


Electronic Mortgage Transactions: The GSE Interface

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Freddie
Mac

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Freddie Mac

- Our mission is to achieve the most dependable supply of mortgage funds at the lowest possible cost.
- The explosion of the Internet, new technology, and the enactment of Federal E-Sign legislation have opened the door for new ways to support home ownership.

E-Commerce Legislation

- Uniform Electronic Transactions Act (UETA).
 - state by state adoption, versions passed in 39 states and DC to date.
- Electronic Signatures in Global and National Commerce Act (E-Sign).
 - baseline uniformity for all 50 states.

What is an Electronic Mortgage?

- An electronic mortgage is, at a minimum, closed using an electronic note.
- An electronic mortgage may also include:
 - An electronic loan application
 - An electronic security instrument
 - Electronic disclosures and notices
 - Automated underwriting, such as Freddie Mac's Loan Prospector
 - Electronic settlement, funding, and storage

Why Electronic?

- Electronic mortgages have the potential to be far more:
 - Convenient
 - Efficient
 - Fast
 - Less expensive
 - Environmentally friendly

Benefits of Being Electronic

- A revolutionary change to simplify and streamline the act of financing a home
 - Reduces paper
 - Reduces administrative issues
 - Minimizes data input
 - Brings document storage and retrieval into the 21st century

What is the Catch?

- **CIA**
 - **Confidentiality**
 - Secure, private, encrypted
 - **Integrity**
 - Tamperproof, authentic, complete
 - **Accessibilitiy**
 - Consistent, interoperable, usable for the life of the transaction
 - Up to 30 years -- 365/24/7

What is Freddie Mac Doing?

- Broad analysis of electronic mortgages
- Purchased our first electronic mortgage when E-sign took effect
- Freddie Mac drafted preliminary operational and functional specifications for the purchase of electronic mortgages
 - Made part of the MISMO specifications

Freddie Mac is Working with the Mortgage Industry

- In 2000:
 - Freddie Mac solicited feedback from the industry on the Freddie Mac preliminary specifications
 - Freddie Mac began working with the Electronic Financial Services Council (“EFSC”) and the Mortgage Industry Standards Maintenance Organization (“MISMO”)
 - Freddie Mac held a national educational teleconference sponsored by the EFSC

Freddie Mac 2001 Efforts

- This year, Freddie Mac incorporated industry feedback and comments, and published its revised “Preliminary Specifications for Electronic Loan Documentation” in June.
- Freddie Mac is actively involved and engaged in the MBA/MISMO E-Mortgage Work Group, the PRIJTF, the EFSC, and other electronic commerce standards organizations.

Freddie Mac Preliminary Specifications

- Consent and execution
- Document format and delivery
- Document integrity
- Records management
- Document access
- Representations, warranties and contract terms
- Transferable records

Harnessing Technology for the Mortgage Industry's Future

- Freddie Mac is developing and has developed a number of software and web-based applications for sellers and servicers.
- These tools provide better data, streamline processes, and improve the quality, speed, and efficiency of the mortgage transaction process.

Working Together is the Key

- Freddie Mac believes that the American Homeowner will only truly benefit from electronic commerce if the mortgage industry works together to develop:
 - uniform specifications,
 - effective and interoperable processing capabilities, and
 - sound policies that the industry will embrace.

Conclusions

- Mortgages are a complicated business
 - All the pieces of the puzzle need to come together faster and easier
- Standards development is a tough business
 - Need to look forward at long-term goal, while taking realistic incremental steps forward for industry acceptance and adoption
- Industry-wide strategic alliance is smart business
 - Developing and sharing standards information can strengthen all our e-commerce efforts

“Even if you’re on the right track,
you’ll get run over if you just sit
there.” -- Will Rogers

Questions?