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December 3, 2012

Ms. Corinne Russell
Office of Strategic Initiatives
Federal Housing Finance Agency
400 7th Street, S.W.
Washington, DC 20024
Submitted via email to SecuritizationInfrastructure@fhfa.gov

Re: FHFA whitepaper, "Building a New Infrastructure for the Secondary Mortgage Market"

Dear Ms. Russell,

Attached you will find comments on the FHFA October 4, 2012 whitepaper, "Building a New Infrastructure for the Secondary Mortgage Market," submitted on behalf of MERSCORP Holdings, Inc. and Mortgage Electronic Registration Systems, Inc.

A copy of these comments is also being submitted via email at the address referenced at the end of the whitepaper.

We are available to meet or otherwise discuss our comments should you so desire, and we look forward to continuing to participate in this project as it moves into the next phase.

My direct telephone line is 703-738-0222.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Beckmann", is written in a cursive style.

Bill Beckmann
President & CEO
MERSCORP Holdings, Inc.

**Comments on FHFA's October 4, 2012 Whitepaper
"Building a New Infrastructure for the Secondary Mortgage Market"
Submitted December 3, 2012 by
MERSCORP Holdings, Inc. and Mortgage Electronic Registration Systems, Inc.**

MERSCORP Holdings, Inc., on behalf of itself and its subsidiary, Mortgage Electronic Registration Systems, Inc. (collectively, "MERS"), is pleased to provide comments on the Federal Housing Finance Agency (FHFA) whitepaper, "Building a New Infrastructure for the Secondary Mortgage Market," October 4, 2012 ("whitepaper").

MERS

MERS was created in 1995 under the auspices of the Mortgage Bankers Association (MBA), the government-sponsored enterprises (GSE's), and other important industry participants as the mortgage industry's utility, with the goal of improving the mortgage process by using electronic commerce to improve certain paper-based processes by providing an industry-wide mechanism for identifying and tracking certain information regarding mortgage loans.¹

When a MERSCORP member-lender originates a loan, the borrower executes a mortgage which explicitly designates Mortgage Electronic Registry Systems, Inc. as the mortgagee, as the nominee for the lender's successors and assigns ("mortgagee-as-nominee").² This security instrument is recorded in the county land records, and the note and mortgage are registered on the MERS® System. Prior to closing, the mortgage loan is assigned a unique identifier, the 18-digit Mortgage Identification Number or "MIN" by the originating lender, and included on the note and mortgage. The MIN links these documents and remains with them for the full life of the mortgage loan. MERS also provides the MERS Organization Identifier ("Org ID"), a unique identifier assigned to each member, which is used to link records to specific MERS members. Registering the mortgage loan on the MERS® System allows for the electronic tracking of both loan ownership and loan servicing rights, including any changes in or transfers of those interests, for the full life of the loan.

The MERS® System is fully integrated into the data systems of practically all participants in the mortgage finance system, including every mortgage loan origination system and every mortgage loan servicing system. MERSCORP currently has more than 5,000 members, including virtually all lenders, loan

¹ A mortgage loan consists of a promissory note (the loan contract between the borrower and the lender) and a security instrument (typically a mortgage or deed of trust). For the purposes of this document, the term "mortgage loan" collectively refers to both the note and the security instrument.

² Where appropriate under local law and custom, the security instrument executed by the borrower and lender may take the form of a deed of trust, rather than a mortgage. The distinctions between these two forms of security instrument are not relevant to the current discussion; for the purposes of this document, the term "mortgage" is intended to refer to both mortgages and deeds of trust.

servicers, investors, and similar entities, as well as Fannie Mae, Freddie Mac, Ginnie Mae, and the Federal Home Loan Banks. There have been more than 70 million loans registered on the MERS® System. By design, MERS essentially links every participant and every data system in the mortgage finance space.

FHFA’S Specific Questions

Based upon our current expertise and scope of operation, MERS is offering comments in response to questions 1, 4, and 7 in the whitepaper.

Question 1. The proposed securitization platform has four core functions (issuance, disclosure, bond administration and master servicing). Will these core functions provide an efficient and effective foundation for the housing finance system going forward?

The whitepaper focuses on the creation of a new infrastructure, including a “single securitization platform,” designed to serve the needs of the current and future secondary marketplace. However, the whitepaper does not address how this securitization platform will interact with the existing MERS mortgage registry. Given that most of the industry already utilizes MERS and the MERS® System, some consideration should be given to the potential interaction of the securitization platform and MERS.

The FHFA also states that an electronic registry would be desirable. By design, MERS is the mortgage finance industry’s de facto national registry, a role that it has performed for more than a decade. It currently has approximately 65% market share without legal or regulatory mandate. In that role, MERS has provided extensive comments on the role and function of a possible mortgage registry in comments on the FHFA’s strategic plan which we believe could help any consideration of the respective roles and functions of the two systems, which are attached for your reference. The attached comments set forth several “design principles” – certain baseline elements that should guide any plans and considerations regarding a mortgage registry.

In its current form, the MERS® System meets almost all of these design criteria and, with the cooperation of FHFA and the industry, can be expanded and enhanced to track the additional information and provide any additional functionality necessary to achieve the goals of the FHFA.

The whitepaper’s discussion of the proposed securitization platform is primarily focused on services and functionality to be provided in support of the secondary market. Many aspects of these proposed functions involve tracking and providing discrete loan level data, including:

- collateral management and centralized note tracking;³
- data reporting in the context of master servicing;

³ A more recent FHFA presentation suggests that initial scope of the system would not include collateral management, and would only cover the servicing, issuance, and bond administration functions.

- data disclosures in the context of security issuance; and
- loan-level data validation and reporting to investors.

Use of a unique loan identifier will be essential to the efficient collection, processing, and distribution of loan-level data through the securitization platform. As previously noted, MERS already provides a unique loan identifier (the MIN) to the mortgage industry, and the FHFA should consider leveraging that capability in conjunction with the development of a new securitization platform. This is the only unique loan level identifier in use from loan origination to pay off, and is already in use by every major lender, servicer and loan origination system.

Question 4. Are there additional elements/attributes that should be included in a model PSA? For example,

- a. should the model PSA define when a non-performing loan is required to be purchased out of the trust?***
- b. should the model PSA define when a non-performing loan is required to be transferred to a specialty servicer?***

Although MERS is not directly involved in the servicing of mortgage loans or the creation, issuance and maintenance of any securities, the terms of Pooling and Servicing Agreements (PSAs) are relevant for MERS members. Most PSAs have provisions which recognize the existence of MERS and specifically recognize and authorize the practice of using a “mortgagee-as-nominee” such as Mortgage Electronic Registration Systems, Inc., to ground title to the mortgage lien in a common agent and eliminate the need for assignments to be recorded in the land records each time a mortgage is sold or transferred. MERS has been in operation for more than a decade, streamlining and benefitting the mortgage finance system. Through repeated judicial tests across the country, the model has proven sound. MERS would therefore urge the FHFA and GSEs to ensure that any modifications to the existing legal framework (the PSAs and related documents) maintains or strengthens the authorization for the use of the MERS process.

Question 7. How should document custodial and assignment responsibilities be handled in the housing finance system going forward?

MERS is an integral part of the current process for mortgage recording, transfers and assignments. For more than a decade, Mortgage Electronic Registration Systems, Inc., in its role as mortgagee-as-nominee for the mortgage loans registered on the MERS® System, has served as the common agent for its members in the mortgage industry, including Fannie Mae and Freddie Mac. Having Mortgage Electronic Registration Systems, Inc. perform this role has tremendously streamlined the processing and handling of mortgages, and has enhanced the stability and liquidity of the mortgage finance system. This system was developed after the investment of considerable time, effort, and financial resources on the part of the entire mortgage finance industry. Any change to this process must take into consideration the

impact on the existing benefits that are a product of MERS operation and should build on the MERS model.

MERS is not involved in the custodial handling of mortgage-related documents and takes no position regarding whether there should be any change to this process. However, to the extent that a national system is desirable to be established for tracking custodial information, MERS believes that such a system should utilize the MERS MIN to track mortgage loan documents, and MERS would welcome a dialogue on the feasibility of adding this capability to the MERS® system.

Conclusion

MERS appreciates FHFA's continued efforts to promote improvements in the housing finance system and the opportunity to comment on this whitepaper. We are available to meet or otherwise discuss our comments should you so desire, and we look forward to continuing to participate in this project as it moves into the next phase.