



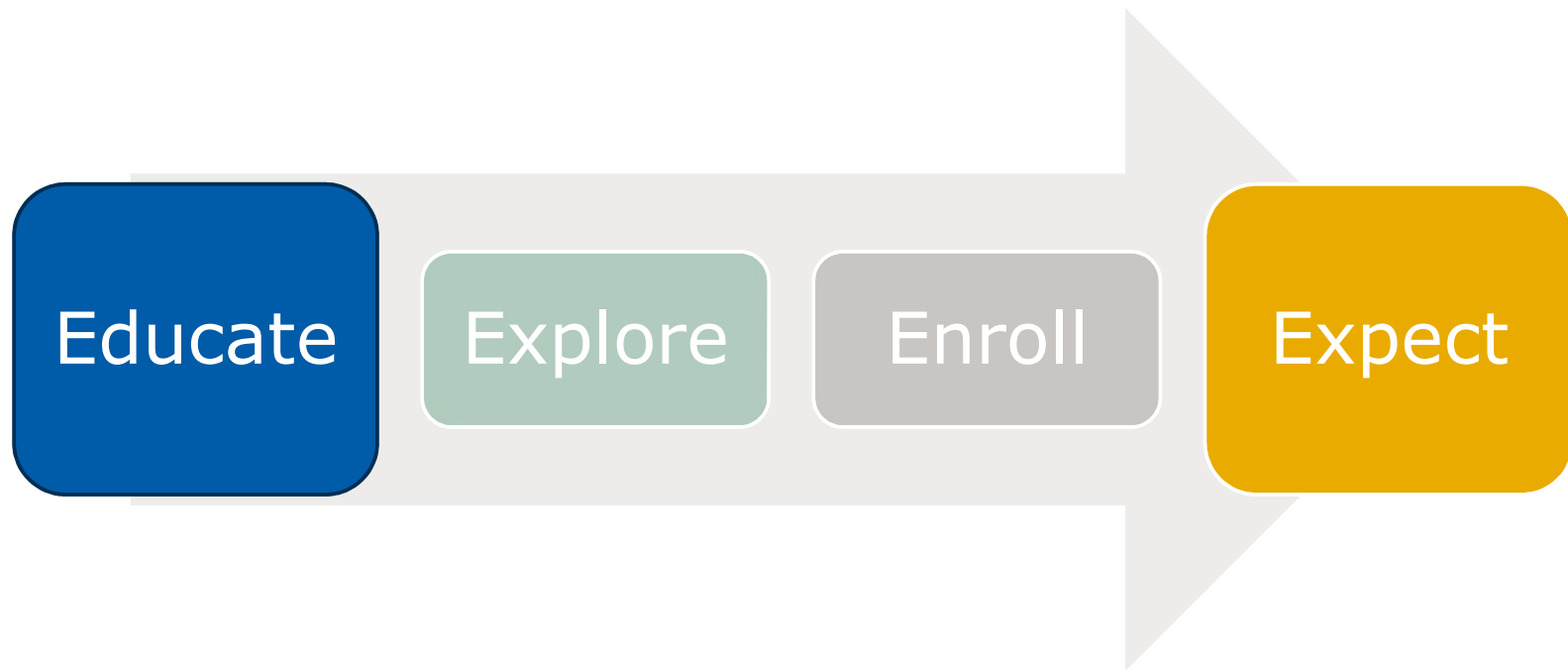
Optimizing Your Collateral Through Eligibility: eNotes

A Collateral Coffee Break Course





The key is in the e...





Educate



A promissory note executed and ***signed electronically*** and ***stored*** in an eVault according to the standards of UETA and eSign



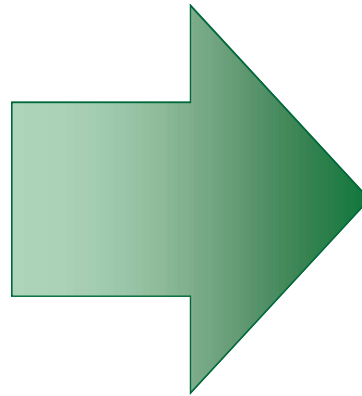
A scanned image of a wet-ink signature



Educate

Paper

Original Note
Wet Signature
One True Original
Holder
Possession
Custodian
Security Interest



Electronic

eNote
Electronic Signature
Authoritative Copy
Controller
Control
Location
Secured Party



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Executed And Signed Electronically



Intent to Sign



Consent to do business electronically



Association of signature with the record



Equivalent of a paper promissory note



Record retention



Smart Doc® vs 1.02



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Stored in an eVault

Similar to a paper note vault, an eVault is a secure location to store the eNote.

- The eVault should “speak” with the MERS eRegistry
- Choose an eVault partner that works best for your institution





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Transferable Record

- We acknowledge that documents executed with a digital signature are ***enforceable***.
- As a secured lender, we need to have a way to confirm the location of the Authoritative Copy or one true original.
- UETA and E-SIGN laws establish the conditions that must be met for an eNote to qualify as a **transferable record** in the event a loan must be sold.



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Collateral Type	Wet-Ink Notes	eNotes
1-4 Family Residential First Mortgage Loan	1101	3101
1-4 Family Residential First Mortgage Loan – Nontraditional Loan	1102	3102
1-4 Family Residential First Mortgage Loan – Subprime Loan	1103	3103
Government Insured – VA Home Loan	1203	3203
Government Insured – FHA Home Loan	1205	3205
1-4 Family Residential Home Equity Mortgage Loan	1414	3414



Expect



Commercial Real Estate



Key Takeaways

- **An eNote is a promissory note created, signed and stored electronically.**
- **UETA and eSign compliance are critical to ensure the eNotes meet the definition of a transferable record in order to be pledged to the Federal Home Loan Banks.**
- **Currently, only certain types of mortgage loans are eligible to pledge as eNotes. The Bank System is actively working to accept additional types of eNotes collateral.**



Member Questions

Question

What makes an eNote an eNote?

Answer

An eNote is a transferable record. An eNote is the electronic, equivalent of a paper promissory note that is negotiable under Article 3 of the Uniform Commercial Code or UCC. The federal Electronic Signatures in Global and National Commerce Act, or ESIGN Act, made eNotes legally enforceable in all 50 states. Secondary market investors have created standards that eNotes must meet before they are eligible to be purchased by a particular investor or pledged to a Federal Home Loan Bank.

In a nutshell, these laws were designed to give electronic signatures the same legal weight as that of wet-ink signatures. That means it is enforceable and transferable.

This is critical because FHLB Des Moines needs to be able to transfer the full rights of the notes. As with a paper note we need to be able to perfect our security interest in the collateral, which is one of the four principals that guide our acceptance of collateral.



Member Questions

Question

What additional types of collateral can be pledged as eNotes?

Answer

We are working on it, but it is more of a marathon than a sprint.

*Today, there is a market for **residential** eNotes, there are industry standards, there is an eRegistry that identifies the Authoritative Copy. The eRegistry also allows a Secured Party, such as the Federal Home Loan Bank to take a security interest in the collateral without being the "Controller" or owner of the note.*

As soon as the Bank System is comfortable that other loan types fall within the principles of acceptance, we will begin accepting other loan types. Until then, a hybrid loan is still an option where all the documents except the promissory note are signed electronically



Member Questions

Question **What are the softwares or programs that you recommend using for Enotes? What is the cost associated with such?**

Answer *These days, technology vendors are working together to create digital solutions in this space. Reach out to your existing vendors and see what they offer before investing in new technology.*



Member Questions

Question	Is there a specific vendor or program a credit union must use to file eNotes?
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Answer	<i>The one vendor we all need is the MERS eRegistry. Beyond that, the choice is yours as far as LOS and eVaults; there are vendors that are known to be "one stop shops" and there are others that are compatible with systems you probably already have.</i>
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Member Questions

Question

I understand that our eNote process must be approved by the FHLB. How long does it take to be approved? What does the approval process look like?

Answer

Once you have established your eVault and are set up with the MERS eRegistry, including the relationship set-up, the time it takes to test is relatively short; usually less than one hour.



Thank You!

