



# GSE Efforts to Improve eMortgage Adoption:

## A Follow-up to the 2016 GSE Survey Findings Report

November 2017

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# Joint GSE Follow up Report

## Background

Fannie Mae and Freddie Mac (the GSEs) are working together under the direction of the Federal Housing Finance Agency (FHFA) as part of the 2016 FHFA Scorecard to identify, assess, and where appropriate, implement strategies to improve the lending industry's ability to originate and deliver eMortgages.

As part of this effort, in 2016 Q2 the GSEs conducted a joint industry outreach survey. We asked 130 key industry stakeholders – lenders, technology solution providers, warehouse banks, servicers and title/settlement providers – about their perceived obstacles/barriers to a broader industry adoption of eMortgages. [The GSE Survey Findings Report](#) released in August 2016 shared the data collected, the qualitative feedback, and a summary of potential opportunities.

This report is a culmination of the milestones and activities that were jointly contributed by the GSEs in response to survey feedback, and provides a summary of activities to date.

## What We Learned

The survey feedback identified two broad categories of barriers - **stakeholder readiness** and **process complexity**. Summarized below are the barriers from each category and the steps the GSEs have taken to address them.

### I. Stakeholder Readiness

#### Warehouse Banks

##### **Barrier:**

Many mortgage lenders rely upon warehouse banks to fund loans. The lack of support for funding eNotes by warehouse banks was identified as a significant obstacle for many lenders to originate and sell eMortgages.

##### **What We Have Done**

When we began our outreach efforts in early 2016, there was one warehouse bank that was funding eNotes. Enhanced engagement and education efforts of several industry stakeholders, including the GSEs, has helped significantly increase warehouse lender adoption. These efforts included educating warehouse lenders on GSE requirements as well as understanding and addressing warehouse lender process concerns.

In addition, because some warehouse banks have indicated that their movement into funding eNotes is reliant upon their document custody partner's readiness to support eNotes, Fannie Mae and Freddie Mac have been actively supporting several custodians by providing education on process and technology considerations. Because of these efforts, there are currently 10 warehouse banks now ready to fund eNotes for their lending partners, and several other large funding providers are expected to enter the space in late 2017.

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## **Investors**

### **Barrier:**

There is a lack of non-GSE investors to support the purchase and securitization of eNotes.

### **What We Have Done**

The movement of non-GSE investors into eNotes is a key prerequisite for many lenders. To that end, the GSEs have been working to support the entry of other investors into this space. These efforts include establishing processes and requirements for permitting eMortgage deliveries from aggregators that purchase loans from correspondent lenders, as well as education and information sharing on eMortgage requirements with other agencies such as Federal Housing Authority (FHA), Ginnie Mae (GNMA), and Federal Home Loan Banks (FHLB). Although the GSEs cannot directly influence these non-GSE investors, we have been an important resource in educating these investors as they develop plans to support eMortgages.

## **Notaries/County Recorders:**

### **Barrier:**

Completing a fully paperless closing requires the ability to apply an electronic notary seal to an electronically signed document, as well as the ability to electronically record the documents that need to be recorded in the county's land records for the appropriate recording jurisdiction. The lack of widespread adoption of both electronic notarization and electronic recording were mentioned as significant roadblocks.

### **What We Have Done**

The GSEs continue to advocate for the wider adoption of eNotarization<sup>1</sup> and eRecording. Some of our efforts to move the industry forward include:

- The GSEs sent a joint letter to the National Association of Secretaries of State (NASS) communicating a joint position on a) the need for removing barriers to the adoption of eNotarization and on-line notarization; b) support for such adoption; and c) the desired safeguards.
- The GSEs attended the NASS 2017 winter summit and expressed support for eNotarization while advocating for legal clarity on acceptance of interstate remote notarization.
- The GSEs provided feedback on American Land and Title Association's (ALTA) draft document that outlines principles for state statutes to authorize remote electronic notarization.
- Fannie Mae issued an update to the Selling Guide (May 2017) which included guidance on the use of electronic notarization, including remote notarization. This change was also reflected in the June 21, 2017 Servicing Guide update and aligns with existing Freddie Mac policies regarding remote notarization.
- The GSEs have partnered with the Property Records Industry Association (PRIA) to help support the expansion of eRecording capabilities. As part of this partnership, both GSEs participated in an eClosing educational session at the August 2017 PRIA Annual Conference that discussed eClosing benefits and how eRecording could help with eClosings. In addition, Freddie Mac authored a series of articles that were published in a PRIA newsletter. The articles provide an overview of the legal basis for eRecording, the benefits of eRecording, and the path to moving forward.

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<sup>1</sup> In an electronic notarization or eNotarization, the notarial seal is an electronic image of a notarial seal that is applied to an electronic document. Typically such an electronic notarization occurs with the signer sitting at a computer or tablet in the same room with the notary. A remote notarization is similar to an electronic notarization except the signer and notary are in different physical locations and are communicating via audio/video conferencing using either a computer or smart phone

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Due to joint industry efforts, the adoption of eRecording and eNotarization is growing. Currently about 80% of the U.S. population resides within counties that permit eRecording and the ability to eNotarize documents is now a reality in almost half of the United States.

## **Sub-Servicers**

### **Barrier:**

Many lenders rely upon sub-servicers for servicing capabilities, but the majority of sub-servicers do not have necessary infrastructure, including an eVault system and controls and processes, to support servicing eNotes.

### **What We Have Done**

The GSEs have revised/clarified policies to permit master servicers to perform MERS eRegistry updates through their eVault system, while allowing sub-servicers to perform all other servicing functions. Because the master servicer often has access to an eVault connected to the MERS eRegistry for use in origination and delivery, this policy change permitted several lenders to move forward with originating and delivering eMortgages to the GSEs without being reliant on their sub-servicing partners to implement eVault systems. Additionally, the GSEs continue to support the entry of sub-servicers into the eMortgage space, with several large sub-servicers planning to complete eVault implementations in the near future.

## **Technology Solution Providers**

### **Barrier:**

A large majority of mortgage lenders rely upon technology partners to enable a seamless and efficient loan production process from application to closing. Implementing eClosings requires broad support of an 'e' process, including loan origination platforms, document providers, servicing systems, and technology platforms that interact with settlement service providers. Some lenders identified the lack of support of an 'e' process by their technology partners as an impediment to adoption.

### **What We Have Done**

The GSEs have each reviewed several eClosing and eVault solutions and separately published a list to increase lender awareness of available market solutions. The GSEs will continue to update these lists as new solutions become available and are reviewed.

Additionally, the lack of support for the required SMARTDoc™ v1.02 eNote format by many document providers has proven to be another obstacle. To address this barrier, the GSEs have worked with several eClosing solution providers to develop SMARTDoc v1.02 eNote capabilities. This approach has opened the door for new lenders to originate eMortgages by eliminating the reliance on their document partner.

## **Settlement Service Providers**

### **Barrier:**

There is both a lack of lender demand and a need for training closing agents on multiple eClosing platforms.

### **What We Have Done**

While settlement service providers indicated lack of lender demand as one of the barriers for adoption, survey respondents from both lending and other segments cited a lack of support from settlement service providers as one of the barriers. So as part of our efforts to promote greater awareness of the benefits of the eMortgage process and

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increasing stakeholder acceptance, the GSEs began working with ALTA to identify strategies for educating and engaging their membership. In July 2017, the GSEs led an educational webinar hosted by ALTA and attended by 350 member-participants. Both Fannie Mae and Freddie Mac have written articles that were included in the ALTA member newsletters. In addition to helping clarify perceptions concerning the eMortgage process, the webinar and articles called for an integration between title and eClosing systems to provide a more seamless and consistent experience for closing agents when interacting with multiple closing solutions. The GSEs have also had discussions with title and eClosing system providers to explore such solutions.

## II. Process Complexity

### eNote Specification:

#### **Barrier:**

The complexity of the existing SMARTDoc v1.02 eNote specification was highlighted by many respondents (particularly technology providers) as being an impediment to adoption.

#### **What We Have Done**

Transitioning the eNote to a PDF-based format consistent with the MISMO version 3.x data model was identified as a key enabler by the survey participants. In response to this feedback, the GSEs held extensive follow-up discussions with industry stakeholders including:

- Discussions at MISMO eMortgage workgroup regarding format options
- Direct outreach via email to both MISMO and non-MISMO document preparation vendors and eClosing solution providers

Based on these discussions, the GSEs made the decision to transition the eNote document format from the existing v1.02 SMARTDoc specification to the MISMO SMARTDoc V3 PDF specification. This transition aligns the eNote with the document format required by the GSEs for other initiatives such as the Uniform Closing Dataset (UCD), which included an XML file format consisting of required closing data and an embedded PDF of the associated Closing Disclosure.

While efforts are underway to implement this transition, the GSEs plan to complete development of the GSE systems to accept SMARTDoc V3 eNotes and begin testing with solution providers in Q1 of 2018. The GSEs intend to begin accepting eNotes utilizing the new document format in Q2 of 2018; however, the new format will not be required for newly originated loans until a date in early 2019, to be determined in consultation with industry stakeholders.

### Warehouse Lending Agreements and Processes:

#### **Barrier:**

Although our initial survey identified eVault technology costs as being an impediment to warehouse lender adoption of eNotes, as more of these funding providers have entered the market the focus of concern has moved from technology costs to GSE agreements and process requirements for warehouse lenders funding eNotes. The GSEs have relied upon tri-party custodial agreements for lenders seeking to deliver eNotes subject to warehouse bank security interest. Under this process, a warehouse bank must sign a separate tri-party agreement for each lender for which they provide an eNote warehouse line. Additionally, Fannie Mae has required warehouse banks to use unique MERS® Organization Identifiers

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for each lender they are funding. The survey respondents indicated that these processes were not scalable, adding complexity to technology implementations and customer on-boarding.

### **What We Have Done**

As the agreements and processes for validating payment instructions are unique to each GSE, we each have worked independently to address industry concerns, with the common goal of simplifying the warehouse lender on-boarding process. Below is a summary of the key efforts of each GSE:

Freddie Mac updated its eMortgage Guide to add the warehouse lender requirements, which eliminated the need for warehouse banks to sign multiple tri-party agreements. A new form was created to bind warehouse lenders to the warehouse lender requirements in the eMortgage Guide, which includes references to the relevant sections of the Freddie Mac Single-Family Seller/Servicer Guide. Warehouse lenders will sign this new form one time, regardless of the number of Freddie Mac-approved Sellers for whom they provide eNote warehouse lines.

Fannie Mae conducted a series of interviews with warehouse lenders and other stakeholders to develop a strategy for transitioning from their existing agreement and process structure for delivery of warehouse funded eNotes. Fannie Mae is currently in the process of incorporating that feedback into their strategy and developing a roadmap for moving to a more simplified process that will address stakeholder concerns.

### **Lack of Uniform Investor Requirements and Policies:**

#### **Barrier:**

The alignment of investor policies and requirements around eClosings and eMortgages was highlighted as a concern for some lenders as well as a hindrance to adoption.

### **What We Have Done**

In 2016, the GSEs completed a detailed analysis of our eMortgage programs to identify opportunities for further alignment that would benefit customers by minimizing implementation or operational complexity. Although this analysis determined that requirements related to closing and delivery of eMortgage loans were well aligned, several areas related to eMortgage servicing were identified where policy differences between the GSEs resulted in increased complexity for our customers. The GSEs worked together to further align eMortgage servicing requirements and related Guide language in the following areas:

- Requirements for sub-servicing eMortgages
- Servicing process requirements
  - Payoffs
  - Foreclosure
  - Servicing Transfers

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## **Default Servicing Requirements:**

### **Barrier:**

A concern for some lenders was a lack of clarity around default servicing processes and requirements.

### **What We Have Done**

To help servicers and their foreclosure law firms better understand eNote foreclosure processes and requirements, Fannie Mae and Freddie Mac published a joint educational resource, the [eMortgage Foreclose Educational Aid](#), that covered applicable laws, court decisions, key terms and processes, and GSE resources.

## **Information/Education:**

### **Barrier:**

From survey responses, it was evident that some of the perceived complexity or issues with eMortgage processes and requirements were due to the lack of awareness and easy availability of information.

### **What We Have Done**

In addition to the eMortgage Foreclosure Educational Aid, the GSEs have participated in several activities to improve awareness around both the eMortgage process and the path to implementation. Other efforts include:

- Updated the eClosing/eMortgage web page on both FannieMae.com and FreddieMac.com to support the industry's education.
- Provided new tools, resources, and training to both support education and drive awareness of eMortgages.
- Participated in several speaking engagements/conferences around the country to discuss the eClosing/eMortgage process, the path to implementation, and how the GSEs can help move the market forward.

## **Closing Comments**

Many factors are converging to support the increased demand for eMortgages. The GSEs will continue to support the industry's transition to a fully digital mortgage process, which will ultimately bring greater efficiencies for today's homebuyer, mortgage lenders, and all other stakeholders involved in the mortgage process. We welcome feedback on remaining barriers to this transition and how the GSEs can best assist in addressing these barriers. Questions and comments should be submitted to the following:

Fannie Mae: [eMortgage\\_info@fanniemae.com](mailto:eMortgage_info@fanniemae.com)

Freddie Mac: [eMortgage\\_team@freddiemac.com](mailto:eMortgage_team@freddiemac.com)