Purchasing eMortgages in Correspondent Channels

Are you a lender looking to purchase loans with eNotes in your correspondent channels? Explore how to establish programs, best-practice guidelines, planning tips, and process insights—all right here. You'll find additional eMortgage resources along the way, too.

Some lenders that originate and sell loans to Fannie Mae also act as investors or aggregators, purchasing closed loans from other lenders. These loans are often subsequently sold to Fannie Mae or another secondary market participant, requiring these interim investors to establish programs and guidelines to ensure loans originated by these "correspondent" lenders meet Fannie Mae (or other) requirements. Many of Fannie Mae's customers who purchase loans through their correspondent channels have established programs to purchase eNotes. However, in many cases, these lenders do not have full eMortgage capacity and are operating in pilot mode to better understand eNotes.

When it comes to eNotes, the changes and considerations on the aggregator side are very different to, but no less complex than, those for lenders originating eMortgages. In the subsequent pages, we have summarized some of the key considerations for lenders that are looking to purchase loans with eNotes in their correspondent channel and look forward to working with our customers to make that a reality. This is not intended to be an exhaustive list and aggregators should work closely with their legal and compliance teams to implement appropriate requirements.

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Establishing program guidelines

Aggregators should establish clear requirements and guidelines for correspondents selling eMortgages. These guidelines may include the following:

Eligible products

Which loan products are eligible for eClosings and eNotes? There may be legal or operational challenges with some products, particularly those requiring non-standard documents or additional documentation.

Process requirements

Aggregators must clearly define any process-related requirements for originating and delivering eClosed loans. For companies selling loans to Fannie Mae, some of these requirements may be Fannie Mae requirements. Is use of the MERS® System and MERS® eRegistry required? How will loans with eNotes be identified at delivery? How are returns and corrections handled? Is use of remote online notarization (RON) acceptable and do special requirements apply?

Technology requirements

Aggregators should identify any limitations on technology solutions available for use by their correspondents. Fannie Mae conducts detailed testing with eNote, eClose, and eVault providers for compatibility with our systems and our requirements. Our vendor list is not intended to replace a lender's evaluation of the providers but may be a component of the process. Additionally, establishing requirements on use of RON is important. Lenders may also elect to rely on assessments conducted by third parties such as MISMO®, which has established a certification program for eClose, eVault, and RON providers, but any such reliance is at a lender's own risk.

Data requirements

Fannie Mae uses a special "eNote Indicator" data element to identify loans with eNotes and requires a special feature code to identify loans using RON. Aggregators should identify special data requirements specific to eClosings and eNotes which may be important to assessing eligibility or downstream processing.

Key guidelines

Eligible products
Process requirements
Technology requirements
Data requirements

Customer education and onboarding

As aggregators prepare to begin accepting eNotes in their correspondent channels, establishing a methodology for onboarding lenders and other business partners is an important step. One important component of onboarding involves customer education, especially regarding the terminology, technology, and the associated operational process changes.

As correspondents reach out to partners to investigate what is required to transition to eMortgages, please note that some correspondents will already be well prepared while others will still be at the starting line, seeking information and education. Fortunately, there is now a wealth of information available, but aggregators still need to play a role in helping correspondent lenders understand the components and impacts when moving to eNotes and eClosings.

Prior to final approval, testing with each lender is an important step. Small nuances between the many eVault and eNote providers may warrant conducting a transactional test with each new customer to assure eNotes coming from a seller's platform can be vaulted and viewed within the buyer's platform. Aggregators should also develop a means of assessing a lender's overall readiness before going live. Fannie Mae uses a readiness checklist to review key requirements and impacts at the conclusion of the approval process.

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Establishing an eVault

Aggregators seeking to begin purchasing eNotes will need to establish an eVault for receiving and managing the assets. There are multiple options available, including developing an eVault in-house, licensing and hosting a vendor solution, using a vendor-hosted solution, or leveraging an e-enabled document custodian. Following are some of the factors which aggregators should consider when determining their eVault strategy:

- **Complexity/change** – eVaults are complex solutions which can be time-consuming and expensive to develop and maintain. Additionally, with a significant update to the eNote specification likely in the next few years, keeping the eVault current may require significant resources.

- **Interoperability** – Aggregators need to ensure their eVault solution is highly interoperable with all industry eNote providers.

- **Custodian capabilities** – Several custodians have now established eVaults and are able to provide eVault services for their customers.

- **Enterprise strategy** – For aggregators that have multiple channels or lines of business, taking an enterprise view may be important. Retail originations of eNotes, eNote warehouse lending, and custodial processes may dictate specific workflows and requirements which may impact technology decisions.

- **eVault capabilities** – Although all eVaults should be able to perform all required registry transactions, there can be significant functional differences which may be meaningful to aggregators. API access to vault data, reporting capabilities, batch processing capabilities, degree of document validation, integration to servicing systems, and volume/capacity constraints are just a few of the differentiators to consider.

- **Cost** – Pricing methodologies between eVault providers may differ significantly, with some requiring up-front license fees and subscription pricing, while others may utilize transaction-based pricing.

Complexity

Interoperability

Custodian Capabilities

Enterprise Strategy

eVault Capabilities

Cost

When building out and planning for transactional process flows associated with eNotes, lenders must understand that there are multiple options and paths a loan may take depending on several factors – including institution type and preference.

Industry transaction models and process flows

When building out and planning for transactional process flows associated with eNotes, lenders must understand that there are multiple options and paths a loan may take depending on several factors – including institution type and preference. Whereas a basic process flow may include registration of the eNote followed by eDelivery and transfer of Control/Location to end investor, when adding interim funders, aggregators, and servicing partners into the equation, a loan can flow through multiple vaults and parties along the way.

In addition, interim lenders have the option of either taking Control or simply being listed as a Secured Party in the MERS eRegistry. There are system and process implications to these differences which need to be considered when accepting the eNote and if it needs to be returned for any reason.

Replicating the "bailee" process with eNotes

Many aggregators honor bailee letters which are often shipped along with paper Notes to identify a warehouse lender's security interest in a loan, and sometimes specify payment instructions. Because the legal foundations for these bailee letters is rooted in the UCC (Uniform Commercial Code) and applies only to paper negotiable instruments, aggregators and funding providers must identify an alternative with eNotes.

With paper Notes some aggregators also use the concept of a blank endorsement, which enables the custodian, per agreements between parties, to move the physical collateral between parties when payment is rendered. With eNotes, the current model makes it difficult to align the timing between a transfer of Control and transfer of funds.

Fannie Mae requires the transfer of Control to precede funding, and we use an agreement with the warehouse bank to provide similar protections as what is afforded by a bailee letter. Regardless of the approach taken by the aggregator, any warehouse banks with an interest in the loan will want to assure that their interest is protected.

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Review and certification of eNotes

The MISMO v1.02 SMART Document standard currently used for eNotes was developed to enable automated processing including validation of the variable data contained within the document. As aggregators turn to purchasing eNotes, they must determine what types of review and validation is required for eNotes and other related documents. Is a visual inspection of the eNote required or do you intend to rely on an automated review of the eNote? Each eVault platform performs some basic validations against incoming eNotes including verifying the tamper seal, however more detailed "ARC validations" (which compare data within the "View" portion eNote to the XML data used for automated processing) is an important feature for aggregators intending to rely on XML data.

Planning for the unexpected

Although the eNote process is streamlined and automated, the potential for errors still exists and it is important that aggregators and their correspondents plan and develop procedures for each specific scenario. How are pre/post acquisition corrections handled? In what instances is a new Note required? How are delivery and transfer issues researched and resolved? Planning for these exception scenarios is important so they do not turn into a fire drill when they arise.

Fannie Mae's eMortgage team has a great deal of experience working with our customer partners to implement an eMortgage program. If you are interested in setting up a conversation with our eMortgage team, please reach out to your Fannie Mae account manager.

Additional Resources

eMortgage Readiness Checklist

Unlocking the Power of eNotes

MISMO eMortgage Technology Providers

MERS eRegistry Participants

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