



Member driven.
Community focused.

Pledging eNotes FHLB Dallas

Gustavo Molina, SVP & CBOO

eNotes = Future

“Treasury urges mortgage sector to embrace digital tech” – National Mortgage News (Aug/18)

Docutech Completes More Than 100,000 eClosings – Arizona Daily Star (Jun/20)

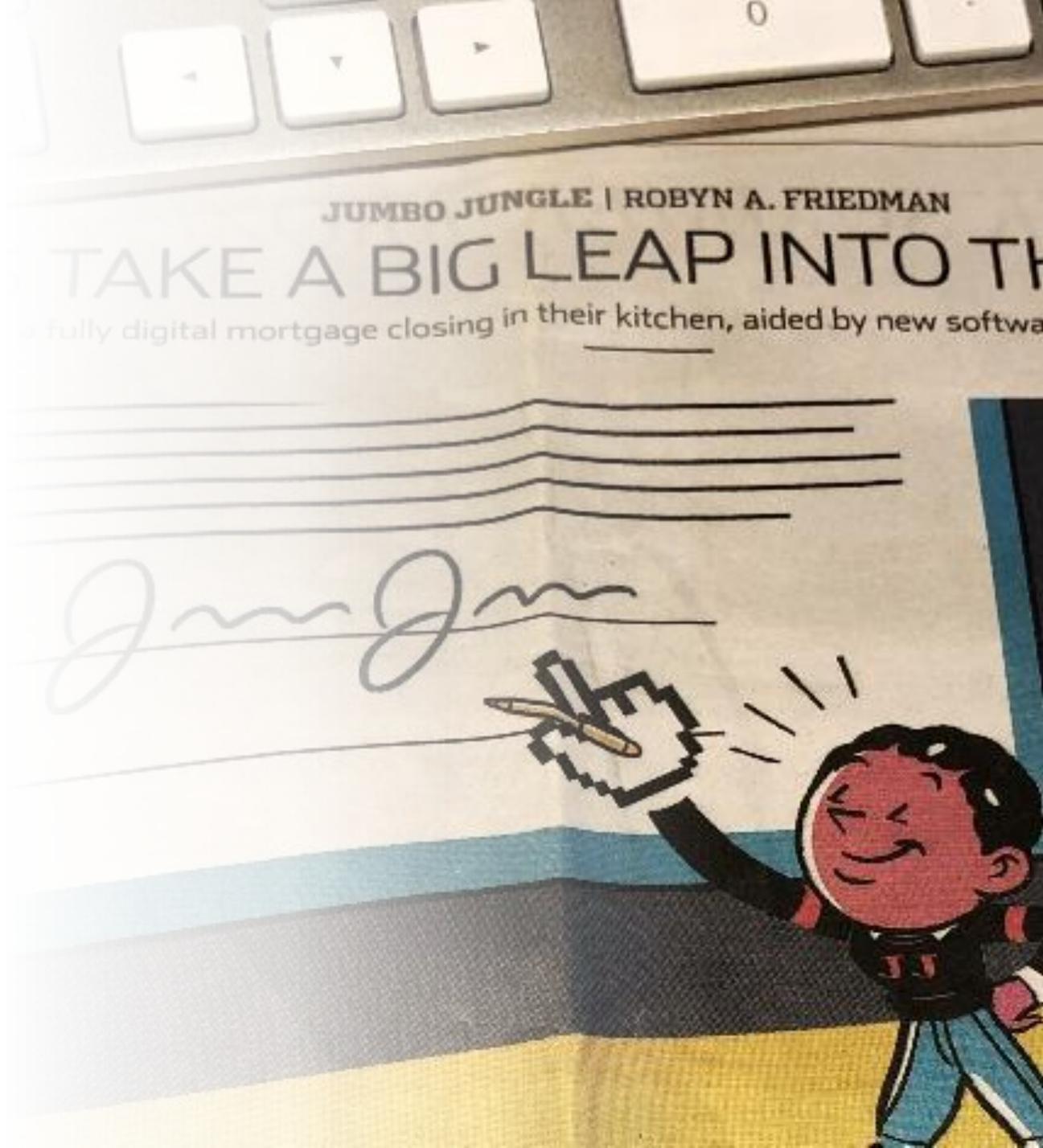
Ginnie Mae lays out its plan for a digital mortgage pilot – National Mortgage News (Oct/19)

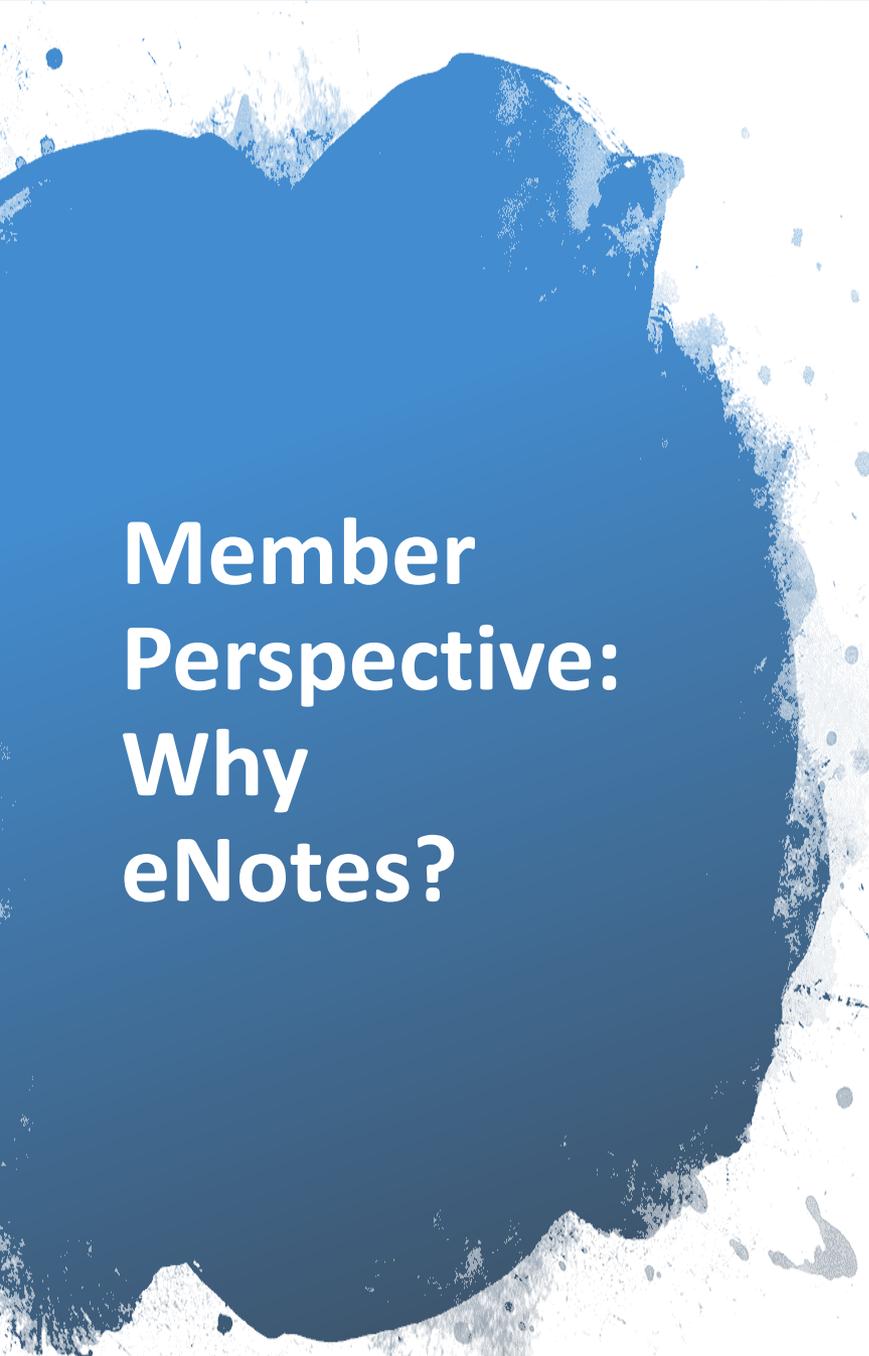
“The fully digital mortgage has truly arrived as use of eNotes skyrockets by nearly 5,000%” – HousingWire (Apr/19)

“Wells Fargo Set to Launch eNote Program” – Businesswire (Oct/18)

Borrower's Perspective: Why eNotes?

- Accustomed to a digital experience for:
 - Banking and bill paying
 - Shopping real estate listings
 - Signing documents and contracts
- Cumbersome mortgage experience
 - Fill out forms with same information multiple times
 - Handed a stack of paper documents that many never read or understand



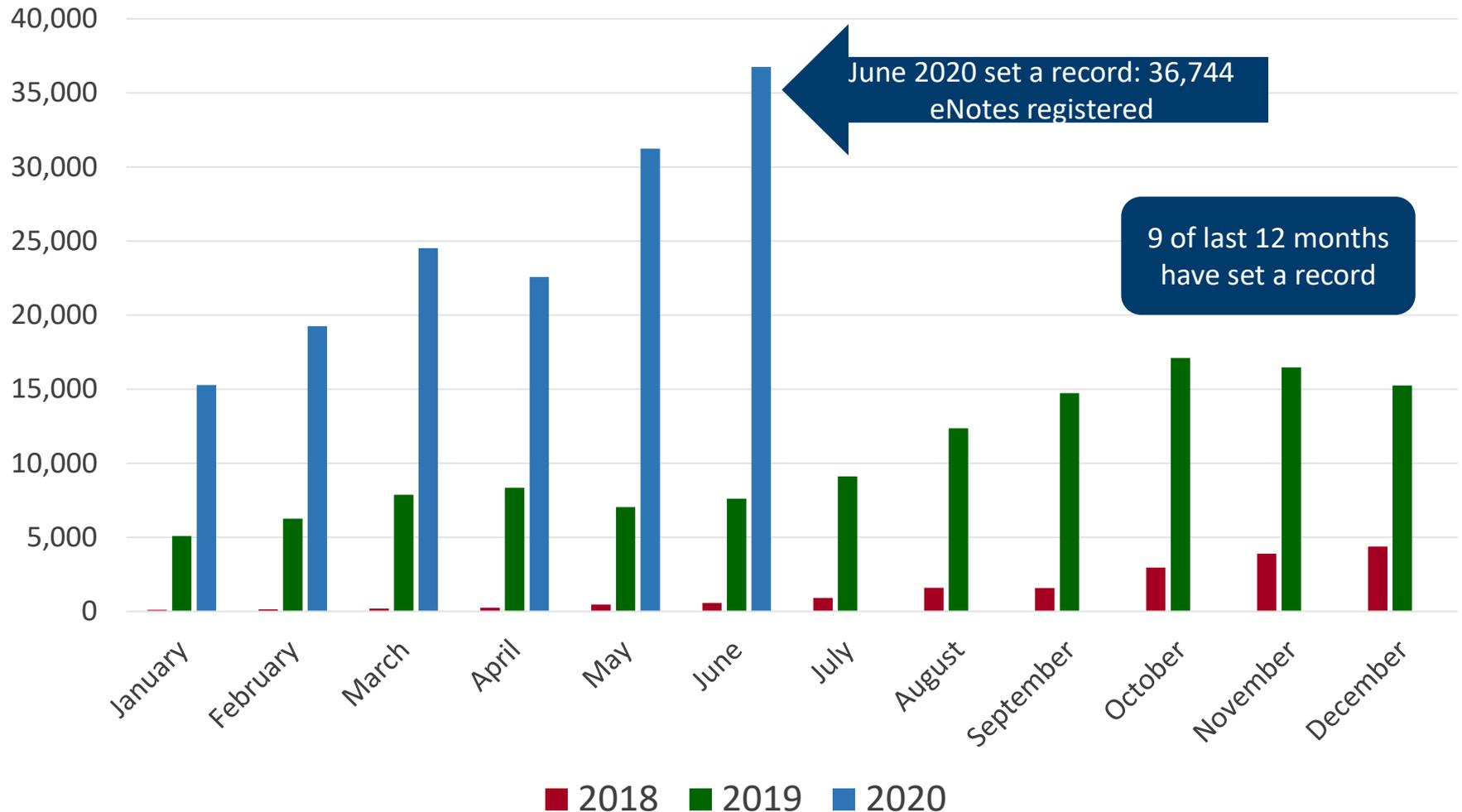


Member Perspective: Why eNotes?

- Borrowers can review loan documents prior to closing at their convenience
- Faster and easier signing process
- **Fewer errors**
- Flexibility in closing locations
- **Less paper**
- Reduced shipping and storing fees
- Faster funding
- **Improved audit capabilities**
- **Elimination of lost notes**
- Increased collateral control

eNote Data: Year-Over-Year Growth

eNotes Registered on the MERS® eRegistry



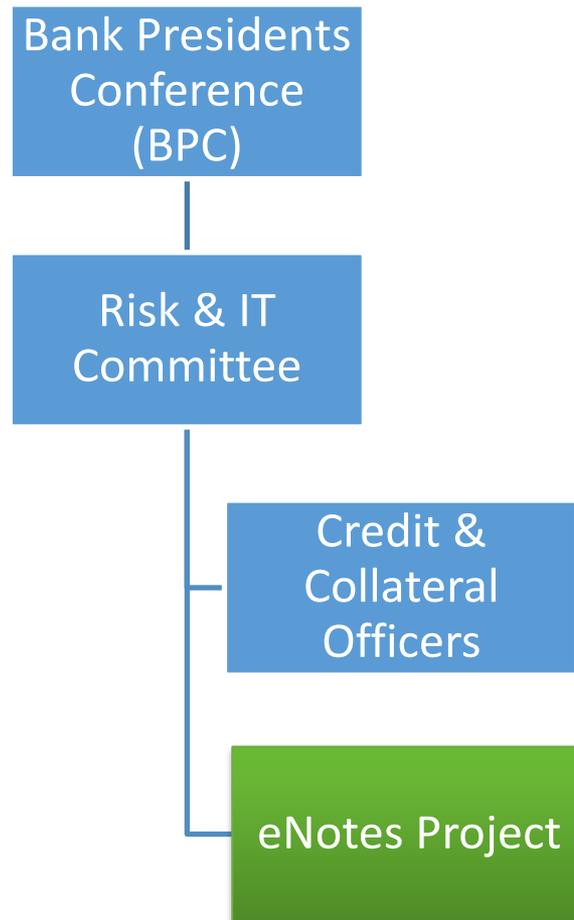
Source: MERSCORP Holdings, Inc.

Looking Back: 2015

All eleven FHLBanks require that all loans must have an original “wet signature” promissory note on file.

- *Major hurdles to start accepting loans with electronic signatures as eligible collateral include:*
 - > *Lack of the same level of legal protections offered by original “wet signature” promissory note for secured creditors (ex. Federal Home Loan Banks or Federal Reserve Banks)*
 - > *Complexity resulting from competing technologies developed to create legally transferable records.*

FHLBank System eNotes Project



The eNotes working group was created in October 2017 by BPC to develop a solution that will allow the FHLBanks to take eNotes as eligible collateral.

Comprised of more than 60 representatives from all 11 FHLBanks. Includes Legal, Communication, MPF/MPP, Collateral, Credit, etc.

FHLB System Accomplishments

- Reviewed the applicable eSignature laws at the federal and state level for the FHLB system to consider:
 - Electronic Signatures in Global and National Commerce Act (E-Sign Act)
 - Uniform Electronic Transactions Act (UETA)
- Collaborated with Mortgage Electronic Registration Systems, Inc. (MERS[®] System) to develop the system functionality to establish the “Secured Party” field in the MERS[®] eRegistry.
- FHLBanks became members of the Mortgage Industry Standards Maintenance Organization (MISMO) and agreed to use its eClosing guides to publish the definitions used in eNotes requirements documentation in the MISMO Glossary.

FHLB System Accomplishments (cont.)

- Developed the document with the requirements established by the FHLBank System to pledge eNotes. The eNotes Collateral Requirements and Guidelines are available through the FHLB Dallas' eNotes Resource page.
 - 1-4 Family mortgage loans
 - Closed-end 2nd mortgage loans
- Selected and finalized negotiations with DocMagic to become the FHLB System's eVault provider.

Looking Forward: 2020

All eleven FHLBanks require that all loans must have an original “wet signature” promissory note on file or a loan originated as an eNote that qualifies as a transferable record under UETA and E-sign.

- *Major hurdles to start accepting loans with electronic signatures as eligible collateral include:*
 - > *Lack of the same level of legal protections offered by original “wet signature” promissory note for secured creditors (ex. Federal Home Loan Banks or Federal Reserve Banks). – RESOLVED with the MERS[®] eRegistry and the creation of a “Secured Party” designation.*
 - > *Complexity resulting from competing technologies developed to create legally transferable records. RESOLVED by requiring members to deliver the authoritative copy to the FHLB System eVault, DocMagic.*

Paper Notes

Negotiable Instrument

Possession

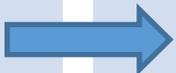
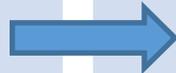
Holder

Original Note

Custodian

Endorsement

Wet Signature



eNotes

Transferrable Record

Control

Controller

Authoritative Copy

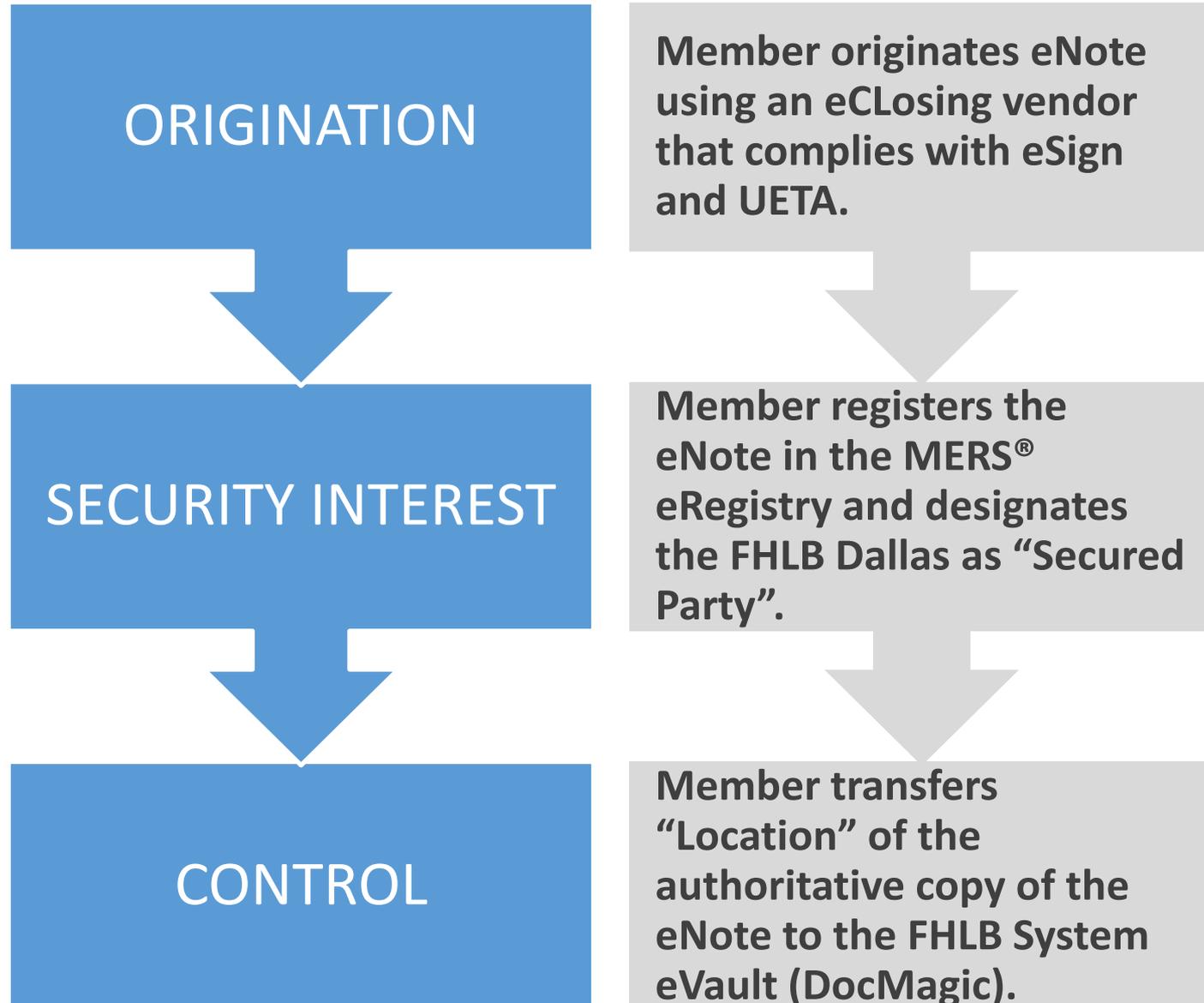
Location

Transfer of Control

Electronic Signature

The implementation of the “Secured Party” field in the MERS® eRegistry will now allow secured parties such as the FHLBanks to gain adequate control of eNotes to ensure the priority of their lien position.

eNotes - Overview



FHLB Dallas eNotes Requirements



Regardless of the member's collateral status (Blanket or Custody) in order to be considered eligible collateral, eNotes should designate:

1. FHLB Dallas as the **Secured Party** in the MERS[®] eRegistry and
2. the FHLB Dallas' eVault, DocMagic, as the **Location** of the authoritative copy.

In addition:

1. Members will be assessed a one time, \$1.00 fee for each eNote pledged.
2. Loans pledged to the Bank as eNotes must satisfy all eligibility requirements outlined in the:
 - > Member Products & Credit Policy
 - > Loan Collateral Eligibility Requirements

eNotes Requirements - Blanket

Members on Blanket status:

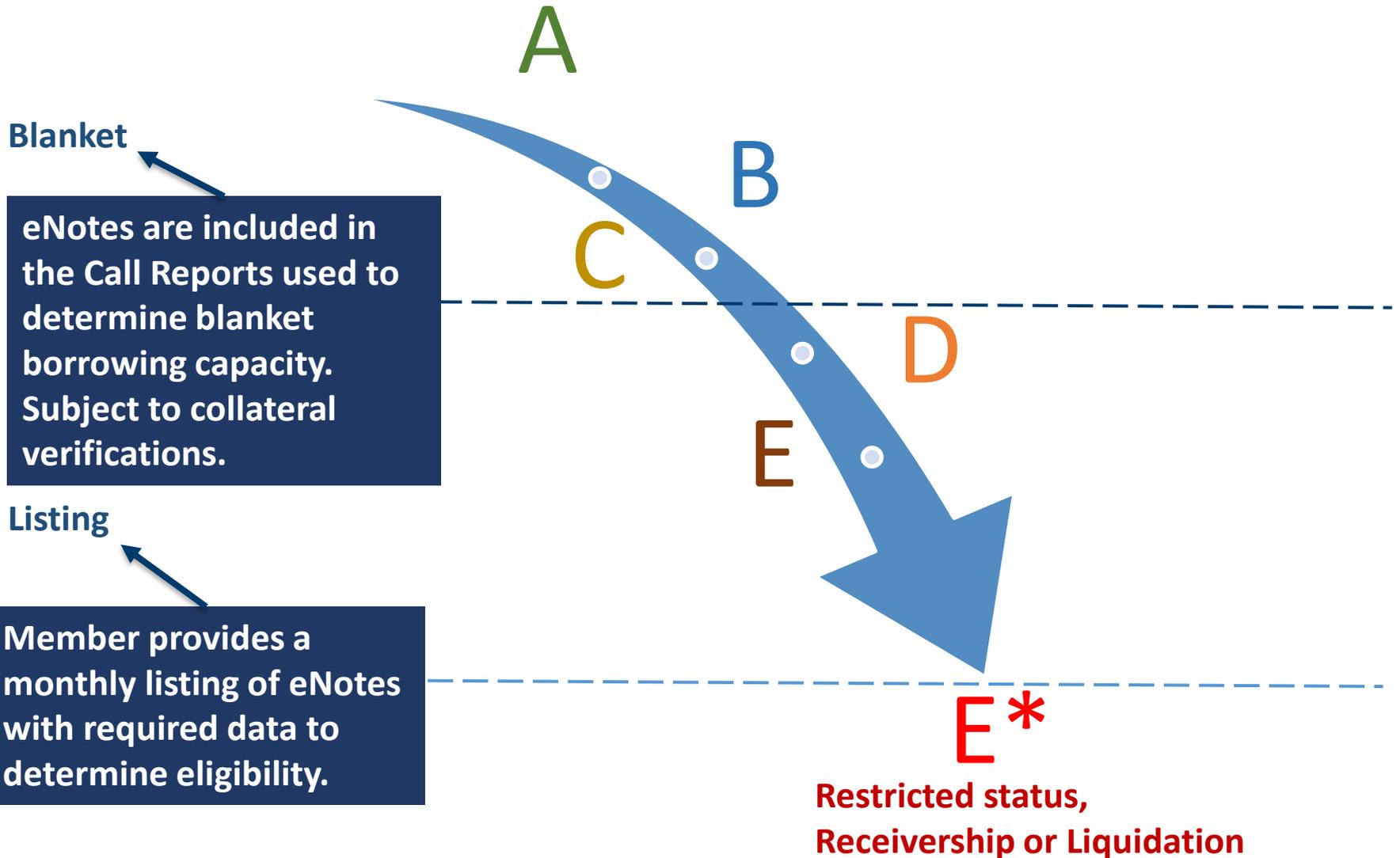
- Continue to receive collateral value through the Blanket Lien Worksheet, utilizing the quarterly regulatory reports.
- Other than the “papering out” process, transactions considered to be part of the normal course of business related to eNote do not require prior approval from FHLB Dallas.
- Members with eNotes selected as part of the onsite verification sample will be required to provide physical or digital copies of all other supporting documentation.
- If the member is subject to a collateral verification, FHLB Dallas will review the member’s trial balance, FHLB Dallas eVault records and MERS® eRegistry information to reconcile the eNotes pledged for collateral value.

eNotes Requirements - Custody

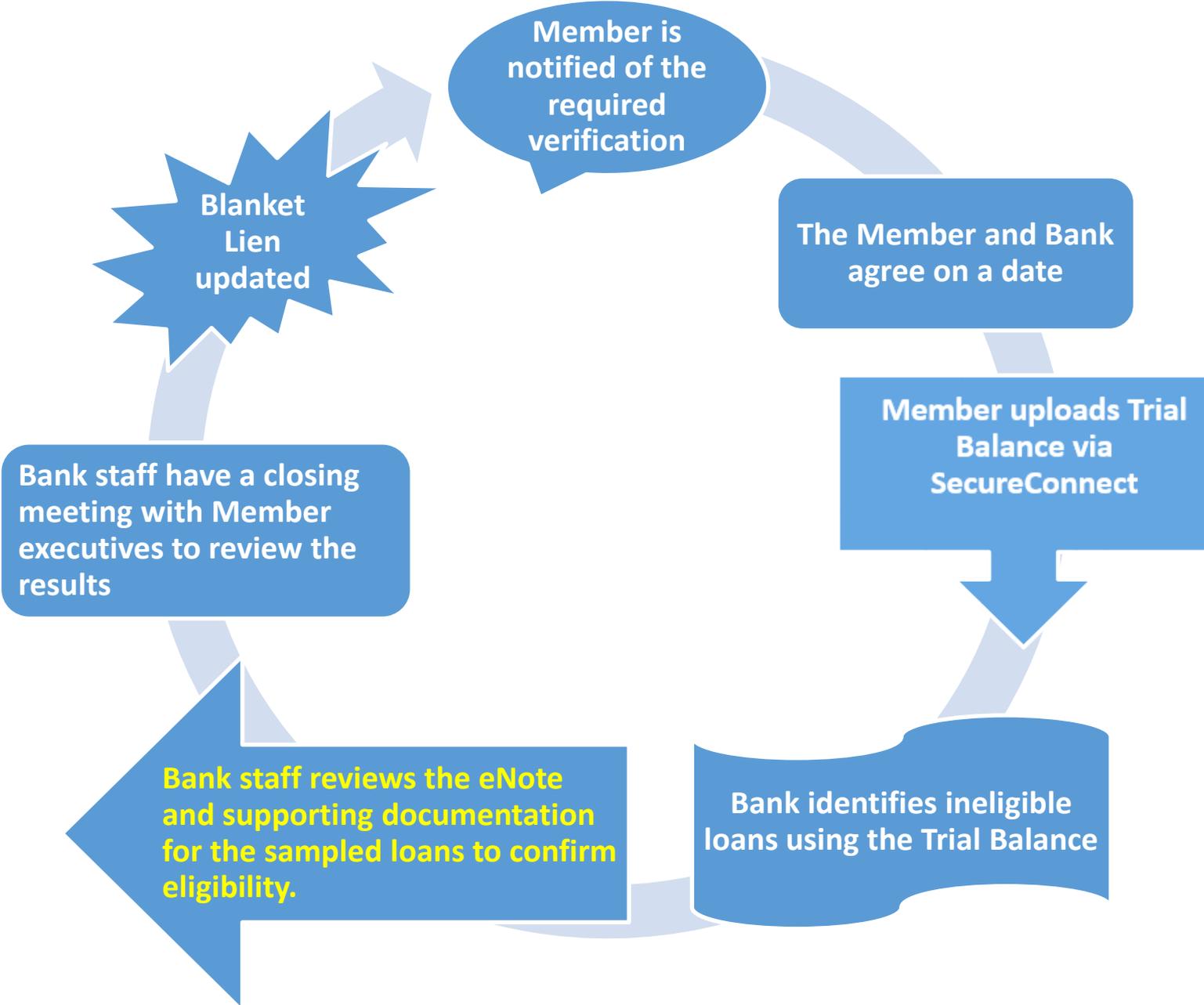
Members on Custody status:

- Member provides physical or digital copies of all other supporting documentation to ensure the loans meet the eligibility requirements.
- Member receives collateral value for all eNotes reviewed by FHLB Dallas that meet all applicable eligibility standards.
- Member continues to provide monthly updates of the financial performance of the loans.
- The transfer, changes to location, controller, etc. are subject to FHLB Dallas approval.

Credit Rating & Pledge Method



Collateral Verifications – Process



Member Next Steps



Members establishes a relationship with an eClosing and eVault provider.



FHLB Dallas members joins the MERS[®] System to register eNotes.



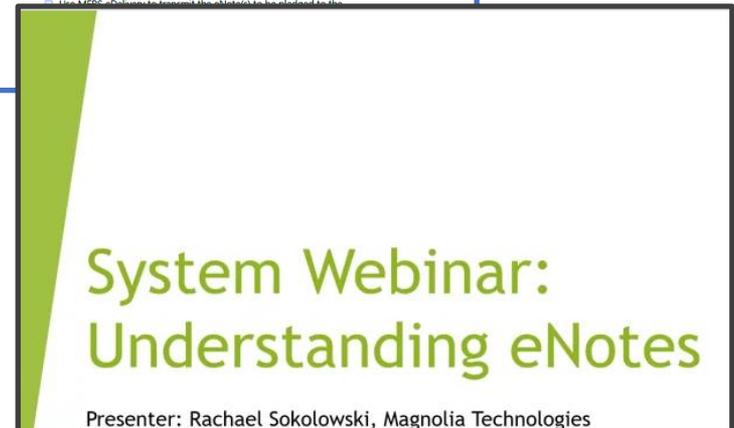
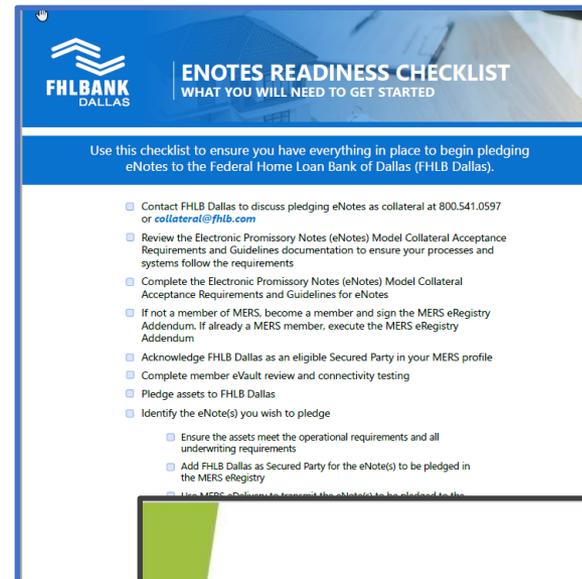
Members execute the eNotes Addendum to the existing advances agreement with FHLB Dallas.



Member coordinates with FHLB Dallas to start the process.

Resources

- FHLB Dallas eNotes webpage:
<https://www.fhlb.com/services/Pages/eNotes.aspx>
- eNotes Readiness Checklist
- eNotes Webinar
- eNotes Overview Video
- Links to industry partners and additional resources



Resources (cont.)

- FHLB Dallas “eNotes Collateral Requirements and Guidelines”.
 - Outlines the specific requirements to ensure the eNotes are originated with acceptable eSignatures.
 - Provides guidance regarding formatting and content for the eNote documents in order to meet our eligibility requirements.
 - Clarifies the steps to ensure the eClosing process meets the applicable standards.
 - Defines key terms and the process to register the eNotes and pledge them to FHLB Dallas.
 - Establishes standards for member’s eVaults and the servicing of eNotes.
 - And more.

Questions?

**For additional information please contact us at:
(800) 541-0597 or enotes@fhlb.com**