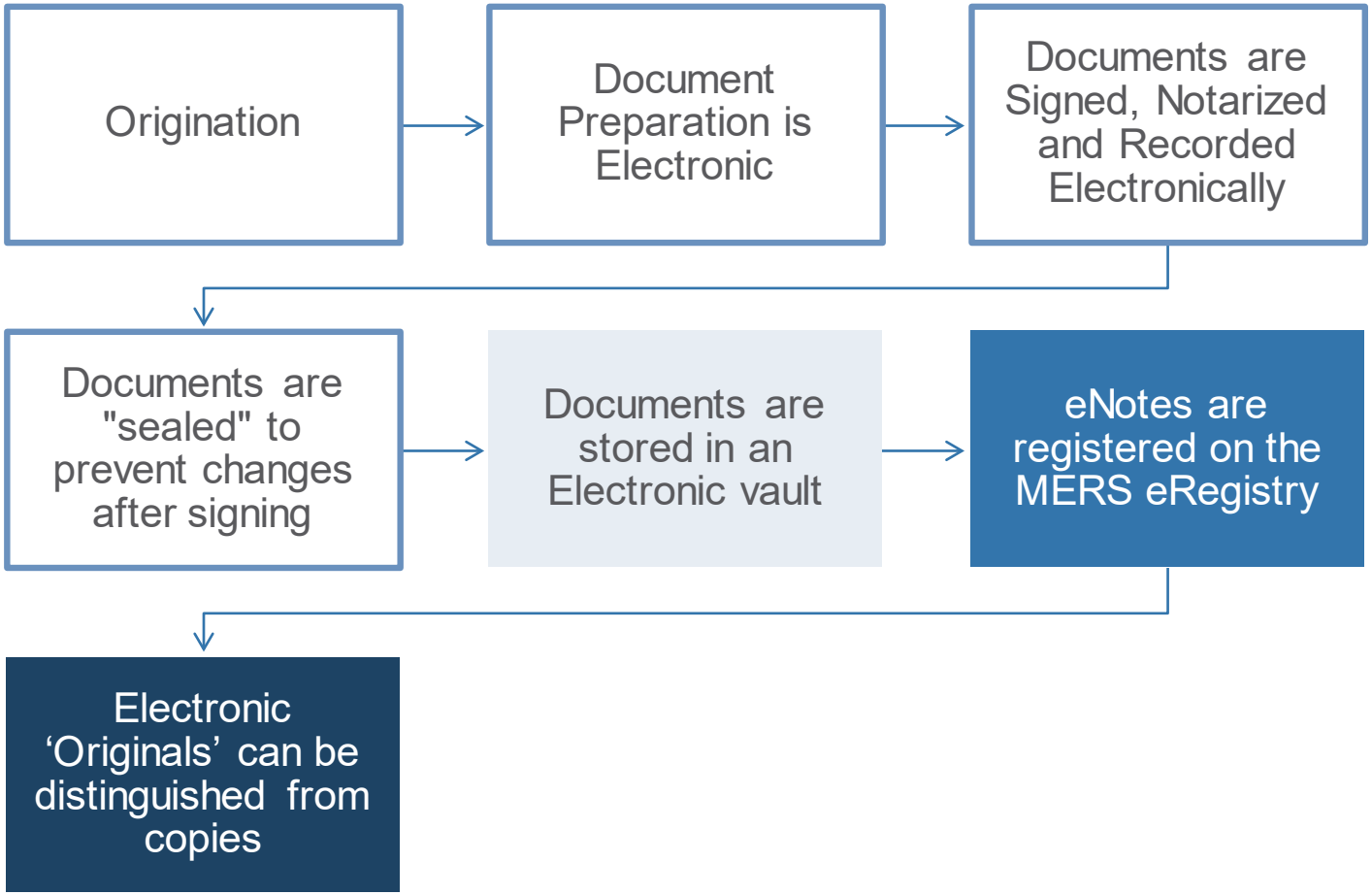
There will be opportunities to ask questions throughout the presentation.

OVERVIEW

eNOTE VAULTS

How to Move to Electronic

What Changes?



eNote Vault

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- An eNote vault is a secure storage solution for managing eNotes
- Designed to meet the requirements of industry to conform with eSignature and other laws
- Retains eNotes and other electronic documents in a manner that ensures that these records will later be admissible in federal or state court
- Has the ability to identify the equivalent to the paper “original”
- Maintains document integrity by validating the tamper evident signature
- Manages transfer of eNotes across vaults

eNOTE VAULTS AND MERS®

The MERS® eRegistry

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- The MERS® eRegistry is an industry-wide electronic registry that serves as the system of record for eMortgage ownership
- Allows eNotes to be registered and uniquely identified for tracking and verification
- Identifies the current rights holder for the eNote:
  - Controller (holder/owner)
  - Master Servicer (servicer of the loan)
  - Location (custodian) of the Authoritative Copy of an eNote
- An eVault is the industry solution for the storage of eNotes with an integrated interface to send messages and transactions to update the status of the eNote on the MERS® eRegistry.

https://www.mersinc.org

The MERS® eRegistry Transactions

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- MERS® eRegistry transactions flow through the eRegistry providing system-to-system communication of eNote status updates and transition rights holders.
- All transactions are routed through secure virtual private network (VPN) tunnels and can be configured to Auto-Accept Transfers and Deliveries.
- eNote Registration
  - The MERS® eRegistry does not maintain a copy of the eNote, but instead stores a digital hash of the eNote that is verified against during eRegistry transactions.
- eNote Transfers
  - MERS facilitates the process for a member to transfer rights to another member.
- eNote Servicing
  - Change Status and Change Data transactions allow for life of loan events to be submitted and tracked on the system.

MERS® eDelivery

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How Copies of eNotes Move Around:

- eDelivery transactions use the MERS® eRegistry infrastructure to securely send copies of eNotes and their associated files/documents to other participants of the MERS® eRegistry
- eNotes are delivered in seconds and multiple recipients are allowed.
- Like FedEx, MERS® doesn't open the package, just delivers it
- Document Association
  - The eVault can logically associate any associated files/documents related to the eNote via the MERS® mortgage identification numbers (MIN)
- Receiving eVaults initiate an eDelivery Distribution Approval message back to the sending party (with any error messages

eNote Vault Validation

- All eNotes that are sent through eDelivery are validated/approved by the receiving eVault prior to ingesting.
- Document Validation, Hash Validation and Certificate Validation
  - Verifies that the eNote conforms to industry standard Category 1 SMART Doc v1.02 for an executed eNote
  - Validates the tamper evident signature of the eNote being received.
  - Compares that the tamper seal (the hash value) of the incoming eNote matches the value in the MERS® eRegistry
  - Confirms that the eSigning certificate is accurate and current.

Maintain MERS® and User System Logs

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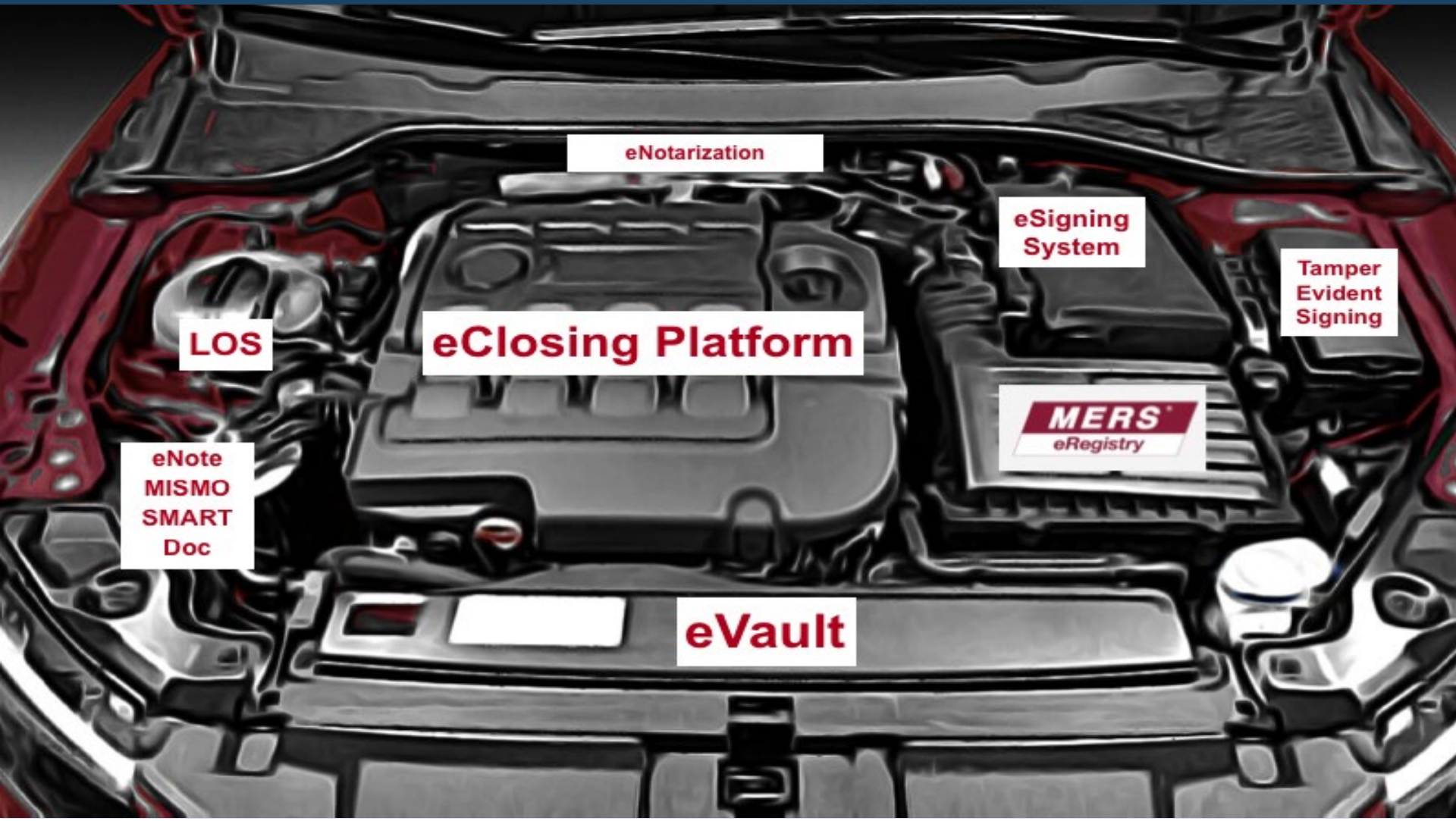
- MERS® Transactions
  - All interactions with the MERS® eRegistry including date/time stamps and key system transactional data (e.g. MERS® MIN, transfer result, eDelivery tracking number and MERS Transfer ID)
  - Errors in normal processing of MERS® eRegistry and eDelivery transactions
  - eRegistry audit trails/reports
    - Who sent a transfer/delivery to whom, when it was sent, if it was accepted, and recipient feedback as to the validation of the eNote (in the case of eDelivery).
    - Who initiated a life of loan event (Status/Data change) for an eNote.
- User-Level Access
  - Successful and unsuccessful login attempts by user ID
  - User-level logging of all eNote vault actions including MERS® transfer initiations and status updates

Questions

COLLATERAL ELIGIBILITY REQUIREMENTS

eMortgage “Engine”



Approved Technology Vendors

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- Both Fannie and Freddie publish approved vendor lists in three categories
  - Provider can produce a MISMO v1.02 SMARTDoc eNote – (eNote)
  - Provider platform supports digital execution of closing documents, including MISMO v1.02 SMARTDoc eNote – (eClose)
  - Provider platform provides connectivity to the MERS® eRegistry and includes eVault capabilities to validate, maintain, and enable transfers of Control and Location for eNotes – (eVault)
- http://www.freddiemac.com/singlefamily/sell/e_mortgage_vendors.html
- https://www.fanniemae.com/content/list/eclosings-emortgages-vendor-list.pdf

FHLBank eNote Eligibility

- Residential 1-4 family first mortgage loans only will be eligible for pledging in the form of eNotes
  - Must meet the same eligibility requirements as their paper-based counterparts
- Loan origination software/document preparation system must create a MISMO® v.1.02 SMART Doc eNote
  - Originators must use the prescribed additions for transferable records to the note
- Systems must be compliant with ESIGN/UETA process
  - No audio or video signatures
- Tamper-evident signature required
- The eNote must be retained in an eVault

Requirement: FHLBank as Secured Party

- Enables the FHLBanks to have their security interests in eNotes represented on the MERS® eRegistry
- Summary of functionality
  - Secured Party is an eRegistry rightsholder type
  - Functionality relies on a system "Relationship" between Secured Party and Controller (FHLBank member)
  - The Secured Party may be named to an eNote record at registration and added/removed in Change Data transactions
- When collateral is pledged, FHLBank Atlanta must be named as Secured Party

Secured Party's Collateral Protections

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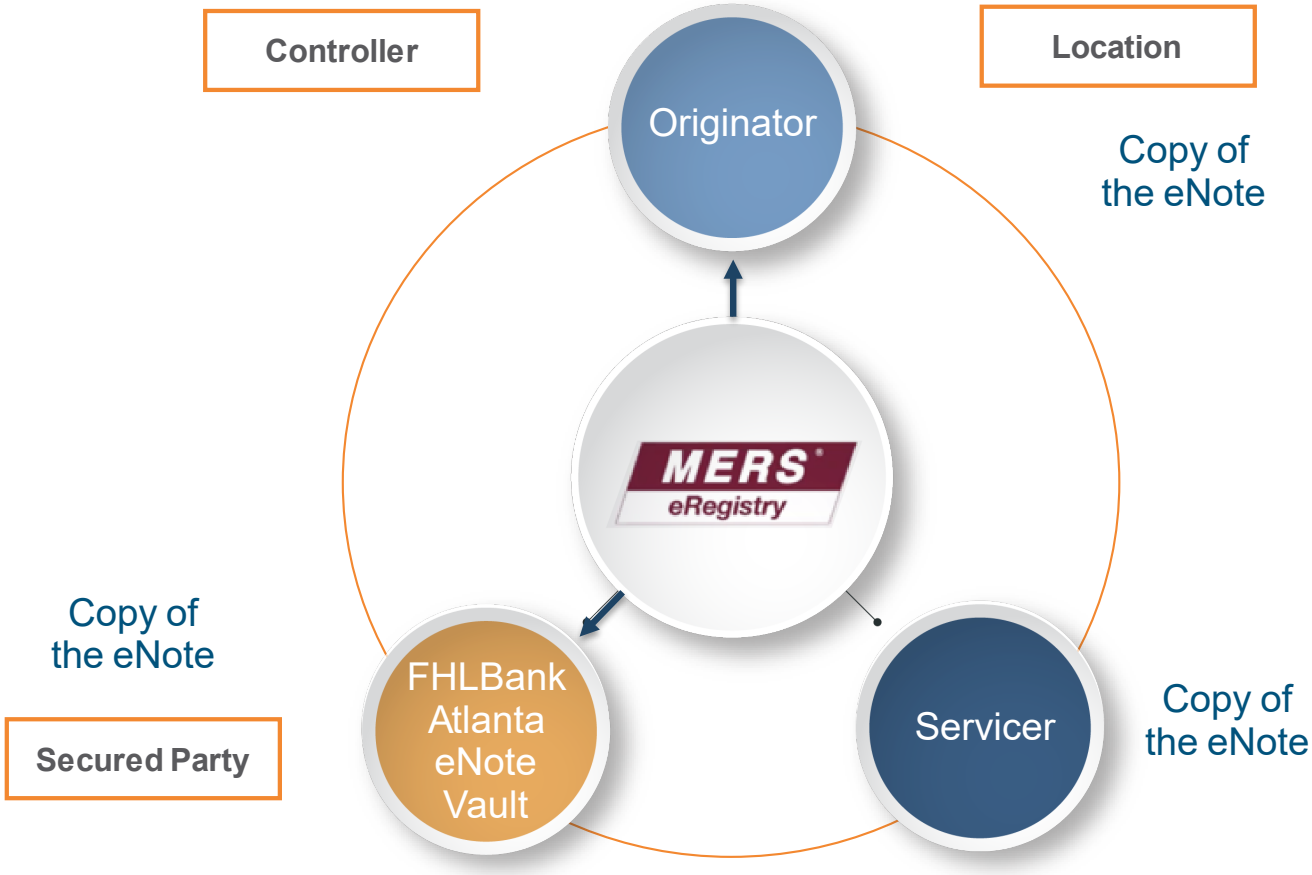
- Secured Party can
  - Permit or restrict transfers of control or location
  - Initiate Transfers of Control or Location to itself or another eRegistry Participant
  - Elect to receive notifications of changes to the eNote's status
  - Permit or restrict deactivations
- If the Controller initiates a transfer of control, confirmation is required from the Secured Party
- When a transfer of control successfully completes, the Secured Party is removed from the eNote

Transfer of Location

- Location is the entity that maintains the Authoritative Copy of the eNote
- For pledged eNote collateral, this must be the FHLBank eNote vault
- Once approved, the Shareholder must store the Authoritative Copy of an eNote in the Member/Shareholder's eNote vault until pledged
- When an eNote is pledged
  - FHLBank Atlanta is named as the Secured Party
  - The Authoritative Copy is transferred to FHLBank Atlanta's eNote vault and FHLBank Atlanta is the Location
    - The shareholder must store a copy of the Authoritative Copy of the eNote in its own eNote vault
    - Periodic reconciliation between the shareholder eNote vault and the MERS® eRegistry to ensure alignment between the two systems is required and good practice.

MERS® eRegistry and the Secured Party



Data Source – MERS® eRegistry

eRegistry Requirements Recap

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- Controller names the Secured Party on the MERS® eRegistry at registration or post-registration if pledging after closing
- When named on an eNote record the Secured Party
  - Must approve outgoing transfers of control and location initiated by the Controller in order for the transfer to be processed in the eNote by the Controller
- Once a transfer of control/location is confirmed and processed, the Secured Party field will be cleared.
- While collateral is pledged, the FHLBank eNote vault must be the location of the Authoritative Copy
- The Secured Party is the only rights holder that has the ability to remove itself

Considerations for Pledging Collateral

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- Product eligibility/documentation
- Technical and security requirements/reviews
  - eMortgage systems/processes must be reviewed and tested
- eMortgage creation, storage, and certification
  - Retention-related requirements
    - Life of loan plus seven years, and made readily accessible upon request
    - System logs and audit trails
      - eClosing Transaction Record
  - Approved systems
    - Must be compliant with eSignature Laws (ESIGN and UETA)
    - Must be integrated with MERS® eRegistry and eDelivery
    - eNotes must be securely stored in a clearly defined location with the eVault

Final Questions

Resources

- 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/eregistry
  - Sale Support: https://www.mersinc.org/about/sales

Final Remarks

Thank You