

# Click, Sign, Close

## How Electronic Mortgages are Reshaping Lending

FHLB Dallas and Magnolia  
Technologies



# Digital Transitions and Industry Adoption



**Legal  
Framework,  
Policy and/or  
Regulation**



**Requires  
industry  
agreement on  
standards and  
central  
infrastructure**



**Driven by costs,  
time required,  
and issues with  
paper**



**Security of  
Information  
reduces errors  
and fraud**

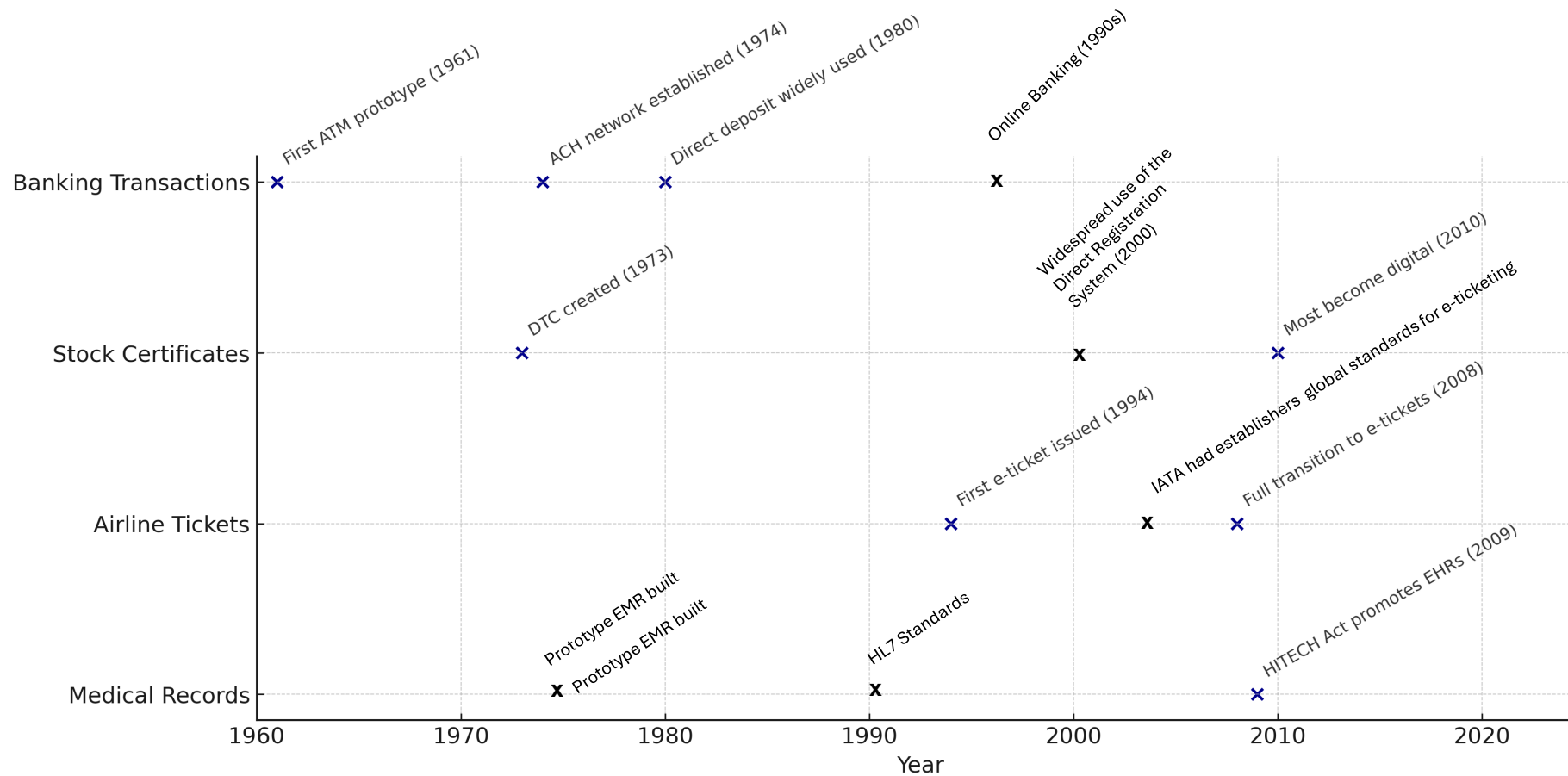


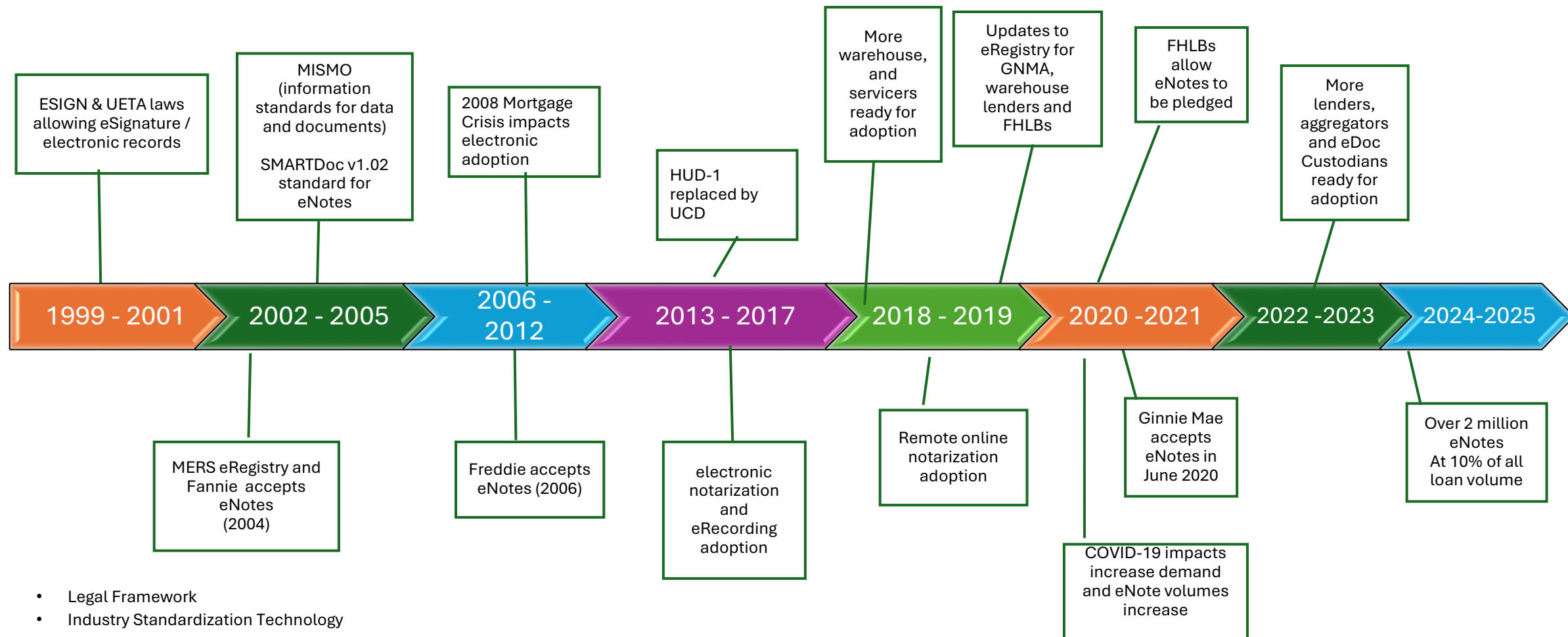
**Consumer  
acceptance and  
adoption**



**Typically spans  
decades before  
widespread use**

# Major Digital Transitions in Other Industries





- Legal Framework
- Industry Standardization Technology
- Acceptance

# Key Milestones for eMortgages

- Legal Framework
- Industry Standardization Technology
- Acceptance

# What Is an eMortgage?



A mortgage with an  
electronic promissory note  
(eNote)



Legally valid under  
eSignature Laws



Not a scanned PDF of a  
paper note

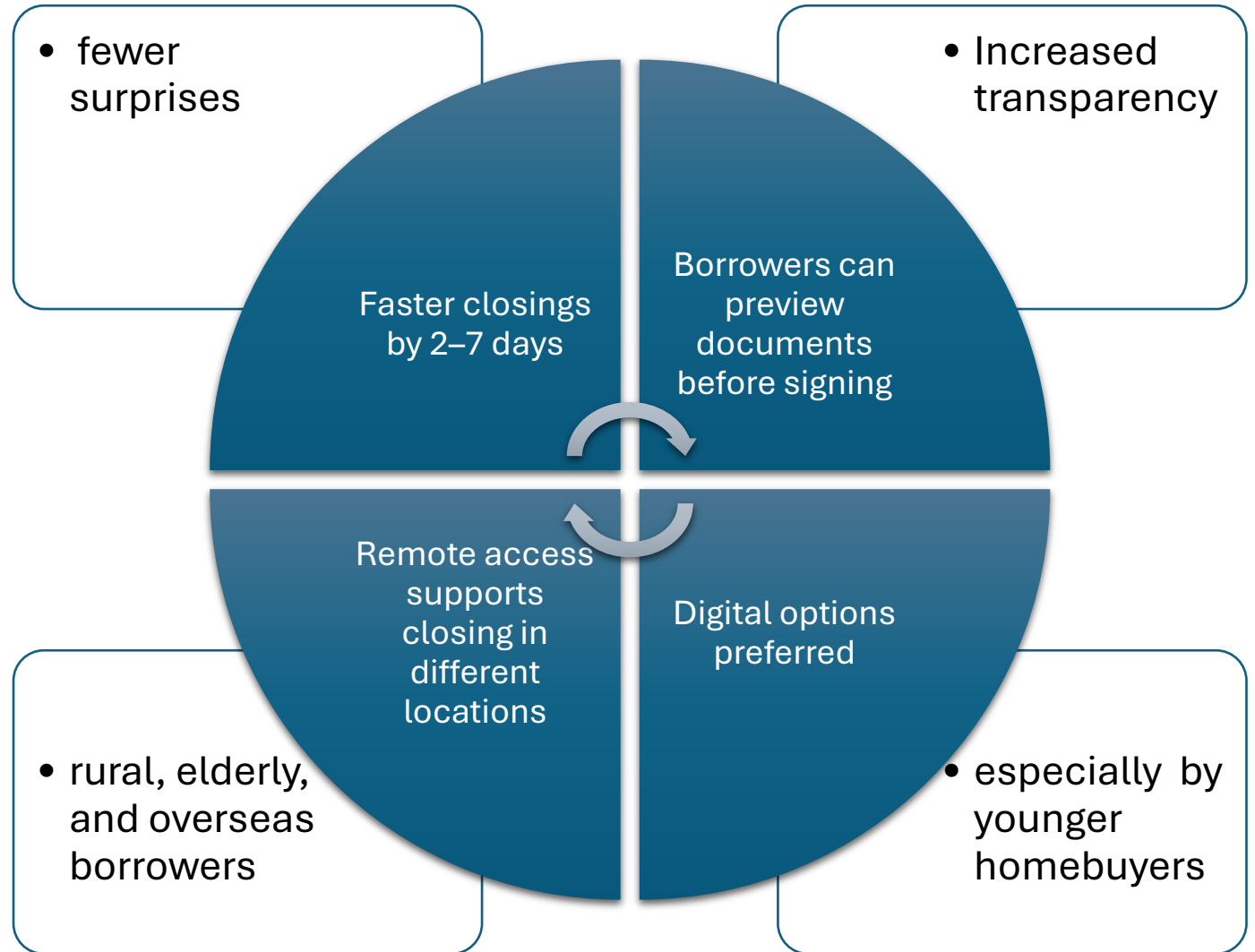


Accepted by FHLB

# Hidden Costs of Paper Closings

- Hidden Costs of Paper
  - Courier/shipping costs
  - Post-closing document errors
  - Missing or documents – lost eNotes
  - Risk of compliance penalties
- Cost Savings of going Electronic
  - Fannie Mae: \$400–\$700 saved per loan by fully digitizing
  - MBA & MISMO: \$200–\$500 saved through fewer errors and shipping
  - STRATMOR Group: Faster loan sales and lower warehouse costs
  - Freddie Mac: Up to 85% reduction in document handling costs

# Improved Customer Experience





# Let's check in!

Your Name  
Any Street, Anytown  
Tel: (000) 000-0000

1001

May 7 20 2025 09-765/432

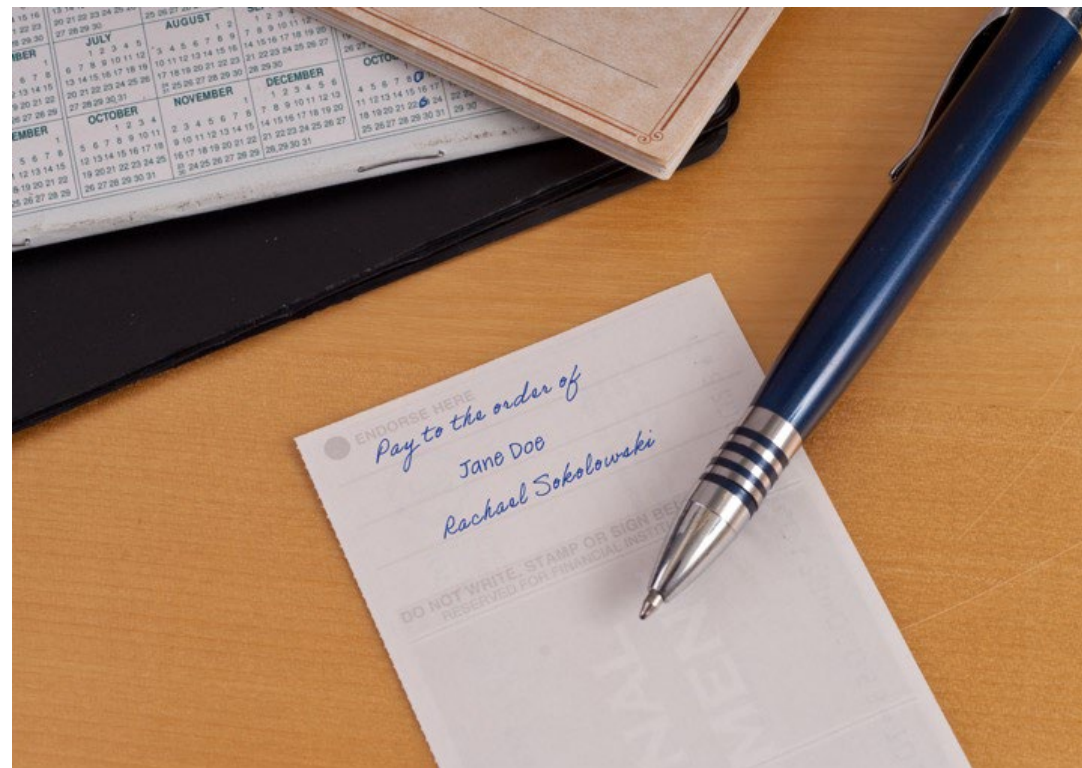
**PAY TO THE ORDER OF** Rachael Sokolowski \$ 120.00

One Hundred and twenty dollars and 00/100 cents DOLLARS

 Savings Bank  
Any Street, Anytown  
Tel: (000) 000-0000

MEMO Charlie Brown

⑆ 123456789⑆ 0987654321⑆ 1001⑆





# Why is the Promissory Note so Special?



Agreement containing an ***unconditional promise to pay*** money to another person on demand or at a specified time



By executing (signing) and delivering the note, the borrower agrees to repay the note according to its terms



Failure to repay the note as promised entitles the holder to act in foreclosure proceedings



There is one “original” paper note that is wet-ink signed

# How to Create an Electronic Promissory Note?

- Who is the "holder"?
  - Is there a "physical" holder?
- What does possession mean?
  - Can you possess an electronic document?
- When there are multiple electronic copies of the promissory note ...
  - Which is the "original"?
- How is Endorsement Handled?
  - How do you "sign" on the back of an electronic document?

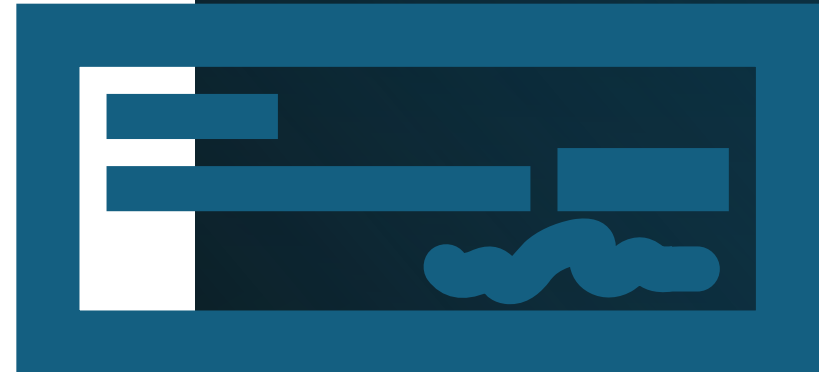
# Legal Framework

- Authorize the use of electronic records and signatures in many transactions where state and federal laws would have previously required paper documents
- UETA-- Uniform Electronic Transactions Act
- ESIGN --Electronic Signatures in Global and National Commerce Act



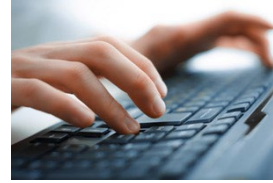
# eSignature Laws Created New Concepts to Replace Paper

- Define signing ceremony as a **PROCESS** – not an ink to paper event
- Define an ‘original’ in the electronic world
- Describe how to securely store and detect alteration
- Enable the electronic equivalent of a negotiable paper promissory note including concepts of “possession” and “endorsement”
- And guarantee that the eNote is just as enforceable against the borrower as its written counterpart

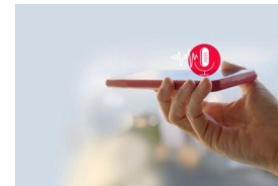


# Allows for different technologies ...

- Typed names
- A click
- Digitized picture of handwritten signature
- Biometric
- Audio
- Video
- Digital signature



MAGNOLIA TECHNOLOGIES, LLC  
By: Rachael Sokolowski  
Title: Rachael Sokolowski, President



## Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Michael Jones  
Digitally signed by Michael Jones  
DN: cn=Michael Jones, o=us,  
email=mjones@email.com, c=US  
Date: 2015.01.13 17:30:44 -06'00'

Applicant Signature

Date

Mary Stone  
Digitally signed by Mary Stone  
DN: cn=Mary Stone, o=us,  
email=mstone@email.com, c=US  
Date: 2015.01.13 17:31:07 -06'00'

Co-Aplicant Signature

Date

# Requires a signing ceremony that ...

- Authenticates the signer
- Presents specific disclosures right before signature capture (e.g., by clicking “I agree” I am indicating my intent to be bound to terms and conditions . . . )
- Obtains a consumer’s consent to sign electronically
- Obtains a confirmation of agreement
- Allows for the borrower to “opt-out” of signing electronically
- Maintains an audit log of events



# Authoritative Copy

- Electronic equivalent of the wet-ink signed original
- Because any copy of electronic record is identical to any other copy — no one copy of an electronic record can contain data that would identify it as the authoritative copy
- Some external mechanism is required to resolve the question of which of the copies of an electronic record is the authoritative copy





# Tamper Evidence, Retention, Location

- The Authoritative Copy must be retained, to meet compliance and regulatory requirements, in a secure digital vault or eVault
- It must be possible to determine the integrity of the document; it has not been altered or changed since signing
- The lender must be prepared to demonstrate that the Authoritative Copy, while in the lender's "control," has not been impermissibly altered since it was signed
- The eVault is an important component to enforceability

# The Electronic Promissory Note is a Transferable Record



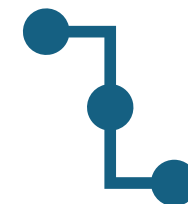
A single authoritative copy of the transferable record exists



The authoritative copy identifies the entity who would be the holder in the paper world  
“controller”



The authoritative copy is maintained by the controller or its designated custodian in an electronic Vault



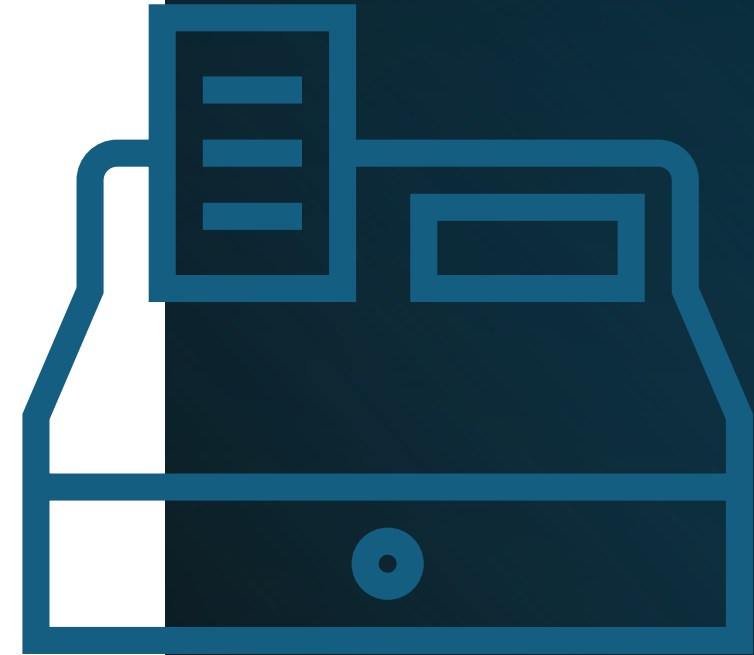
An external mechanism is required to resolve the question of which of the copies of an electronic record is the authoritative copy, where copy is stored and who is the controller

# How to meet the Requirements of the eSignature Laws?

- **eNote is originated and closed**
  - All borrowers have signed
- **Multiple parties can have copies in any number of eVaults:**
  - Lender
  - Title company
  - Servicer
  - Warehouse Lender
- **Which party has the legal rights to sell the eNote?**
  - Who is the controller
  - What copy is identified as the authoritative copy?
  - Where is the authoritative copy retained?
  - Are copies identified as copies?

# The Importance of a Registry

- Public ledger
  - System of record for transferable records
  - Defines
    - the location of the single authoritative copy
    - current controller
    - previous controllers of the transferable record
- The eNote is retained outside the registry itself in an eVault
- The mortgage industry has adopted the MERS eRegistry as an industry utility
- Complies with the requirements of the eSignature Laws
- The transferable record points to the MERS eRegistry
  - any party looking at a copy of the transferable record is on notice as to where to find the controller



# Why Use the MERS eRegistry?

- Industry process
- System of Record for life of loan
- An unregistered eNote presents legal and operational risks to lenders
  - How to verify the authoritative version?
  - Which party is the controller?
  - May not be enforceable in court
  - Not accepted by Investors and Secured Lenders
    - Disqualified from sale to Fannie Mae Freddie Mac, and other aggregators
    - Ginnie Mae will not allow issuance
    - Cannot be pledged to the FHLB

# eNote Provisions –Transferable Record

## (B)→Issuance of Transferable Record

I have signed this Electronic Note using my adopted Electronic Signature. By signing this Electronic Note using my adopted Electronic Signature, I am: (1) promising to pay the amount owed, as evidenced by this Electronic Note, to the Note Holder, and (2) agreeing that this Electronic Note is a valid, enforceable and effective Transferable Record issued by me to the Note Holder under the transferable records provisions of UETA and E-SIGN. By virtue of my agreements above, this Electronic Note is a Transferable Record.

# eNote Provisions –MERS eRegistry



## (C) Identification of Registry and Note Holder

After I issue this Electronic Note to the Note Holder, the Note Holder will register this Electronic Note in the Note Holder Registry. This Electronic Note will be registered in the Note Holder Registry operated by **MERSCORP Holdings, Inc., a Delaware corporation.** I agree that the Note Holder has the right, at any time to transfer the registration of this Electronic Note to another Note Holder Registry. The Note Holder Registry will contain the identity of the Note Holder and the location of the Authoritative Copy of this Electronic Note. I understand that I may request a copy of the Authoritative Copy of this Electronic Note from the Note Holder or the Note Holder's designee. The only copy of this Electronic Note that is the Authoritative Copy is the copy identified by the Note Holder named in the Note Holder Registry or the Note Holder's designee.





# Same Concepts, Different Terms

<b>Mortgage</b>	<b>eMortgage</b>
Negotiable Instrument	Transferable Record (“eNote”)
Original Note	Authoritative Copy of the eNote
Possession	Control
Investor/Holder	Controller
Custodian	Location
Vault	eVault
Endorsement	Transfer of Control
Chain of Endorsements	transferable Record Audit Trail of Controllers

# How to Prepare Documents for Electronic Signature?

Visual electronic  
representation of the  
document

Include the data  
contained in the  
document

Allow for different  
formats: amount in  
numerical and textual  
representations

Ability to  
electronically sign  
and notarize

Comply with federal  
and state laws

Provide tamper-  
evident security for  
integrity

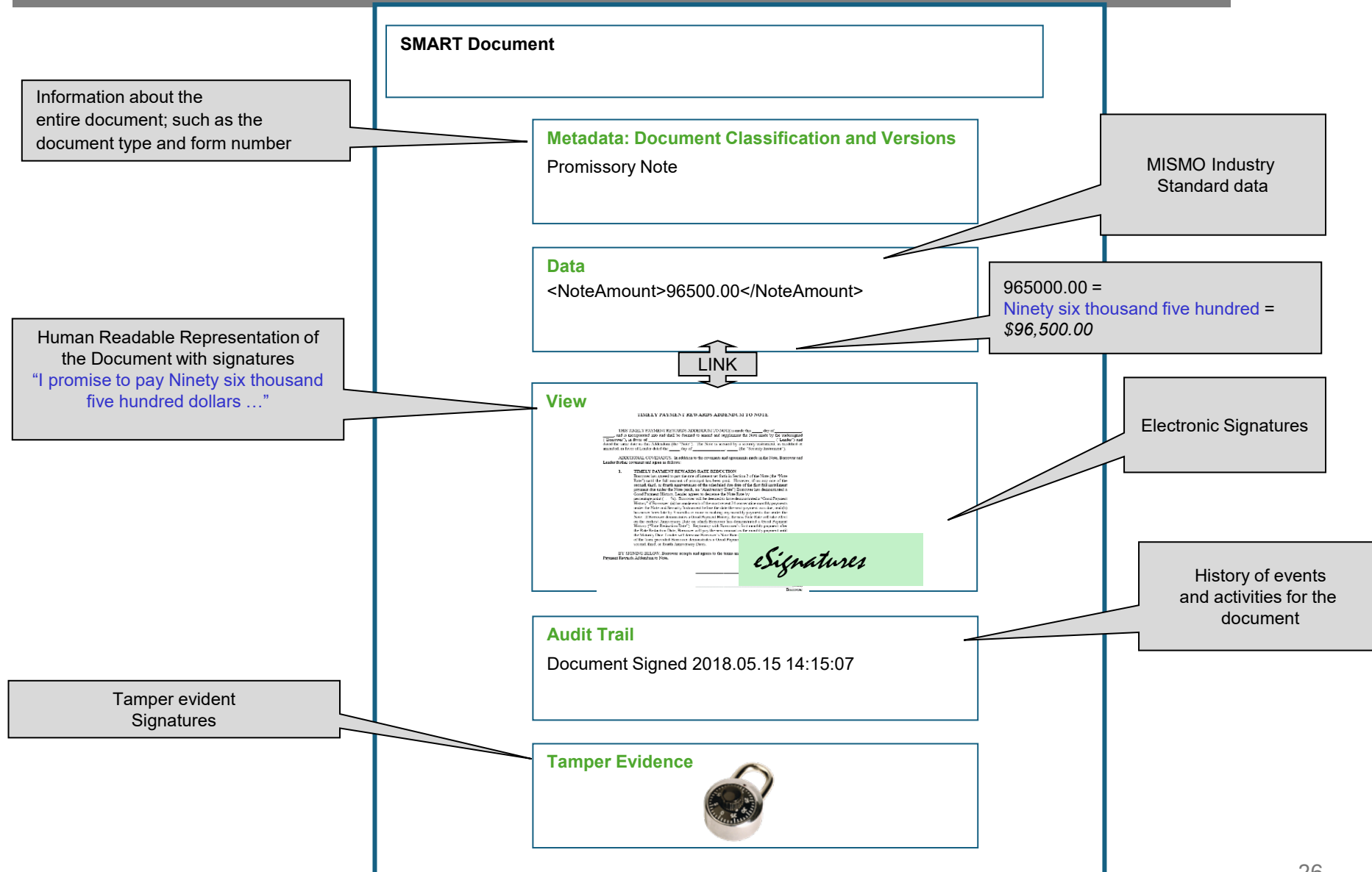
Log or record the  
changes in the  
document

# Industry Standards

- The MISMO SMART Doc was developed as an electronic document format to support the mortgage document lifecycle
- Locks together data, signatures and presentation in such a way that it can be automated to remove the need for 'stare and compare'
- Complies with state and federal laws governing real estate transactions and eSignature Laws (UETA and ESIGN)
- Required by investors and secured lenders for eMortgages
- Removes the need for stare and compare

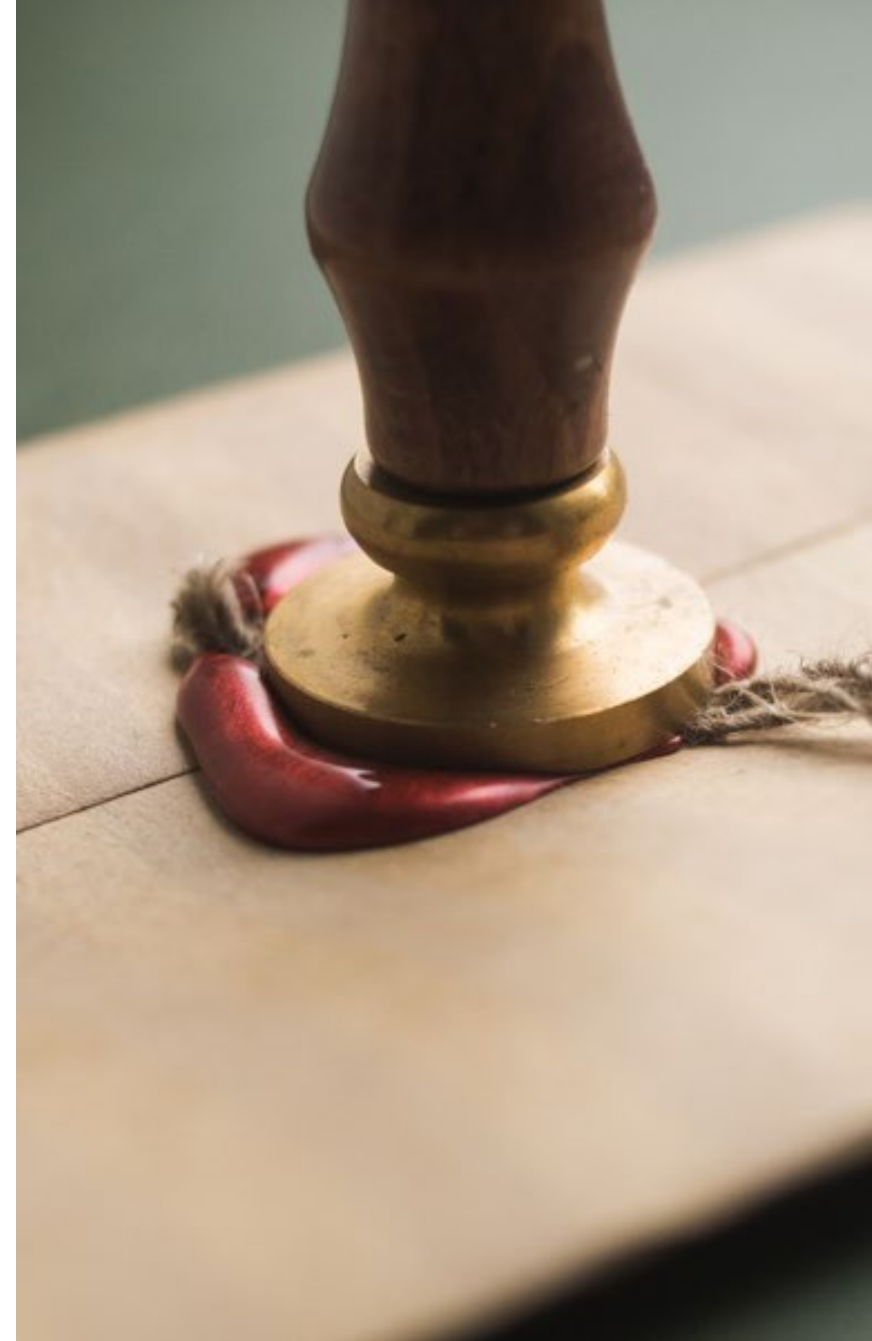


# MISMO SMART Documents



# Tamper Evident/Tamperseal Signature

- Wax seals were used
  - long before adhesive envelopes were invented
  - to prevent a letter and or document from being tampered with or opened by unwelcome, prying individual
  - to convey authority and identity, as seals were often stamped with initials, symbols from a family crest, or other unique identifying marks
- A Tamper Evident Signature is a special case of an electronic signature, a digital signature
- The Tamper Seal is used to provide
  - Document integrity
  - Identification of the person/application/system that created the Tamperseal
- A tamperseal is required for eNotes



# How to Close Electronically

- An eClosing takes place when closing documents are signed electronically
- Not all documents must be signed electronically, some documents may be printed and signed on paper
- Note that eClosings produce eMortgages only if the promissory note is signed electronically
- While not all eClosings produce eMortgages, all eMortgages are the product of eClosings



# Typical Hybrid eClosing Today

- In person closing with closing agent
- Identity verification same as current process
- Borrower Electronically signs closing documents
- Borrower Electronically signs eNote
- Borrower and Notary wet-ink sign and notarize documents
- Lender (or title company) eRecords



# Electronic Notarization

- Permits electronic notary signature
  - Eliminates requirement for physical stamp or seal
- Preserves any other features of notarization required by state law
  - Personal appearance, Confirmation of Identity, Awareness, Freedom from Duress
- Patchwork of differing rules and laws on a state-by-state basis
  - Not all states allow electronic Notarization
- Types
  - Electronic Notarization (eNotarization):
    - Signer and notary are physically present
    - Documents signed and notarized electronically
  - Remote Online Notarization (RON):
    - Notary and signer connect via audio-visual tech
    - Full notarization occurs remotely

# eRecording



**E-recording is the process of securely recording documents received via the Internet that would otherwise arrive by express mail or courier service.**

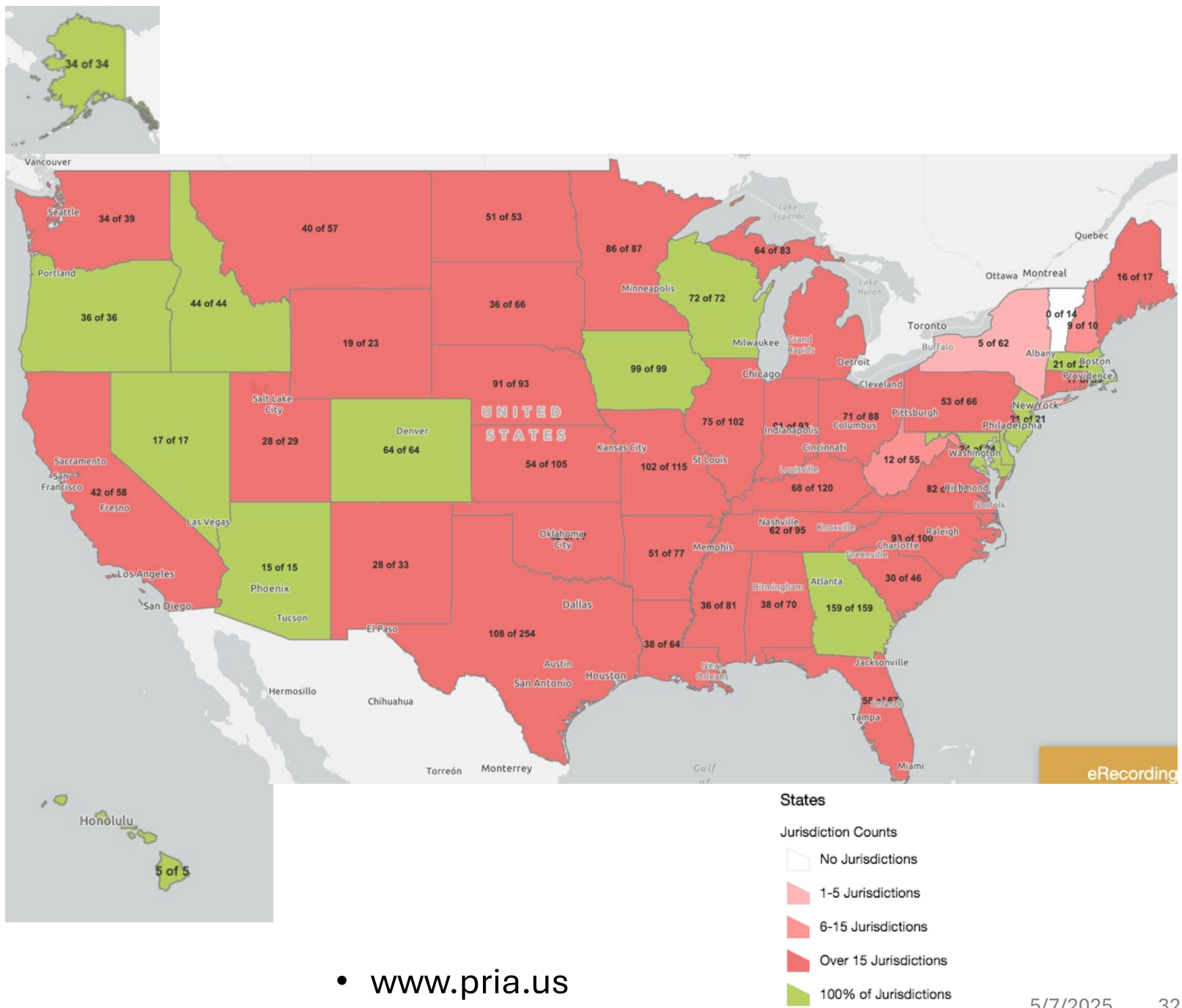


**Not all recording jurisdictions accept electronic documents**



**Some jurisdictions may be unsure if the statutes allow for recording of electronically notarized documents**

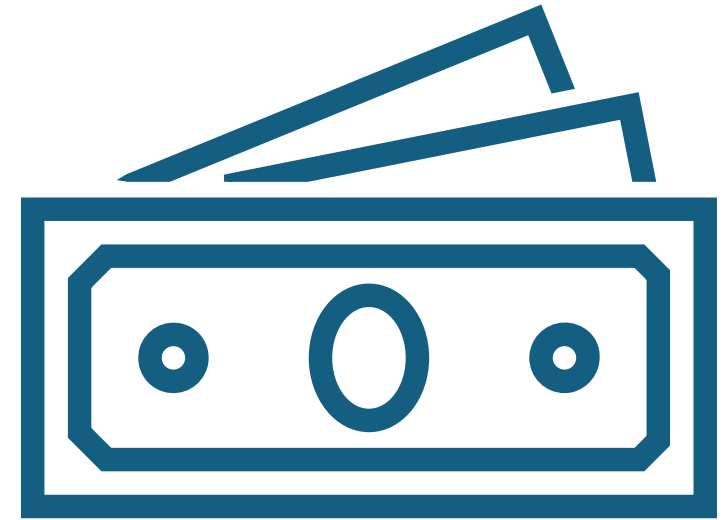
2528 eRecording  
Jurisdictions -- 70%  
  
Population Coverage  
-- 95.5%



• [www.pria.us](http://www.pria.us)

# Servicing “eMortgages”

- Servicers and Subservicers must be approved for eMortgages
- Preparing to service eMortgage loans has both technology requirements and operational impacts
  - Tracking eMortgage loans
  - eVaults/MERS® eRegistry
- Operational Impacts for life of loan events
  - Corrections
  - Payoff processing
  - Assumptions
  - eNote modifications
  - eNote foreclosures
  - Servicing transfers



# Steps to eMortgages



Understand the  
eSignatures  
Laws/Investor  
Requirements



Create Electronic  
Documents



Perform an eSignature  
process, including the  
promissory note



eClose the loan,  
eNotarize and eRecord



Storage in an eVault



Use the MERS eRegistry



Meet Investor/Secured  
Lender Requirements



Service the eMortgage for  
the life of loan

# Where are we on the journey?

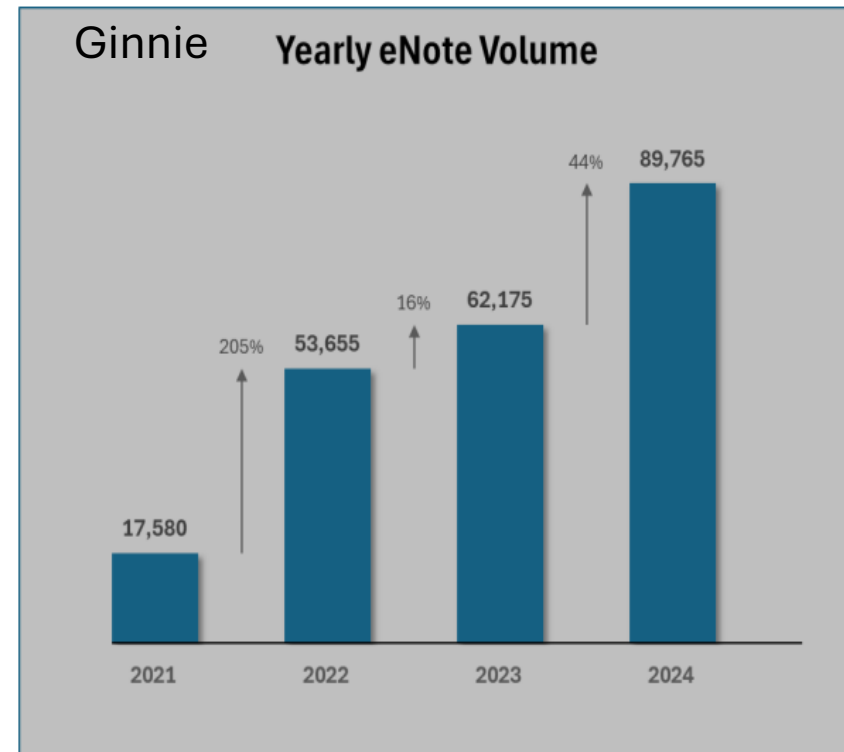
- Market Research Inc. reported that the eMortgage market is anticipated to witness considerable growth opportunities to 2030
- Despite market downturn, eNote volumes remain steady



# GSE Volumes

Use of eNotes in the mortgage industry has been increasing in recent years and account for a significant market share despite a decrease overall in mortgage originations

- Fannie
  - Roughly 20% of loans are electronic
  - Report that volumes continue to increase
- Freddie:
  - Continuing to see steady
  - momentum in eNote adoption
  - 11.3% eNote origination



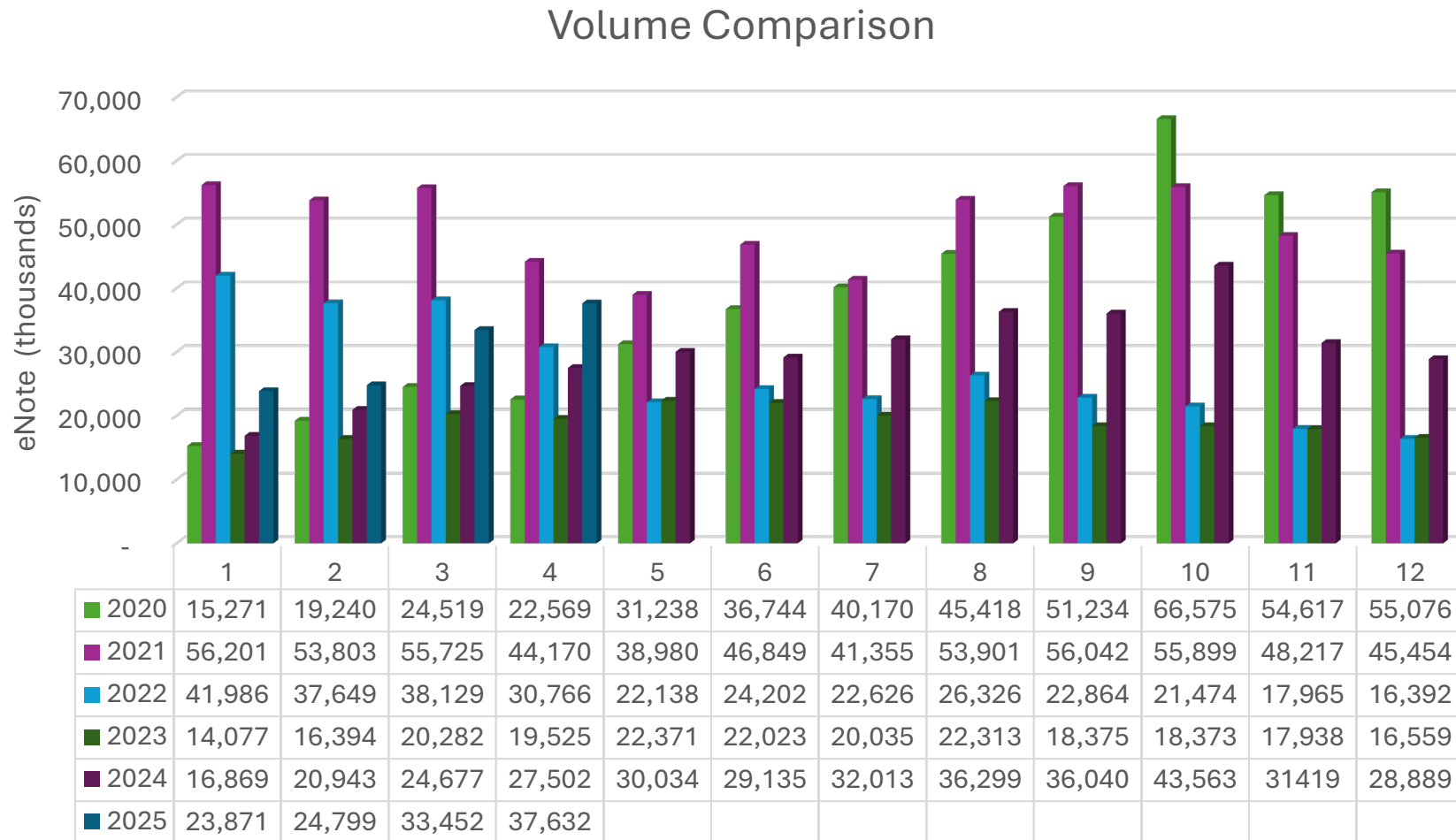


# MERS eNote Volume Trajectory vs. Market

- Only accounts for registrations on the MERS MOM System vs MERS eNote eRegistry
- MERS does not split volumes for purchase versus refinance
- MERS eRegistry integrations went up significantly in 2022 even while the market was plummeting



# eNote Volume Comparison 2020 -2025



# Consideration: It's a Journey

- Moving to a fully digital process may have speedbumps and forks in the road and it is important to understand how digital a mortgage can be or should be for your organization
- There are several factors that will influence the level a loan's e-eligibility:
  - recording jurisdiction capabilities
  - eNotarization regulations
  - settlement/title agents' readiness
  - investor acceptance
- A phased and hybrid approach often works well to incrementally reach the goal of a paperless closing.
- Some think moving to 'e' is an all or nothing proposition; it is not

# What is ahead on your journey to digitally transform mortgages?

- Overcoming the perception that it is less risky to use printed documents
- Embracing a hybrid environment
- Creating an attractive borrower application and approval and carrying that through for fully digitize the closing process with a seamless consumer experience
- Integrating systems and processes with an eVault
- Deciphering diverse state and local regulations, and understanding
- Understanding investor and regulatory requirements



# Key Takeaways for Lenders

- To ensure legal enforceability and market acceptance:
  - Use SMART Doc Standards
  - Securely store eNotes in an eVault
  - Register all eNotes on the MERS eRegistry
  - Align origination processes with investor and FHLB requirements
- Unregistered eNotes are ineligible for pledging or investor delivery
  - Breaks chain of control and compromises asset value
- Compliance with the eSignature Laws ensures enforceability
  - a scanned copy of a paper, wet-ink signed promissory note is not an original and is not an eNote
  - An electronically signed promissory note is not a transferrable record unless there is a reliable means to determine the controller and location

# Parting Thoughts ...

- Change is hard and it may seem far easier to use paper
- Say I think I can ... Having the power of determination is key for reaching any goal
- The time has come to turn on your 'e'-engine and started moving on the right track!

