

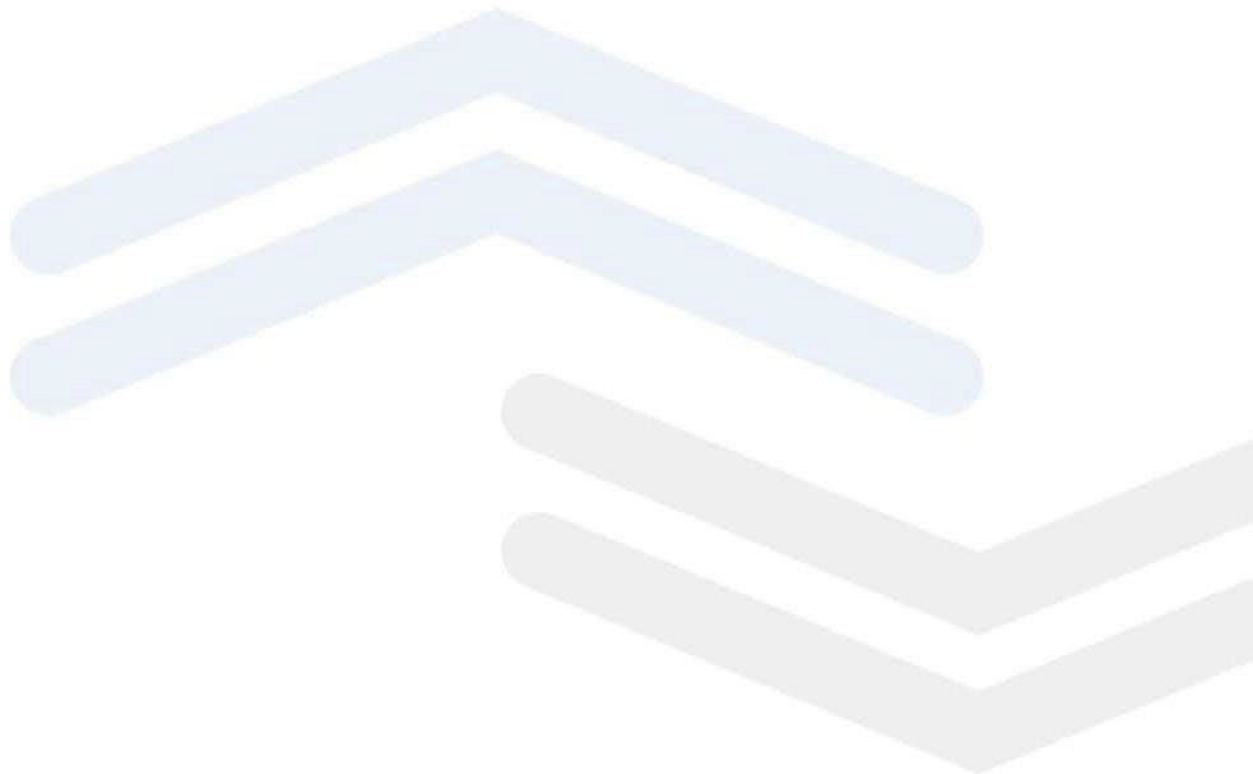


Member driven.
Community focused.

Digitally Executed Promissory Notes

Federal Home Loan Bank of Dallas

Effective October 1, 2026



Digitally Executed Promissory Notes (DEPN)

Requirements and Guidelines

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I. Introduction

Federal Home Loan Bank of Dallas (FHLB Dallas or the Bank) began accepting Residential 1-4 family first mortgages and amortizing second mortgage eNotes as pledged collateral in 2020. The requirements for residential eNotes are being incorporated into this document without change. The Bank is expanding its digital collateral footprint by expanding the types of real estate related assets where the promissory note can be digitally executed and pledged as collateral. Collectively, the Bank will refer to expanded categories along with the existing residential categories as a Digitally Executed Promissory Note (DEPN). A DEPN is FHLB Dallas' umbrella term for any promissory note that is created, signed and stored electronically and then pledged to FHLB Dallas as collateral. A DEPN can take one of two forms: an eNote or a Digital Note, and the legal and technical requirements differ materially between them:

- **eNote Framework**—An eNote is a Transferable Record under ESIGN¹ and/or UETA², controlled through the MERS eRegistry and stored in an approved eNote vault. FHLB Dallas allows eNotes for pledging:
 - Residential 1-4 family first mortgages
 - Closed end second mortgages
- **Digital Note Framework**—A Digital Note is not a Transferable Record, but rather a digital signed note that the Member, FHLB Dallas and a Securities Intermediary agree to treat as a financial asset under Article 8 of the UCC. It is stored in Securities Account under the control of FHLB Dallas. FHLB Dallas allows Digital Notes for pledging:
 - Commercial Real Estate (CRE)
 - Multifamily (MF)
 - Agricultural (Ag)
 - Home Equity Line of Credit (HELOC) collateral

Both DEPN types require:

1. ESIGN/UETA-compliant consent and signing process at origination
2. An audit trail covering the full loan life cycle
3. Tamper-evident sealing of signed records
4. A clause giving the note holder the right to convert the DEPN to paper

Members will be asked to execute an Addendum to their Advances and Security Agreement prior to pledging DEPNs. FHLB Dallas always retains sole discretion to modify these requirements and to discount, haircut or reject any pledged collateral.

¹ ESIGN (Electronic Signatures in Global and National Commerce Act) is a U.S. federal law (15 U.S.C. 7001 et seq.; enacted 2000) dealing with electronic signatures and related topics.

² UETA (Uniform Electronic Transactions Act) is a model state law (drafted in 1999, adopted in 49 states plus DC/territories) dealing with electronic signatures and related topics.

II. Eligibility Requirements

A. eNotes

1. In order to be acceptable as pledged collateral, an eNote must be a valid and enforceable Transferable Record pursuant to UETA, ESIGN or otherwise applicable state law.
2. The Electronic Record being signed must be clearly identified and clearly display the Borrower's name.
3. An eNote must contain the eNote Transferable Record Clause as the last numbered section of the eNote before the signature line as noted below: This exact clause must appear as the eNote's final numbered section, immediately before the signature line. Minor formatting artifacts from the source PDF have been cleaned up for readability; confirm current wording with FHLB Dallas before finalizing your eNote template.

Required Transferable Record Clause

ISSUANCE OF TRANSFERABLE RECORD; IDENTIFICATION OF NOTE HOLDER; CONVERSION FROM ELECTRONIC NOTE TO PAPER-BASED NOTE

(A) I expressly state that I have signed this electronically created Note (the "Electronic Note") using an Electronic Signature. By doing this, I am indicating that I agree to the terms of this Electronic Note. I also agree that this Electronic Note may be Authenticated, Stored and Transmitted by Electronic Means (as defined in subsection (F) below), and will be valid for all legal purposes, as set forth in the Uniform Electronic Transactions Act, as enacted in the jurisdiction where the Property is located ("UETA"), the Electronic Signatures in Global and National Commerce Act ("ESIGN"), or both, as applicable. In addition, I agree that this Electronic Note will be an effective, enforceable and valid Transferable Record (as defined in subsection (F) below) and may be created, authenticated, stored, transmitted and transferred in a manner consistent with and permitted by the Transferable Records sections of UETA or ESIGN.

(B) Except as indicated in subsections (D) and (E) below, the identity of the Note Holder and any person to whom this Electronic Note is later transferred will be recorded in a registry maintained by MERSCORP Holdings, Inc., a Delaware corporation, or in another registry to which the records are later transferred (the "Note Holder Registry"). The authoritative copy of this Electronic Note will be the copy identified by the Note Holder after loan closing but prior to registration in the Note Holder Registry. If this Electronic Note has been registered in the Note Holder Registry, then the authoritative copy will be the copy identified by the Note Holder of record in the Note Holder Registry or the Loan Servicer (as defined in the Security Instrument) acting at the direction of the Note Holder, as the authoritative copy. The current identity of the Note Holder and the location of the authoritative copy, as reflected in the Note Holder Registry, will be available from the Note Holder or Loan Servicer, as applicable. The only copy of this Electronic Note that is the authoritative copy is the copy that is within the control of the person identified as the Note Holder in the Note Holder Registry (or that person's designee). No other copy of this Electronic Note may be the authoritative copy.

(C) If subsection (B) above fails to identify a Note Holder Registry, the Note Holder (which includes any person to whom this Electronic Note is later transferred) will be established by, and identified in accordance with, the systems and processes of the electronic storage system on which this Electronic Note is stored.

(D) I expressly agree that the Note Holder and any person to whom this Electronic Note is later transferred shall have the right to convert this Electronic Note at any time into a paper-based Note (the "Paper-Based Note"). In the event this Electronic Note is converted into a Paper-Based Note, I further expressly agree that the Paper-Based Note will be an effective, enforceable and valid negotiable instrument governed by the applicable provisions of the Uniform Commercial Code in effect in the jurisdiction where the Property is located; my signing of this Electronic Note will be deemed issuance and delivery of the Paper-Based Note; I intend that the printing of the representation of my Electronic Signature upon the Paper-Based Note from the system in which the Electronic Note is stored will be my original signature on the Paper-Based Note and will serve to indicate my present intention to authenticate the Paper-Based Note; the Paper-Based Note will be a valid original writing for all legal purposes; and upon conversion to a Paper-Based Note, my obligations in the Electronic Note shall

automatically transfer to and be contained in the Paper-Based Note, and I intend to be bound by such obligations.

(E) Any conversion of this Electronic Note to a Paper-Based Note will be made using processes and methods that ensure that: (i) the information and signatures on the face of the Paper-Based Note are a complete and accurate reproduction of those reflected on the face of this Electronic Note (whether originally handwritten or manifested in other symbolic form); (ii) the Note Holder of this Electronic Note at the time of such conversion has maintained control and possession of the Paper-Based Note; (iii) this Electronic Note can no longer be transferred to a new Note Holder; and (iv) the Note Holder Registry (as defined above), or any system or process identified in subsection (C) above, shows that this Electronic Note has been converted to a Paper-Based Note, and delivered to the then-current Note Holder.

- *(F) The following terms and phrases are defined as follows: (i) “Authenticated, Stored and Transmitted by Electronic Means” means that this Electronic Note will be identified as the Note that I signed, saved, and sent using electrical, digital, wireless, or similar technology; (ii) “Electronic Record” means a record created, generated, sent, communicated, received, or stored by electronic means; (iii) “Electronic Signature” means an electronic symbol or process attached to or logically associated with a record and executed or adopted by a person with the intent to sign a record; (iv) “Record” means information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form; and (v) “Transferable Record” means an Electronic Record that: (a) would be a note under Article 3 of the Uniform Commercial Code if the Electronic Record were in writing and (b) I, as the issuer, have agreed is a Transferable Record.*

B. Digital Notes

1. Every party must agree to use Electronic Records and Electronic Signatures in place of written documents and manual signatures. Consumer transactions, including HELOCs, must also follow the ESIGN Consumer Consent Process.
2. The Electronic Record must produce a visible symbol evidencing the signer's Electronic Signature on the signature line. The signing process must establish the signer's intent to sign and attach the Electronic Signature with the Electronic Record being signed. There must be Ongoing Authentication of the participants reviewing and/or signing the Electronic Record.
3. Loan documentation must include a borrower consent clause covering: the holder's right to convert the note to paper; that electronic signing/delivery also constitutes signing/delivery of the paper note upon conversion; that the electronic signatures remain legally valid and binding once evidenced on paper; and that the borrower's obligations transfer to the paper note upon conversion. An example of a valid consent clause is as follows:

I expressly agree that the holder of this Digital Note and any person to whom this Digital Note is later transferred shall have the right to convert this Digital Note at any time into a physical, paper-based note (the “Paper-Based Note”). In the event this Digital Note is converted into a Paper-Based Note, I further expressly agree that the Paper-Based Note will be an effective, enforceable and valid debt obligation under the applicable law in the relevant jurisdiction; my signing of this Digital Note will be deemed execution and delivery of the Paper-Based Note; I intend that the printing of the representation of my Electronic Signature upon the Paper-Based Note from the system in which the Digital Note is stored will be my original signature on the Paper-Based Note and will serve to indicate my present intention to authenticate the Paper-Based Note; the Paper-Based Note will be a valid original writing for all legal purposes; and upon conversion to a Paper-Based Note, my obligations in the Digital Note shall automatically transfer to and be contained in the Paper-Based Note, and I intend to be bound by such obligations.

4. The originator must retain records and be able to prove the integrity and reliability of Electronic Records have been preserved since they were first presented or signed, logically associated with identifiers usable both in the transaction system and by other systems for management and storage.
5. Electronic modifications, extensions, and changes in terms are accepted only if signed electronically and associated/stored with the original Digital Note. Digital Notes with wet-signed paper modifications, extensions, or changes in terms are ineligible.

C. Ineligibility Factors DEPNs

- An imaged version of a wet-ink signed paper promissory note is not an acceptable eNote or Digital Note.
- The eSignature Laws permit eSignatures in various forms, including biometrics (such as fingerprint, voice, facial or retinal recognition systems) and video and/or audio recordings. At this time, an eNote or Digital Note that is electronically signed by audio or video recording or by biometric means (such as fingerprint, voice, facial or retinal recognition) is ineligible to qualify as collateral.

III. Pledging Requirements

Eligible DEPNs may be pledged by members that have executed the Bank's Advances and Security Agreement and any applicable addenda.

For eNotes, members may pledge eligible eNotes that satisfy the requirements in Section II, to FHLB Dallas in the ordinary course of business once they have obtained approval for an eVault, and established a relationship with the MERS® eRegistry.

Digital Notes may be pledged only through a triparty digital collateral control agreement, or its equivalent, and with a Digital Custodian—also referred to as a “Securities Intermediary”—responsible for maintaining the Authoritative Copies of the Digital Notes. Once a Securities Intermediary has been selected, the applicable agreements are in place, and the Digital Notes have been executed in accordance with the requirements established in this document, they may be pledged to FHLB Dallas in the ordinary course of business. Only Digital Notes originated after execution of the triparty agreement are eligible for pledging.

The eVault vendor and Digital Custodian must also satisfy the specific record-management requirements outlined below to ensure the integrity, reliability, and authenticity of DEPNs pledged to FHLB Dallas. Members should use the same reporting and collateral-status method—Blanket, Listing or Custody—for pledging DEPNs that they use for pledging paper loans.

Additional requirements for pledging specific types of DEPNs are outlined below.

A. Pledging eNotes

1. Execute the eNotes Addendum to the existing Advances and Security Agreement.
2. If not a member of MERS, become a member and sign the MERS® eRegistry Addendum. If already a MERS® member, execute the MERS® eRegistry Addendum. Acknowledge FHLB Dallas as an eligible Secured Party in your MERS® profile.
3. Complete member eVault review, selection and connectivity testing.
4. Identify the eNote(s) you wish to pledge. Ensure the assets meet eligibility, operational and all underwriting requirements.
5. Add FHLB Dallas as a Secured Party for the eNote(s) in the MERS® eRegistry.
6. Use MERS® eDelivery to transmit the eNote(s) to your approved eVault.

B. Pledging Digital Notes

1. Execute the Digital Notes Addendum to the existing Advances agreement.
2. Member establishes a Securities Account with a third-party custodian that meets the requirements of the Securities Intermediary outlined above.
3. A tri-party digital collateral control agreement, or equivalent, is executed between the Member, FHLB Dallas and the Securities Intermediary/Digital Custodian.
4. Member and Securities Intermediary administer implementation and conduct testing, including testing by FHLB Dallas.
5. After successful testing, FHLB Dallas turns on the collateral type codes specific to Digital Notes.
6. Member originates Digital Notes as Electronic Records which meet all the requirements outlined in the “Origination Requirements” section above.
7. Member pledges the Digital Notes as collateral by depositing them into the triparty Securities Account.

IV. DEPNs System Requirements/Technical Standards

A. eNotes System Requirements/Technical Standards

1. eNotes

- In order to be acceptable as pledged collateral, an eNote must be a valid and enforceable Transferable Record.
- The Electronic Record being signed must be clearly identified and clearly display the Borrower's name and must require the Borrower to take action to initiate the eSignature.
- The Electronic Record being signed must be individually presented to the Borrower for review and electronic signing. A single eSignature cannot be applied to multiple Electronic Records.
 - The human readable view of the eNote should not contain any data that is sensitive, personal and identifying information such as a Social Security Number (SSN).
- Members/Shareholders must ensure that the Borrower is aware of the legal consequences of using an eSignature.
 - *Note: The eSignature Laws permit eSignatures in various forms, including biometrics (such as fingerprint, voice, facial or retinal recognition systems) and video and/or audio recordings. At this time, an eNote that is electronically signed by audio or video recording or by biometric means (such as fingerprint, voice, facial, or retinal recognition) is ineligible to qualify as collateral.*
- To ensure that the eNote is a recognized 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/Shareholder is responsible for determining that notarization is performed in accordance with and is legally valid under the laws and regulations of the state in which the notarization is performed.*
 - *Note: An imaged version of a wet-ink signed paper promissory note is not a Transferable Record or an eNote.*
- An eNote must contain the eNote Transferable Record Clause as the last numbered section (Fannie Mae/Freddie Mac Uniform Note Section 11, or Section 12 in the case of ARM eNotes) of the eNote before the signature line as noted in Appendix B of this document.
- The Mortgage File Documents for eNotes pledged may contain paper and electronic documents, so long as Member/Shareholder maintains records that cross-reference the paper and electronic documents.
- The eNotes eClosing System must distinguish the display Authoritative Copy as the original and not as a copy of the Authoritative Copy. The eNote Vault screen on which the Authoritative Copy of the eNote appears must clearly and conspicuously state that the viewer is viewing the Authoritative Copy.
- The Mortgage File Documents for eNotes pledged may contain paper and electronic documents, so long as Member/Shareholder maintains records that cross-reference the paper and electronic documents.

2. eVault

For pledged eNote collateral, Member/Shareholders must securely store all eNotes in an eNote Vault that has been reviewed, approved, and certified by FHLB Dallas. Member/Shareholder must execute the necessary legal agreement(s) with the FHLB Dallas and complete the required initial checks to ensure compatibility with FHLB Dallas' eNote Vault. The eNote Vault is the entity that maintains the Authoritative Copy of the eNote, and any electronic documents that modify the terms of the eNote (Location).

- The Location may vary based upon Member/Shareholder organization type, financial condition, risk rating, collateral quality and collateral availability.
- All eNotes and other Electronic Records, regardless of format, must have no licensing conditions that would prohibit, limit, or inhibit the FHLB Dallas', any assignee of the FHLB Dallas or the purchaser of a liquidated portfolio of eNotes, from using the eNote and other Electronic Records for any customary business purpose. In addition, the FHLB Dallas shall not be required to pay any royalties or any other fees for their use of eNotes and Electronic Records.
- The eNote Vault used by the Member/Shareholder must preserve the eNote and other electronic documents that relate to pledged collateral for the life of loan plus seven years.
- The eNote Vault used by the Member/Shareholder must have the capability to transfer eNotes and any other Electronic Mortgage File Documents in the eNote Vault to another eNote Vault using MERS eDelivery or by other means as mutually approved in advance by the Member/Shareholder and the FHLB Dallas.
- The eNote Vault must interface with the MERS eRegistry, and every related third party (servicer, sub-servicer, Location) must be set up correctly in both MERS and the eNote Vault.
- Store the Authoritative Copy until pledged and periodically reconcile Vault records against the MERS eRegistry.
- Validate the tamper-evident seal on intake and periodically thereafter, with audit proof available on request; verify DTD/schema compliance before accepting documents.
- Support user authentication, malware/firewall protections, and logging of all seal validations.
- Suggest using the same standard as eClosing systems — NIST/FIPS 140-2, minimum SHA-256 hash, 2048-bit RSA/128-bit AES for TLS, and multifactor authentication.

3. eRegistry

For eNotes to qualify as collateral, the FHLB Dallas currently requires use of the MERS eRegistry and members must follow the following protocols:

- The Member/Shareholder must execute the necessary agreements with MERS to be an active participant in the MERS eRegistry.
- eNotes must be registered within one business day of the closing date, issued a MIN (Mortgage Identification Number), and establish the FHLB Dallas as an eligible Secured Party for as long as the loan is pledged as collateral.
 - *Note: The Secured Party is the entity named on the MERS eRegistry that has been assigned or granted a security interest in the eNote by the Controller.*
- The Member/Shareholder must be identified as the Controller of the eNote in the MERS eRegistry.
- The level of FHLB Dallas' control is exercised over changes to MERS entities, location, data or status, with regards to pledged eNotes, may vary based upon Member/Shareholder's pledging status, organization types, financial condition, risk rating, collateral quality and collateral availability.

- Changes to Controller, Location, or Servicer, deactivations, conversions to paper, and registry transfers are governed by your tri-party agreement with MERS and FHLB Dallas and may require FHLB Dallas notification or approval.
- If a DBA is used on the eNote, the Member/Shareholder's legal entity name must also appear on the face of the eNote, and the initial MERS eRegistry registration must reflect the legal entity name as Controller.

4. Additional Considerations

Member/Shareholder must notify FHLB Dallas before transferring servicing or document custody and update the MERS eRegistry accordingly. Additional agreements or compatibility testing may be required. Third parties involved with the process of the eNotes to be pledged must also be set up in the Member/Shareholder's MERS eRegistry profile in MERS and within the eNote Vault application. This includes servicers and sub-servicer.

- When using a third-party servicer, the servicer must have a FHLB Dallas-approved eNote Vault or have a third-party arrangement with a custodian or servicer that is holding eNotes on the member's behalf in an approved eNote Vault to have the ability to perform MERS eRegistry transactions, requiring entity is an active MERS eRegistry member with eDelivery connectivity. The FHLB Dallas may need access to the servicer's eNote Vault and/or servicing data while collateral is pledged. The servicer must maintain the status of the eNotes on the MERS eRegistry.
- The servicer must be able to identify all pledged eNotes, keep the MERS eRegistry current (Controller, Secured Party, Location), and maintain documented eNote servicing procedures.
- A pledged eNote may never be converted to a paper note without FHLB Dallas's prior specific, express written consent. An unauthorized conversion makes the loan ineligible as eNote collateral.

B. Digital Notes System Requirements/Technical Standards

1. Digital Notes

- Every party must agree to use Electronic Records and Electronic Signatures in place of written documents and manual signatures. Consumer transactions, including HELOCs, must also follow the ESIGN Consumer Consent Process.
- Transaction participants must have authority to engage in the transaction and make agreements, which may be established through current practices or through supporting certificates or resolutions that may be executed and delivered electronically.
- The Electronic Record must produce a visible symbol evidencing the signer's Electronic Signature on the signature line. The signing process must establish the signer's intent to sign and attach the Electronic Signature with the Electronic Record being signed. There must be Ongoing Authentication of the participants reviewing and/or signing the Electronic Record.
- The signing process must create and preserve evidence of who signed sufficiently to enforce the record against that signer.
- Sending and receiving Digital Notes must follow the requirements for sending and receiving Electronic Records under UETA.
- Loan documentation must include a borrower consent clause covering: the holder's right to convert the note to paper; that electronic signing/delivery also constitutes signing/delivery of the paper note upon conversion; that the electronic signatures remain legally valid and binding once evidenced on paper; and that the borrower's obligations transfer to the paper note upon conversion.
- The originator must retain records and be able to prove the integrity and reliability of Electronic Records have been preserved since they were first presented or signed, logically associated with identifiers usable both in the transaction system and by other systems for management and storage.
- Counterparties must have the opportunity to retain copies of the documents, including a fully executed copy bearing the lender's signature.
- Member must establish a Securities Account with a third-party custodian that meets the Securities Intermediary requirements below.
- A tri-party digital collateral control agreement (or equivalent) must be executed between the Member, FHLB Dallas, and the Securities Intermediary.
- Member and Securities Intermediary must implement and test the setup, including testing with FHLB Dallas.
- After successful testing, FHLB Dallas will turn on the collateral type codes specific to Digital Notes.
- Member will originate Digital Notes as Electronic Records meeting all the requirements in this document.
- Member will pledge the Digital Notes as collateral by depositing them into the tri-party Securities Account.
- Once in the Securities Account, Digital Notes can be pledged to FHLB Dallas in the normal course of business, using the same reporting method the Member uses for paper loans.
- Electronic modifications, extensions, and changes in terms are accepted only if signed electronically and associated/stored with the original Digital Note. Digital Notes with wet-signed paper modifications, extensions, or changes in terms are ineligible.

2. Securities Intermediary

- Digital Notes are not Transferable Records, instead, FHLB Dallas perfects and controls Digital Note collateral under as financial assets under the UCC Article 8 framework,

using a Securities Account held with a third-party Securities Intermediary. Note that this is a distinct legal and operational structure from the eNote framework as discussed in this guide.

- Must be integrated with, or have an API with the origination signing tool, and be able to accept electronically deposited Digital Notes immediately after signing.
- Must be able to transfer copies of Electronic Records to and from other systems.
- Must support a workflow for pledging and releasing digital assets, including automated Secured-Party release.
- Must support a portfolio liquidation workflow, including transferring a portfolio to another entity on the same or a new Securities Intermediary's platform, and a process for "papering out" a portfolio.
- Must manage all copies of Electronic Records, including: logical association with specific transactions/clients/products/lines of business; digital certificate validation; support for testing signatures and certificates; verification of record integrity at transfer; detection of post-deposit and post-signature alterations; tamper-evident protection against undetected alteration; custom metadata (add, associate, retrieve, search, update without impairing integrity); encryption of records in storage; and support for retention/destruction processes.
- Must capture Audit Trail and other audit data for administrators, role-based employee access, other parties with access, and backup/restore functions.
- Administration must provide printable Audit Trail reports for all vaulting functions/interactions; Audit Trails protected from undetected alteration, replacement (except via backup), or deletion after creation; a user interface for record-management and Audit Trail functions; a Hierarchical Credential structure limiting user access by role; and backup/restore functionality for records, Audit Trails, and metadata.

3. Signing Tool

- Should be able to establish the identity of transaction participants, it is necessary to confirm a participant's actual identity or status as an authorized business representative at the start of the transaction, known as "Initial Authentication." Additionally, it must be verified that the same individual continues to be involved throughout the transaction process, which is referred to as "Ongoing Authentication."
- Tool must allow for Electronic Records to be easy to identify, navigate, and read; presented in the correct sequence; and never structured so a signer can jump straight to a signature line without opening and viewing the document.
- The signing tool should have the ability to be integrated with the Securities Intermediary or have an Application Program Interface (API) to demonstrate the Electronic Records were not altered between execution of the note and deposit of the note in the Securities Account.
- Must provide evidence of each Electronic Signature that is either incorporated into, or logically associated with, a signed Electronic Record must be captured in an Audit Trail and must include data relevant under the circumstances and appropriate to the type of Electronic Signature and the transaction. The Audit Trail(s) must cover the entire life cycle of the loan. Specifically:
 - Date/time the signer(s) accessed the eClosing system, and date/time of consent to close electronically
 - The version/system identifier of the consent content shown to the signer
 - Date/time of any alterations to an Electronic Record and who made them
 - Date/time each authentication factor was completed
 - Date, time, and system identifier of each Electronic Record accessed by a user

- Date/time each Electronic Record was signed, the signature type used, and attribution of the signature to both the signer and the record
- IP address of each user's computer
- Tamper-Evident Seal applied to each signed record, with date/time applied
- Date/time of any copies created, where sent, and confirmation the Authoritative Copy was sent directly to the Securities Account

V. Legal Framework

A. eSIGN/UETA for eNotes

In order to be acceptable as pledged collateral, an eNote must be a valid and enforceable Transferable Record pursuant to UETA, ESIGN or otherwise applicable law, and there must be no defect with respect to the eNote that would give the FHLBanks, or a subsequent transferor, less than the full rights, benefits and defenses of Control (as defined by UETA, ESIGN, or applicable law) of the Transferable Record. ESIGN, UETA and other applicable laws will be referred to collectively as the “eSignature Laws” in these guidelines.

Section 101(c) of ESIGN has specific requirements about the type and content of the consent that must be obtained from Borrowers before electronically providing any of the disclosures that are required by law to be given to Borrowers. Additional requirements concerning the use of eSignatures, records, and disclosures may be imposed by regulatory agencies or through state legislation.

Some of the key disclosures, requirements, and issues are included, but are not limited to:

- Obtaining consumer’s express consent to or opting out of electronically signing the record;
- The right to withdraw consent and the consequences of doing so;
- How to withdraw consent;
- Consumer’s right to receive a paper copy of the Electronic Records;

B. UCC ARTICLE 8 for Digital Notes

FHLB Dallas accepts Digital Note collateral under a legal framework based on Article 8 and 9 of the Universal Commercial Code (“UCC”). Article 8 and 9 provides a legal framework that FHLB Dallas utilizes to perfect its security interest and control Digital Notes collateral in digital form. This pledging structure involves opting into Article 8 treatment as a financial asset and using one or more Securities Accounts maintained at a third-party Securities Intermediary. It is distinct from the way the Bank accepts non-digital collateral and residential eNotes.

Why Article 8?

FHLB Dallas requires the ability to perfect and control any electronically signed collateral pledged to it to secure advances. ESIGN and UETA’s transferable records provisions only apply if the electronically signed note would be a negotiable instrument under UCC Article 3 if it were wet signed. Residential notes usually qualify as negotiable instruments and thus the transferable records provisions work well for eNotes. In addition, the MERS eRegistry used for eNotes does not support loan types outside of single family residential real estate. CRE, Multifamily, Agriculture and HELOC notes often don’t meet the requirements to be negotiable instruments, so Digital Notes required FHLB Dallas to look for a different framework. Article 8 has been used as a framework for digital collateral such as Securities and digital auto loan notes for decades and was the best fit for Digital Notes. Note that ESIGN and UETA are still utilized for the validity and enforceability of the electronic signature used in Digital Notes.

Appendix

eNote Best Practices

eSignature Requirements

- The system must be able to show and maintain, for any signed eNote or record: that the eSignature is attached to/associated with that record; the type of electronic symbol/process used; the Borrower's name displayed visibly; a date/time stamp; borrower's agreement to conduct the transaction electronically and ready access to such documents.
- Remote Online Notarization (RON) is permitted only in states that authorize it; where only in-person notarization is permitted, the Borrower must be physically present with the notary. RON systems must provide: two-factor ID authentication with a government-issued photo ID; tamper-sealed documents; a secure electronic journal of the notarial act; and a recording of the notarial ceremony retained for at least 7 years (or longer if required by law).

eNote Document Suggestions

- Required heading: The eNote must be headed "Note (For Electronic Signature)."
- Prohibited text: Text near the signature line must not say "(Sign original only)."
- Footer: Must clearly identify the document as an eNote.
- Suggested Format: Be a valid MISMO Category 1 SMART Doc, Version 1.02, signed via an eSignature process and secured with a tamper-evident signature.

eClosing System Requirements and Suggestions

- **Tamper-evident sealing:** Seal the eNote after each signer and again immediately after the final signer, using W3C-compliant digital signature algorithms and X.509 certificates from an accredited issuer. The seal value must stay in the document and be verifiable.
- **Transaction record:** Create and retain an eClosing Transaction Record documenting the creation, signing, and transfer of every eNote and related record. It must be retained (and passed to any subsequent servicer) for the life of the loan.
- **Encryption:** Suggested compliance with NIST/FIPS 140-2. Minimum SHA-256 signing hash; minimum 2048-bit RSA key and 128-bit AES key for TLS sessions; multifactor authentication required.

Glossary

- **Authentication:** Authentication refers to the process of identifying a transaction participant. There are two types of Authentication: Initial Authentication and Ongoing Authentication.
- **Audit Trail:** The system logs capturing access, signing, authentication, and alteration events for a DEPN across its full life cycle. It includes documentation and Electronic Records generated by a technology platform or system which evidence the delivery of, display of, presentation of, access to, consent to, and/or signing of, and ongoing integrity and accuracy of, Electronic Records.
- **Authoritative Copy:** An accurate, true, and complete copy of a fully executed Electronic Record or group of Electronic Records evidencing a Digital Note.
- **Authoritative Copy:** The single, legally controlling copy of a DEPN. For eNotes it is held in the eNote Vault per the MERS eRegistry; for Digital Notes it is held in the Securities Account.
- **Controller (eNote only):** The party with legal Control of the eNote (equivalent to the “holder” of a paper note) — normally the Member/Shareholder.
- **Controller Delegatee (eNote only):** The Controller Delegatee is a Member of the MERS eRegistry that is authorized by the Controller to perform certain MERS eRegistry transactions on the Controller’s behalf.
- **Credential:** A token, device or process provided to a transaction participant for Authentication of his/her identity in connection with a transaction or series of transactions. Examples include PINs, passwords, digital certificates, stored biometric measurements, and random- number generators.
- **Digital Custodian:** The administrator of the platform and the account where Digital Notes are stored as financial assets in accordance with UCC Article 8.
- **Digital Notes:** A debt obligation evidenced by Electronic Records and executed using Electronic Signatures and stored with a Digital Custodian. A Digital Note is not a transferable record under the federal ESIGN Act or the Uniform Electronic Transactions Act, such as an eNote, and does not include debt obligations evidenced by a physical record and executed with physical, wet-ink signatures that have been converted to an Electronic Record after execution.
- **Electronic Record:** A record created, generated, sent, communicated, received, or stored by electronic means.
- **Electronic Signature:** An electronic sound, symbol or process attached to or logically associated with a record and executed or adopted by a person with the intent to sign the Record.
- **ESIGN Consumer Consent Process:** The procedure for obtaining consumer consent to electronically deliver information otherwise required by law to be in writing, as provided under the federal ESIGN Act.
- **Hierarchical Credential (Digital Note only):** A role-based access-control structure that limits each user to the permissions appropriate for their role.
- **Initial Authentication:** Initial Authentication is generally performed in connection with the creation of a relationship and can refer to the Authentication of a Transaction Participant’s actual identity as an individual, and/or, in the context of a commercial transaction, the transaction participant’s business title or role and authority to act as the representative of a legal entity created by law.
- **Location (eNote only):** The entity/system holding the Authoritative Copy of an eNote — must be an approved eNote Vault.
- **MIN (eNote only):** Mortgage Identification Number assigned by MERS to register the eNote.
- **Ongoing Authentication:** Ongoing Authentication is generally performed in connection with the transaction participant’s participation in a transaction and can be used to confirm a transaction participant’s identity as established during the Initial Authentication.
- **RON / IPEN (eNote only):** Remote Online Notarization / In-Person Electronic Notarization.
- **Secured Party (eNote only):** The party granted a security interest in the eNote — FHLB Dallas, while pledged.
- **Secured Party Delegatee (eNote only):** The Secured Party Delegatee is the Member of the MERS eRegistry that is authorized by the Secured Party to perform certain transactions on the Secured Party’s behalf.

- **Securities Account (Digital Note only):** The UCC Article 8 account structure used to hold Digital Notes and give FHLB Dallas legal control of the collateral.
- **Securities Intermediary:** A person who agrees to hold Security Entitlements in a Securities Account for an Entitlement Holder.
- **Securities Intermediary / Digital Custodian (Digital Note only):** The third-party institution that holds the Securities Account and maintains Authoritative Copies of pledged Digital Notes.
- **Tamper-Evident Seal:** A cryptographic seal applied to a signed Electronic Record so any later alteration can be detected.
- **Transferable Record (eNote only):** An Electronic Record that qualifies as a negotiable note under UCC Article 3 and that the issuer has agreed will be treated as such — the legal basis for eNotes.