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June 28, 2013

Federal Housing Finance Agency
Office of Strategic Initiatives
400 7th Street, S.W.
Washington, DC 20024

Re: FHFA Progress Report on the Common Securitization Infrastructure

Ladies and Gentlemen:

Attached you will find comments about the FHFA Progress Report on the Common Securitization Infrastructure, dated April 30, 2013, submitted on behalf of MERSCORP Holdings, Inc. and Mortgage Electronic Registration Systems, Inc.

A copy of these comments is also being submitted today via e-mail to the address referenced in the report.

If you have any questions or need additional information, please don't hesitate to contact me. My direct telephone line is 703-738-0222 and my e-mail address is billb@mersinc.org.

Respectfully yours,

A handwritten signature in blue ink, appearing to read "Bill Beckmann", is written over a light blue horizontal line.

Bill Beckmann
President & CEO



**MERS RESPONSE TO
FHFA PROGRESS REPORT ON THE COMMON SECURITIZATION INFRASTRUCTURE
June 28, 2013**

MERCORP 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) April 30, 2013 whitepaper, "A Progress Report on the Common Securitization Infrastructure" ("CSI Update").

MERSCORP, a utility of the mortgage industry, owns and operates the MERS® System, a national registry of mortgages which is used throughout the mortgage industry. The MERS® System uses the Mortgage Identification Number (MIN), a unique loan identifier, to track individual mortgage loans. The MIN and MERS® System were created by the mortgage industry in part to help improve the identification and tracking of mortgage loans and related information, and in particular transfers in loan ownership and servicing rights. These loans are linked to specific organizations (such as originators or servicers) by means of an organization identifier.

The MIN, as well as the associated registry information contained on the MERS® system, is currently used by over 5,000 members who represent the majority of industry transactions. Additional information regarding MERS is provided in the comments below.

MERS appreciates the update on FHFA's previously announced plans and activities related to this initiative, laid out in FHFA's October 2012 whitepaper, "Building a New Infrastructure for the Secondary Mortgage Market." MERS comments on the October 2012 whitepaper are available at <http://www.fhfa.gov/webfiles/24811/MERS.pdf>.

MERS would welcome the opportunity to meet with FHFA's CSI team to further discuss FHFA's plans and goals and how MERS can best contribute to those objectives being achieved.

Executive Summary of MERS Comments

Based on the CSI Progress Report, it is our understanding that FHFA's Common Securitization Infrastructure (CSI) initiative has two components: a technology element, the "common securitization platform" (CSP); and a legal/business element, the "contractual disclosure framework" (CDF). The points we wish to make are as follows:

1. *Common Securitization Platform Should Use the MIN as its Unique Loan Identifier*

The effective and efficient functioning of the CSP will require a unique loan identifier to track individualized loan-level data over the life of the loan. The MIN, supported by the MERS® System, is the mortgage industry only prevalent and unique life of loan identifier and is embedded in all major mortgage origination, servicing and document preparation software. For these reasons, the MIN should be the unique loan identifier used by the CSP.

2. Registry Should Be Independent of the CSP

It is preferable that the registry for the unique loan identifier be structurally independent of (but integrated with) the CSP, thereby promoting greater flexibility and wider utilization of the registry while reducing the burden on the CSP.

3. Industry Participation & Transparency is Essential

MERS supports FHFA's plans to involve industry in the development process and looks forward to participating in this process to the fullest extent possible. MERS encourages FHFA to begin regular engagement with industry as quickly as possible.

4. CSP System Needs to Accommodate Future Innovation

MERS encourages FHFA to ensure that its new CSP will have the flexibility and capacity to support the future shift to eNote and eMortgage technology.

5. The Contractual Disclosure Framework Should Continue to Allow for and Support the Use of MERS.

FHFA should ensure that any new CDF documents, including and especially any uniform security instruments (i.e. the standard mortgages or deeds of trust used by the Enterprises), continue to allow and support the role of Mortgage Electronic Registration Systems, Inc., as the mortgagee-as-nominee on behalf of MERS members, including the Enterprises.

MERS COMMENTS

1. Common Securitization Platform Should Use the MIN as its Unique Loan Identifier

The common securitization platform proposed by FHFA would provide a variety of standardized functions to support the secondary market activities of Fannie Mae and Freddie Mac (collectively, "the Enterprises"), with the potential for expansion of the system to the private sector at some time in the future. Many of these functions are directly tied to the collection, processing, and regular updating of a wide range of loan-level data. Among other things, the FHFA proposes to create a "Life-of-loan" Database or Data Warehouse and to track certain information regarding the custodial information for each loan. In order for the CSP to provide this functionality, the system will need to employ some form of a unique loan identifier (ULI).

The Mortgage Identification Number (MIN) is the only life of loan identifier used by the industry today. The MIN was created and implemented to track mortgage loans from registration through payoff. The MIN is an 18-digit identifier which can be created at the earliest stages of loan origination and remains unchanged for the full life of the loan. The MIN may be registered on the MERS® System, a process which validates the integrity (uniqueness) of the MIN and collects key borrower, property, and loan information, including loan servicer and investor information. Registration allows for the loan to be tracked through any changes in loan ownership and servicing. As a registry, the MERS® System currently maintains a "thin" file on each registered loan, with no loan performance or consumer demographic information – just enough information to allow for identification and cross-referencing of key information.

The MIN has been widely adopted and embraced by the mortgage industry:

- The MIN and the MERS® System are supported by over 5,000 MERS® Members.
- All top 20 mortgage loan originators and 47 of the top 50 use the MIN – 98% of volume
- All top 20 mortgage loan servicers and 42 of the top 50 use the MIN – 99% of volume.
- Approximately 65% of all residential mortgage loans are registered on the MERS® System, and the MIN is on the documents recorded in the county land records.
- MERS functionality - the ability to generate a MIN and register a loan on the MERS® System – is integrated into all major loan origination, servicing, custodial, document preparation and loan delivery systems and supported by all major secondary market investors, including the delivery systems used today by the Enterprises.
- The MIN is used by Fannie Mae, Freddie Mac, Ginnie Mae, HUD, FDIC, State housing programs and Federal and state law enforcement agencies.
- A MERS® System fraud check is recommended by GSE guidelines prior to origination.

This robust level of adoption is especially impressive in light of the entirely voluntary nature of the MIN and the MERS® System.

The MIN has been in operation for over fifteen years and has registered more than 70 million mortgage loans; as of June 1, the MERS® System has over 26,000,000 active loans. Adopting the MIN and the MERS® System is also compatible with the FHFA's stated objective to leverage existing industry infrastructure. The MIN and the MERS® System are also fully compatible with all of FHFA's stated design criteria for the CSP. They are both compatible with existing MISMO standards and the Uniform Mortgage Data Program, and are built with an open architecture, using industry-standard data definitions, protocols, and technology. As previously noted, the MERS® System and MIN functionality are already integrated into most every major loan origination and servicing software, and could easily be integrated with the CSP (assuming consistent application of the relevant MISMO standards). Integration of the CSP with the MERS® System would also support FHFA's objective to promote the greatest degree of straight-through processing and event automation.

The deep integration and widespread use of the MIN in the mortgage industry argue strongly for the use of the MIN as the unique loan identifier for the FHFA's common securitization platform.

2. Registry Should Be Independent of the CSP

MERS believes that interests of the Enterprises and mortgage industry as a whole are best served by the existence of an independent mortgage registry. The more loans captured on a registry system, the more valuable that system becomes for industry, regulators and the public. For example, the MERS® System provides for checking of undisclosed liens prior to origination, a practice recommended in the Enterprises guidelines. Similarly, the MERS® System makes available servicer and investor information to the homeowner at no charge. The more comprehensive the system, the more value is provided. MERS already has a significant base of registered loans to build on; any new system would have a substantial ramp-up period to duplicate the information already contained on the MERS® System.

The FHFA could attempt to develop a new unique loan identifier and mortgage loan registry as a module of the CSP or a stand-alone system, but there is no need to do so as the MIN and MERS® System provide this functionality. Adoption of the MIN will allow FHFA to avoid creating an expensive new – but possibly redundant – data system. It will also save the industry the considerable transition costs of integrating another new system with their existing infrastructure, at time when industry technical and business resources are focused on compliance many new critical rules and requirements. Adoption of the MIN and MERS® System also would avert the ongoing operating cost of a new registry, including the costs of creating and participating in the governance of the entity that maintains the numbering system. Creating a new numbering system or an associated registry will introduce millions of dollars in additional costs to the industry, and that will likely result in higher borrower costs or fees.

Beyond mere redundancy, there are other reasons why an independent registry may be preferable:

- i. Industry participation in the registry for both Enterprise and private label securities is more likely to occur with an entity that is not directly owned and operated by the government. We would note the Depository Trust Corporation as one such successful example.
- ii. The FHFA has stated that access to the CSP will initially be limited to the Enterprises and their servicers, with access for other entities becoming available over time; broad open access being a long-term goal. MERS appreciates the necessity for this; however, it would be preferable for the larger community to have immediate access to the mortgage registry and associated data. Use of a registry that is independent from the CSP will allow for that wider access.
- iii. Broader industry-wide use of the registry, especially if it includes additional elements such as copies of notes and mortgage, is more valuable the more comprehensive it is. As noted earlier, the ability to detect certain types of fraud is improved immeasurably with greater usage, as is the utility of borrowers to look up information in a central repository.
- iv. An independent registry may be more flexible and may more readily adapt to the demands of multiple user groups. For instance, in response to concerns raised by local government officials regarding community preservation efforts and difficulties in identifying responsible party for preserving bank-held property, MERS, as an industry utility, was able to modify the MERS® System to collect this information from servicers and make it available to the appropriate code enforcement officials.
- v. The FHFA has indicated an interest in the primary tracking of custodial information to be handled on the mortgage registry. Although the MERS® System does not currently provide this capability, it does provide for the tracking of the custodian on an optional basis. With the appropriate mandate, the MERS® System could be modified to accommodate this function.

3. Industry Participation & Transparency is Essential

MERS supports FHFA's plan to institute a formal structure to allow for ongoing input from industry participants and urges FHFA to do so quickly. Industry participation will be most meaningful and useful – for both the FHFA and the industry – if it begins at the earliest stages of system design and development. MERS also encourages the FHFA to adopt MISMO standards for data and transactions to the extent practical.

The FHFA has stated that the Enterprises are actively working on a prototype of the CSP, which means that they have also, by necessity, begun to make decisions about the design and structure of the system.

To further promote industry and public participation and confidence in the new CSP, MERS recommends that the FHFA also make public detailed descriptions of the system design. The CSI Update provides a good general description of the proposed system, but lacks sufficient detail to understand and evaluate the system design and functionality.

MERS appreciates that the primary driver behind the creation of the CSP is to provide an essential technology upgrade for the Enterprises, and as such full industry consultation may not be possible at every step of development. Nonetheless, FHFA's decisions regarding the basic architecture supporting the CSP and emerging thoughts on the national registry will have a significant impact on the mortgage industry. Providing maximum transparency in the development process will allow the mortgage industry to appropriately respond to these impacts.

4. CSP System Needs to Accommodate Future Innovation

MERS supports the FHFA's modular approach to the CSP and its goal to create a system which can evolve to respond to future standards and emerging technologies. Along those lines, MERS would encourage the FHFA team to ensure that the CSP is designed from the outset to support the growing shift from paper-based mortgage loans to eNotes and eMortgages. Specifically, the CSP should support interactivity with the mortgage industry's standard data system for eNote and eMortgage transactions, the MERS® eRegistry. Fannie Mae and Freddie Mac currently require that eNotes that they purchase be registered on the MERS® eRegistry.

One of the major advantages of using eNotes and eMortgages is the requirement of data vs. paper and the ability to automate certain functions and prescreen transactions for mistakes, thereby reducing the chances for human error. Integration of the CSP with the MERS® eRegistry should therefore also support the FHFA's objective for the CSP to maximize straight-through processing and event automation.

5. The Contractual Disclosure Framework Should Continue to Allow for and Support the Use of MERS

In addition to supporting the MIN and operating the MERS® System, MERS also provides an important service to the mortgage industry by streamlining the mortgage process. At closing, a MERSCORP member-lender and borrower may elect to designate Mortgage Electronic Registration Systems, Inc., as the nominee (agent) for the lender's successors and assigns, to serve as the mortgagee on the security instrument ("mortgagee-as-nominee"). This security instrument is recorded in the county land records (with all applicable fees paid) and the mortgage is registered on the MERS® System. As mortgagee-as-nominee, MERS remains the mortgagee in the land records for the life of the loan (or until the owner or holder of the loan note elects to have the mortgage assigned to a different party), tracking any changes in note ownership or servicing rights and ensuring continuity between the security instrument and the note. This common agent service eliminates the need for certain assignments typically associated with changes in servicing rights and reduces errors in the land records that result from lender and servicer mistakes in the creation and execution of assignments.

The operation of MERS as the industry's common agent – nominee-as-mortgagee – is recognized and supported in Seller/Servicer Guides issued by the Enterprises, as well as most Pooling and Servicing Agreements used in the private rated securities market. Likewise, the model security instruments currently required by the Enterprises also support the use of MERS. Through repeated judicial tests across this country, the model has proven sound. MERS would therefore urge FHFA and the Enterprises

to ensure that any changes to the existing legal framework, including the new Contractual Disclosure Framework, continue to allow for the use of the MERS process.

Eliminating the need for assignments when selling servicing rights has saved millions of dollars in unnecessary costs over the years and has virtually eliminated the broken chain of title problems that prevents liens from being released in a timely manner. These savings and process improvements have lowered the costs for consumers and streamlined the refinance and purchase transactions for all involved. MERS role and benefits are particularly important and have facilitated the current unprecedented activity in servicing transfers.

About MERS

MERS was created in 1995 under the auspices of the Mortgage Bankers Association (MBA), the GSE's, and other important industry players as the mortgage industry's utility, to improve the mortgage process by using electronic commerce to eliminate certain cumbersome paper-based processes.

When a MERSCORP Member-lender originates a mortgage loan, the borrower executes a mortgage, which explicitly designates MERS as the mortgagee, as the nominee for the lender's successors and assigns.¹ This security instrument is recorded in the county land records and the mortgage receives a unique identifier, which it carries over the life of the loan ("Mortgage Identification Number or MIN). The Members then register their loans on the MERS® System so changes in ownership and servicing rights can be electronically tracked over the life of the loans. The MERS® System is integrated with the data systems of more than 5,000 banks and other MERS members, allowing authorized users to have accurate and up-to-date information about more than 70 million registered loans.

The MERS® System was designed and built around MISMO industry standards, including the MISMO data dictionary for mortgage data transactions and the non-proprietary XML data architecture. The MERS® System is also compatible with XBRL (Extensible Business Reporting Language), the XML-based standard used by the Securities and Exchange Commission (SEC) for corporate financial reports.

The MERS® System operates with a non-proprietary approach to data. The MERS MIN and MERS organizational identifier ("MERS Org ID") are well-established industry standards. MERS does not charge any fee for generating a MIN or Org ID; MERS charges a modest up-front fee (as little as 97 cents) for registering the MIN and associated loan information on the MERS® System. The registration process ensures the uniqueness and integrity of the MIN and also associates the MIN with the property, borrower and loan level information. But once a mortgage has been registered and the MIN has been assigned, there is no additional charge for the use of that number in other contexts, other than transactional fees to update the MERS® System when servicing rights are transferred. Similarly MERS does not charge a licensing or other fee to any software developer or publisher that wishes to incorporate MERS MIN functionality into their product. In other words, unlike a purely proprietary system, the value of the registry is not privatized into MERS, but instead remains available for use in a wide range of applications.

¹ Where appropriate under local law and custom, the security instrument may take the form of a deed of trust rather than a mortgage. For the purposes of this document, the term "mortgage" is intended to cover both mortgages and deeds of trust.

This structure reflects MERS mission as an industry utility, as opposed to a profit-maximizing enterprise. MERS fees are set at levels intended to cover the basic cost of operating, maintaining, improving the MERS® System and providing a sustainable financial position. MERS Members own MERS and provide for its governance, ensuring fairness, sustainability, and efficiency.

Today, the MERS® System and the MERS MIN is used in all aspects of the mortgage finance process – origination, title insurance, servicing, investment, fraud detection and prevention, and property preservation. Virtually all mortgage originators and servicers are MERS members, and MERS functionality – the ability to generate a MERS MIN and communicate with the MERS® System – is part of every major mortgage origination and mortgage servicing software platform. And most importantly, an estimated 65 percent of all active mortgages – over 26 million – are already registered on and actively tracked by the MERS® System. Taken altogether, its broad market presence and deep market penetration, coupled with a tremendous embedded base of information, make the MIN and the MERS® System unique.