



Process loans, not paperwork



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***The MERS[®] eRegistry:
Paving the way for eNotes and eMortgages***

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History



- MERS was conceived by an industry task force
- Created in 1995 as an industry utility
- First loans registered in 1997
- First MOM (MERS as Original Mortgagee) loans registered in 1998 by Merrill Lynch
- Profitable in 2001
- 28 Shareholders from real estate finance industry
- 2004 – over 26.3 million loans registered (over 50% market share of new originations)
- 16.8 million active loans (26% of residential debt outstanding)

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MERS Overview



- MERS uses cooperative technology to eliminate preparing and recording paper assignments when selling loans between MERS members.
- Every loan is assigned a unique Mortgage Identification Number (MIN) that follows the loan from registration to payoff. The MIN appears on the mortgage or deed of trust. The note and note endorsements do not change.
- The lender makes MERS the mortgagee at closing and MERS remains in the public land records on behalf of the note holder for the life of the loan.
- MOM (MERS as Original Mortgagee) is approved by Fannie Mae, Freddie Mac, FHA, VA, Ginnie Mae, FHLB's, CAL HFA and all the Wall Street rating agencies.
- MOM language is legal in all 50 states.
- Loans can also be assigned to MERS. Subsequent assignments are then eliminated.

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Electronic Mortgage Notes

MERS[®]

MERS[®]
eRegistry

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Objective

MERS[®]

- Provides ESIGN and UETA Section 16 “safe harbor” for investors to purchase eNotes
- Central registry to identify the current Controller and Location of the Authoritative Copy of the eNote
- Supported by Covington & Burling legal opinion

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Definitions

MERS[®]

Paper World

Negotiable Instrument

Possession

Original Note (wet signature)

Investor/Holder

Custodian

Endorsement and Delivery

Holder in due course

Servicer

Electronic World

Transferable Record (“eNote”)

Control

Authoritative Copy of eNote

Controller

Location (eVault)

Transfer of Control

Transferable Record Audit trail

Controller’s Delegatee

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Rationale

MERS[®]

- Strategic imperative for MERS
- Will be required by participating investors
- Logical extension of the MERS mission and expertise
- Potential additional revenue for MERS
- Endorsed by MBA

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Key Assumptions Used in Development

MERS[®]

- Industry investors will require eNote registration
- eNote must refer specifically to the MERS[®] eRegistry
- Participants must be members of MERS
- Registry does not store eNotes
- Multiple eVaults will be created to store eNotes
- Funding of loans occurs outside the Registry

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What's Different?



- Create an eNote in SMART Doc format
- Execute eNote with digital signatures
- Store eNote in compliant eVault
- Deliver eNote to investor
- Transfer eNote from one eVault to another
- Service eNote
- Interface with MERS[®] eRegistry to record these steps

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Milestones

MERS[®]

- MBA published high level business requirements Mar 03
- MERS announced intent to build registry Mar 03
- MERS published detailed business requirements Oct 03
- Development Advisory Team convenes Nov 03
- User Acceptance testing begins Mar 04
- Registry in production Apr 04
- Member/vendor integration Ongoing

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Primary Requirements



- Member Profile
 - MERS Org. ID Number is unique entity identifier
 - Member functionality tailored to role on Registry
 - Authentication and security routines

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Primary Requirements



- eNote Registration
 - MERS MIN is unique loan identifier
 - eNote hash value enhances integrity
 - Cross referencing information (Borrower Name, SSN, Property Address)
 - Reversal transaction to correct invalid registrations
 - Location and Controller fields are required

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Primary Requirements

MERS[®]

- MIN Generation and Reservation
 - Validate and reserve third party generated MIN
 - Request MIN generation and reservation by MERS[®] System
- Transfer of Control
 - Validate transferor and transferee
 - MIN and Hash value comparison

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Primary Requirements



- Transfer of Location
 - Validate Controller, old Location and new Location
 - MIN and Hash value comparison
- Deactivations
 - Paid off
 - Charged off
 - Converted to Paper
 - Converted to Proprietary Registry

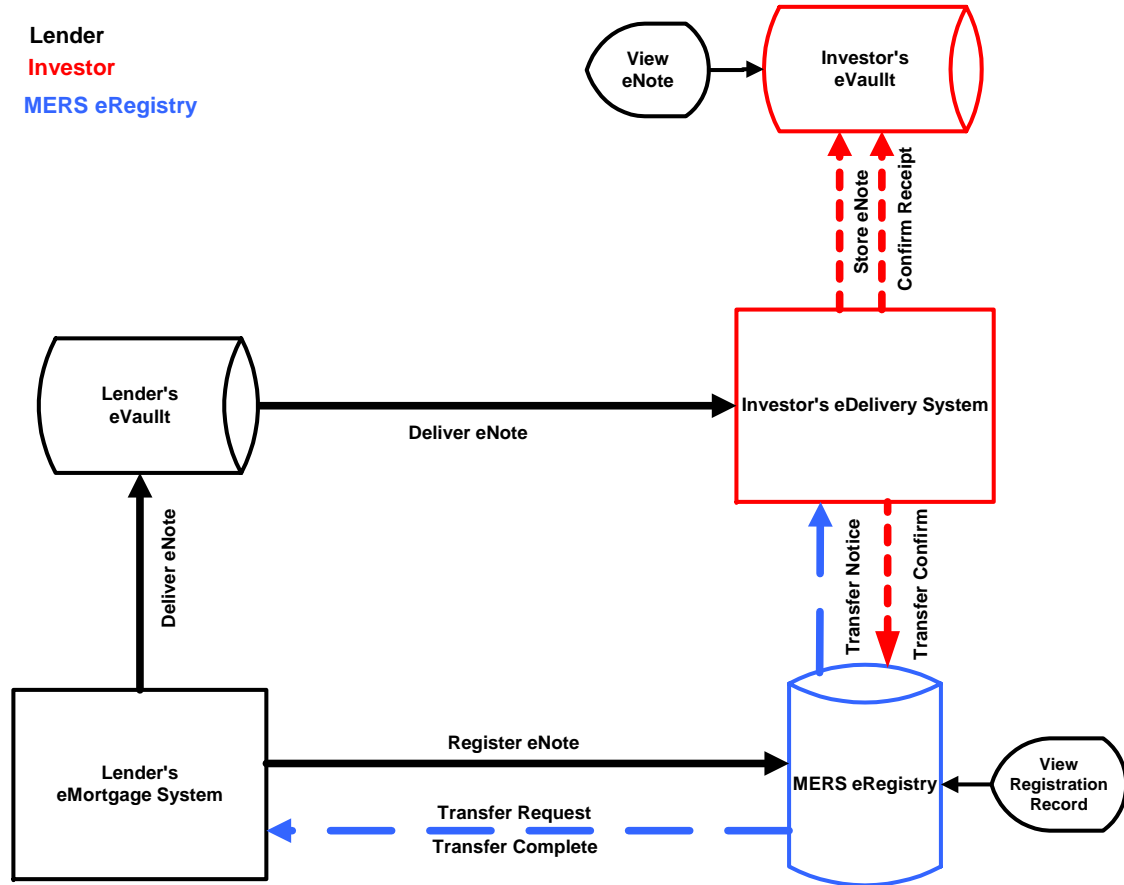
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Process Flow



Legend:

- Lender
- - - - - Investor
- - - - - MERS eRegistry



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Additional Requirements



- Controller can delegate certain transactions:
 - (payoffs, foreclosures, etc.)
- Correct certain data elements of the registration record
- Modification Flag and MIN and Hash value cross reference for CEMAs and Modification agreements with borrower
- Online audit trail for all transactions
- Online inquiry capability for authorized rights holders

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Implementation Considerations

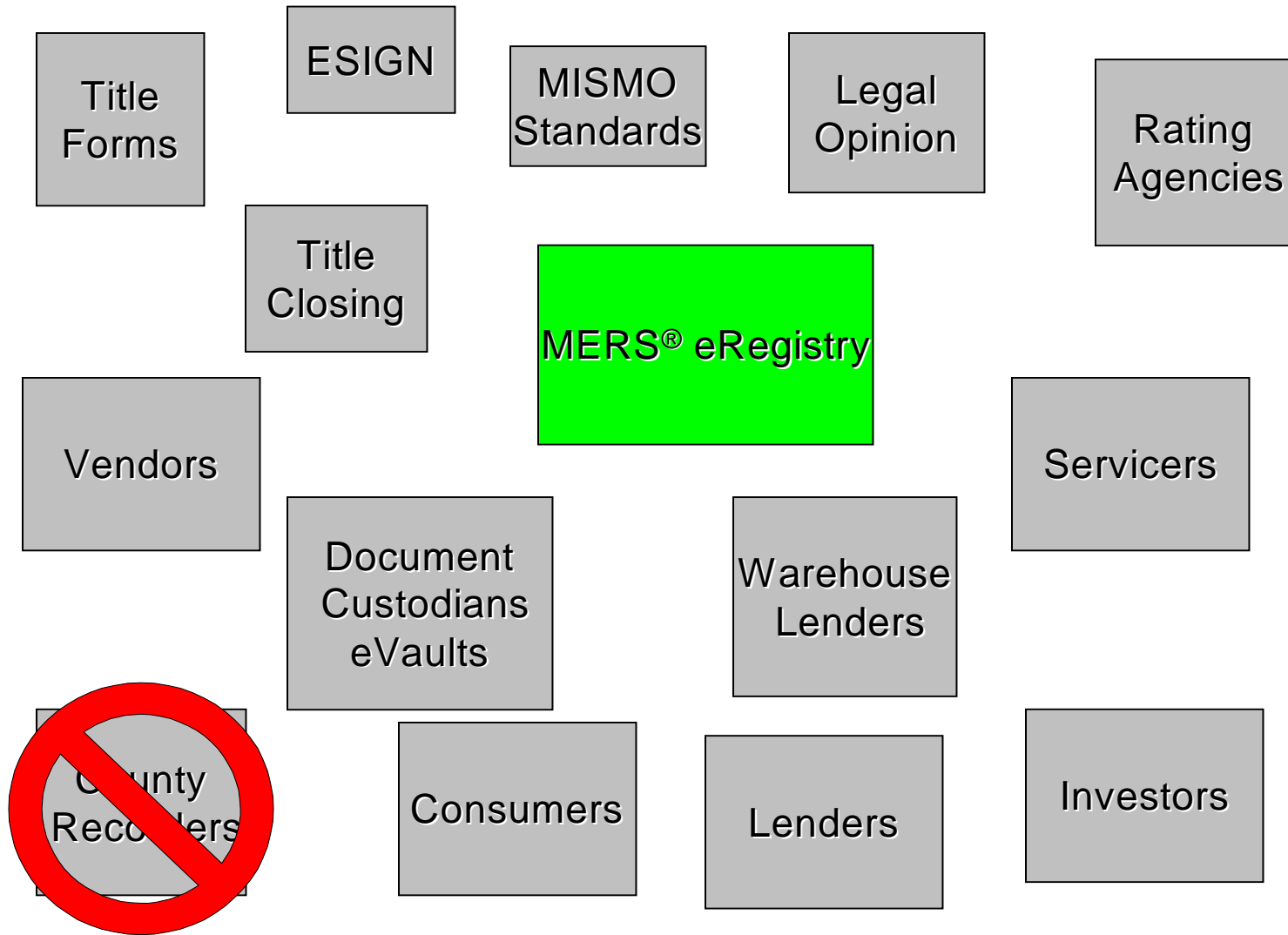


- To originate and register loans on the MERS[®] eRegistry you must:
 - Close loans on eNotes (using MISMO standard SMART Documents) containing eRegistry language and a MIN
 - Connect to the eRegistry through a VPN or Frame Relay connection
 - Send XML transactions signed by a digital certificate provided to you from a SISAC-accredited issuing authority

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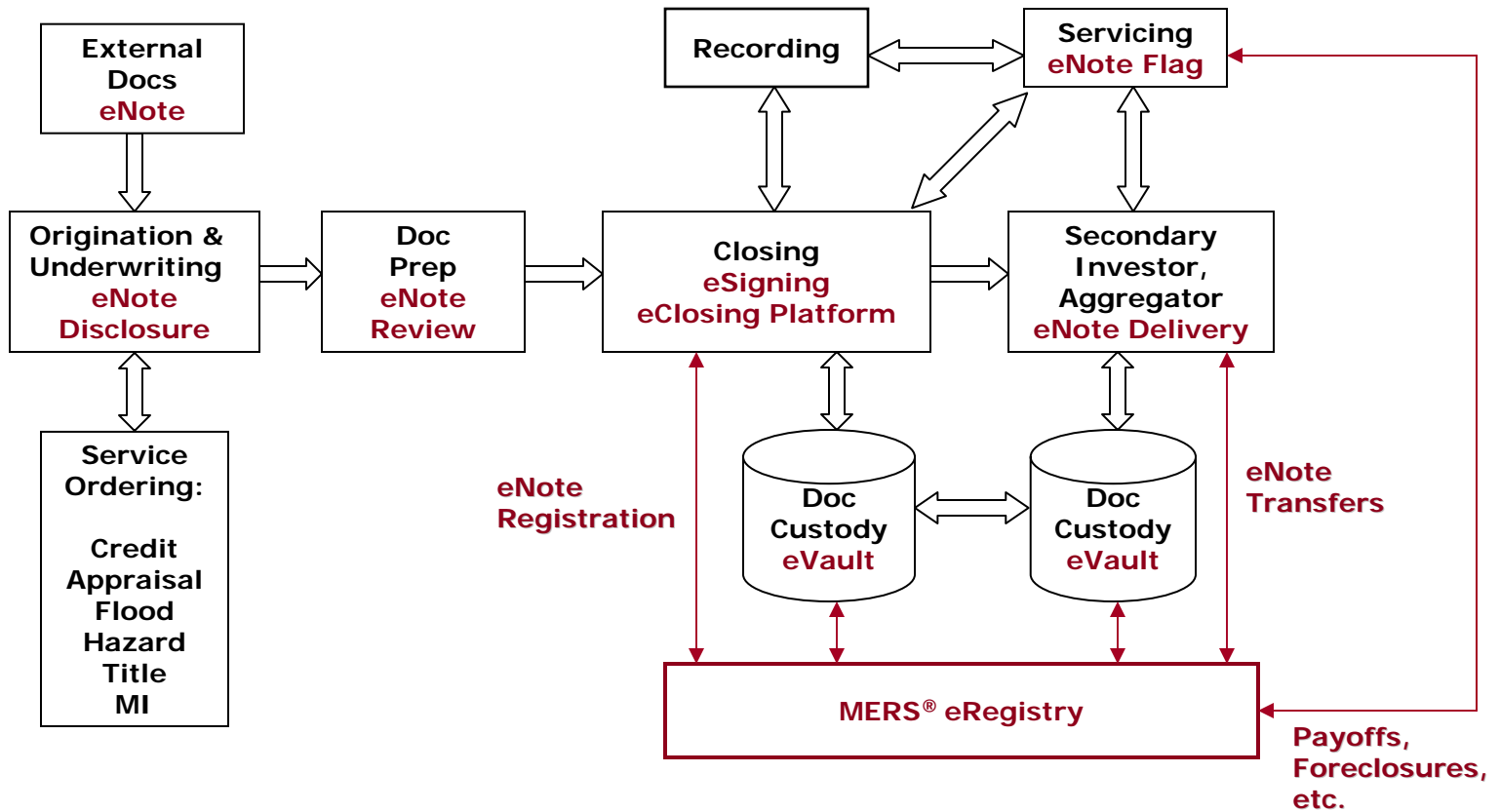


The eNote Puzzle



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eNotes in the Mortgage Process **MERS**



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eNote Value Study



Objectives

Identify key value propositions for eNotes

Confirm how eNotes impact current business process

Identify major costs and benefits for eNotes by stakeholder

Methodology

Interviewed eight major lenders

Reviewed standard business process flows

Confirmed eNote touch points

Reviewed proposed costs and benefits of eNotes

Modified flows, costs and benefits based on lender feedback

Identified major qualitative costs and benefits from all interviews

Develop quantitative costs and benefits for each stakeholder

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eNote Value Study



Lenders will drive adoption because...

eNotes offer control of the borrower relationship and business process from application through closing using industry standard data and documents

The MERS® eRegistry offers control of the transfer, location and timing of delivery of the asset through the national system of record for eNotes

They view eNotes as a strategic investment leading to eMortgages

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Questions?

MERS[®]



Download this presentation and more information about eNotes and the eNote Registry at www.mersinc.org. Click on the MERS[®] eRegistry tab.

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