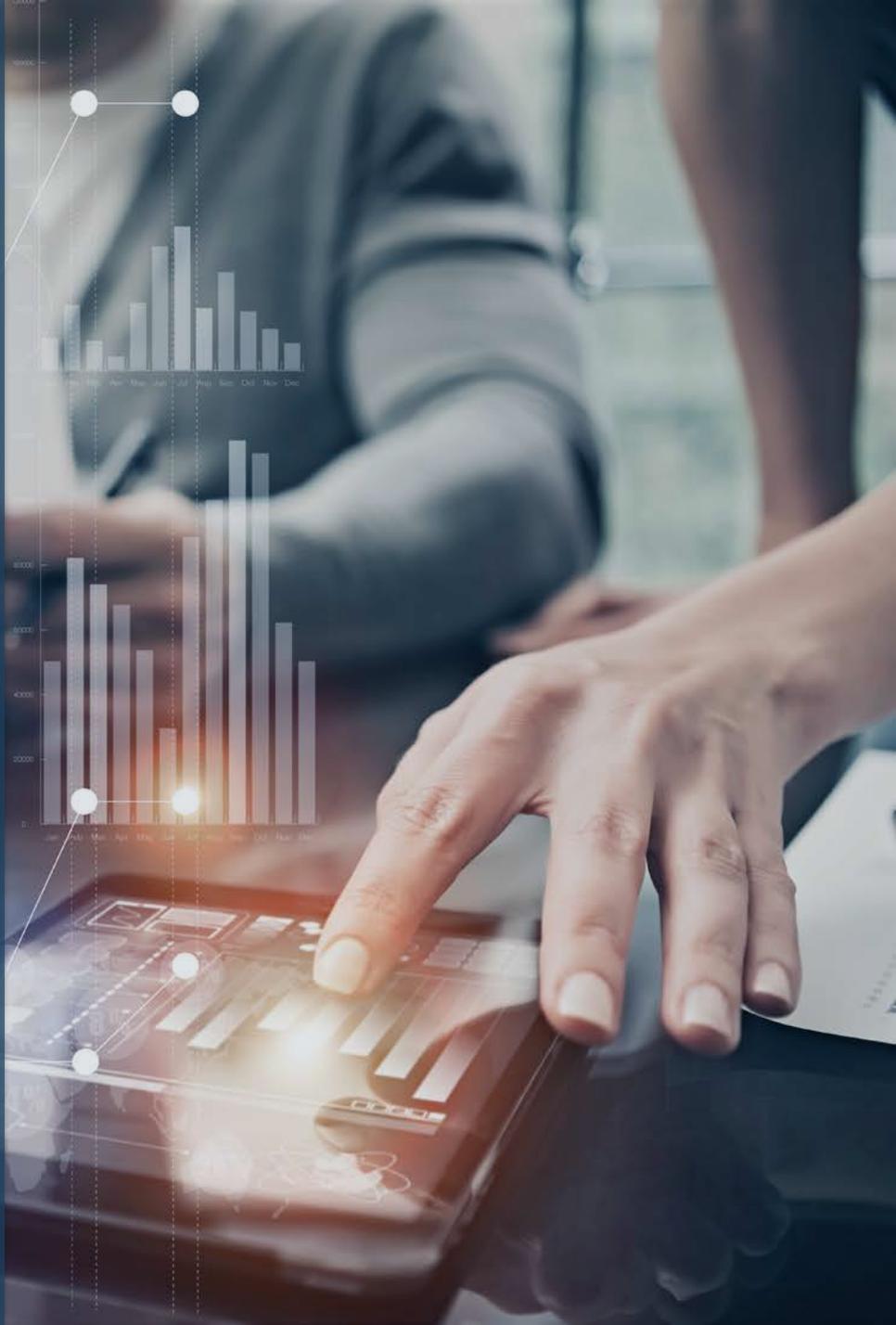




Residential eNotes as Eligible Collateral

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Speakers



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- Objectives of Today's Webinar
- Overview of the System's Progress on eNotes
- Update on Atlanta's Progress on eNotes
- About Electronic Promissory Notes (eNotes)
- eNote Format
- Spotlight on eNote Requirements
- eVault Requirements
- MERS Requirements
- Servicer Requirements

There will be opportunities to ask questions throughout the presentation.

Learning Objectives

- 1  eNote Basics
- 2  eNote Eligibility Timeline
- 3  The Role of an eVault Vendor
- 4  The Role of the Mortgage Electronic Registration Systems (MERS[®])
- 5  What Type of eNotes will be Considered Eligible?



- The 11 FHLBanks (System) are jointly developing requirements needed for accepting residential 1-4 family secured eNotes. The System has provided standards to the membership first by establishing best practices
- The System formed a multidisciplinary eNote working group made up of members from different functional areas such as Legal, Operational, and Member Outreach
- Requirements developed by the System are consistent with other industry participants
- Timeline of acceptance dependent on: system implementations, process changes, and internal approvals for each independent FHLBank

Overview of FHLBank Atlanta's Progress on eNotes



- Completed the eNote Requirements Document and posted to website in February 2020
- In conjunction with the other FHLBanks, contracted with eVault provider Doc Magic and MERS® eRegistry
- Currently in development of operational processes and procedures for pledge and acceptance
- Board approval and pilot program
- Anticipated eligibility timeline: 2021

Questions



Federal ESIGN Act

Governs electronic promissory notes secured by real property, if the electronic notes are secured by an interest in real property (state law, including the Uniform Electronic Transactions Act (UETA), is preempted)

ESIGN closely tracks the UETA provisions covering the concept of a “transferable record,” which includes electronic promissory notes, and the requirements of the two laws are substantially the same

- The Electronic Record (promissory note) being “signed” must be clearly identified and clearly display the borrower’s name, and require the borrower to take action to initiate the eSignature. The Electronic Record **must be individually presented to the borrower for review and electronic signing**
- The eSignature system **must be designed to permit the Bank to promptly determine:**
 - The borrower’s eSignature has been attached
 - The type of electronic symbol or process used
 - The name of the borrower
 - The time and date stamp of the eSignature
- Must meet all applicable local and state regulations regarding remote online notarization

- To ensure that the eNote is a discrete Transferable Record, **closing instructions or other procedures should be created to ensure that the borrower signs only the eNote** at closing and does not also sign a paper version of the promissory note
- **Each member is responsible for determining that an eNote meets the legal, technological, and operational requirements** necessary to electronically create a valid, enforceable, and transferable loan obligation
- In the first phase, **only residential 1-4 family first mortgage loans will be eligible for pledging in the form of eNotes** and must meet the same eligibility requirements as their paper-based counterparts

- The closing of an eNote **requires the use of an eClosing system that is a secure environment** and allows the closing agent and the borrower to electronically review, sign, store, and transfer closing documents
- An imaged version of a **wet-ink signed paper promissory note is not** a Transferable Record or an eNote

Examples

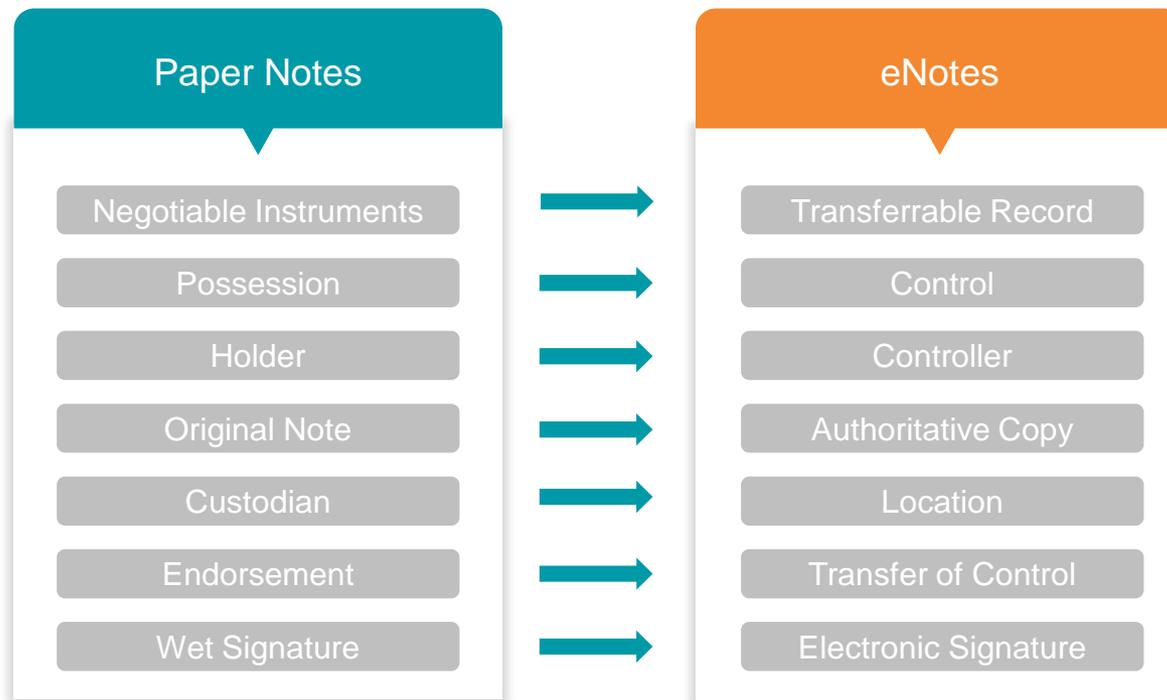
NOT A Properly Executed eNote

- A borrower signs a paper promissory note, which is then scanned and imaged
- A borrower executes an electronic signature on a promissory note and later signs the same promissory note with a wet ink signature

Properly Executed eNote

- A borrower executes an electronic signature on an electronic record following applicable UETA and E-SIGN provisions.

Key eNote Terms As They Compare To Paper Notes



Questions

Version 1.02 MISMO Category 1 SMART Doc

- Must contain the eNote Transferable Record clause
- Must contain the “For Electronic Signature” header
- Text above or below the signature must NOT contain, “Sign original only”
- Footer must contain clear identification that it is an eNote

Tamper Evident Signature

A "seal" wrapping an Electronic Record that is created by a Digital Signature. The seal can be verified to ensure that no changes have been made to the Electronic Record since the seal was put in place. Also known as: Tamper Seal, Tamperseal Signature, and Tamper-evident seal or signature.

Questions

- **The eClosing System must distinguish the display “Authoritative Copy” as the original and not as a copy of the Authoritative Copy**
- eNotes must be **registered in the MERS[®] eRegistry prior to** being considered eligible collateral
- **“Secured Party” is the entity named on the MERS[®] eRegistry** that has been assigned or granted a security interest in the eNote, e.g., FHLBank Atlanta

eClosing

An eClosing is the act of closing a mortgage loan electronically. This occurs through a secure environment(s) where one or more required closing documents are accessed, presented, and signed electronically.

Questions

eVaults are required to:

- Have functionality to perform eNote integrity validation to evidence the tamper-evident seal digital signature is valid and has not been compromised
- Interface with MERS[®] eRegistry
- Have clear distinction between the view of the Authoritative Copy and a copy of the Authoritative Copy
- Log the validations (re-computations of Hash Values) of eNotes and any other SMART Documents' Tamper Seals

eVaults must:

- Periodically reconcile the information stored in the eVault and the information stored on the MERS® eRegistry
- Be able to transfer eNotes and any other electronic mortgage file documents to another eVault using MERS® eDelivery
- Have encryption algorithms compliant with NIST and FIPS 140-2 guidance and support multifactor authentication

MERS® eRegistry refers to the system of record

- The MERS® eRegistry denotes the controller (holder) and location (eVault) of the authoritative copy
- Members must become a member of MERS® and sign the MERS® eRegistry Addendum
- Must register the executed eNote with MERS® eRegistry
- In order to pledge eNotes, add FHLBank Atlanta as named secured party

Servicers refers to the member (or a third-party servicer) and must:

- Have an eVault that complies with all of the aforementioned, or a third-party arrangement with a custodian that is holding eNotes on the member's behalf and complies with all of the aforementioned
- Have the ability to identify all eNotes pledged to the Bank
- Have the ability to record all status changes and required actions that occur during the life of the eNote in the MERS[®] eRegistry
- Confirm that the MERS[®] eRegistry accurately reflects the "Controller," "Secured Party," and "Location" at all times

If a pledged eNote is converted to a paper-based note, it can no longer be considered eNote collateral and **is no longer considered eligible pledged collateral**

Final Questions