

**The Perceived Value of MERS and Its Services**  
**A Paper Based on a Formal Survey of MERS Members**

**MORTECH, LLC Research**

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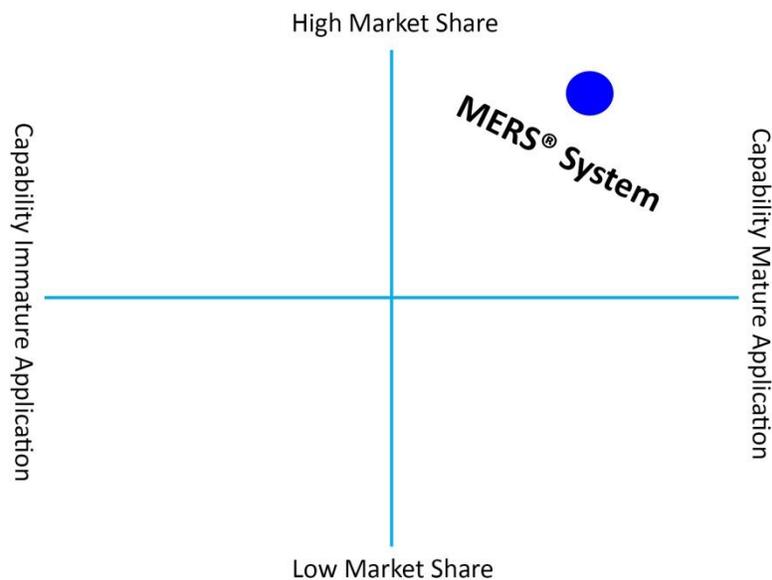
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## Summary of Research on the Perceived Value of MERS<sup>1</sup> and its Lender Services

Over the twenty years since its founding, MERSCORP Holdings, Inc. (MERS) has built an enviable strategic position as an industry-wide utility for eliminating paper from the mortgage process and identifying and tracking key mortgage information. With a market share of 65% of mortgage loans, MERS has an umbrella under which to craft its uncommonly reliable technology applications (Exhibit 1/p.2).

### Exhibit 1

#### MERS<sup>®</sup> System Commands Enviably Market Share and 100% Reliability Rating By Members



MERS has pursued a unique business model that has resulted in an efficient applications set that is universally rated by users as being reliable.

MERS' success is based on continuous improvement in technology operations and on managing applications development that aligns with lenders' needs. During normal operating times MERS is in a position to lower costs and prices to its users during market or product expansion.

<sup>1</sup> MERSCORP Holdings, Inc. is a privately held corporation that owns and manages the MERS<sup>®</sup> System, the MERS<sup>®</sup> eRegistry and all other MERS<sup>®</sup> products. It is a member-based organization made up of thousands of lenders, servicers, sub-servicers, investors and government institutions. Mortgage Electronic Registration Systems, Inc. (MERS) serves as the mortgagee in the land records for loans registered on the MERS<sup>®</sup> System, and is a nominee (or agent) for the owner of the promissory note. The MERS<sup>®</sup> System is a national electronic database that tracks changes in mortgage servicing and beneficial ownership interests in residential mortgage loans on behalf of its members. The MERS<sup>®</sup> eRegistry is another national electronic registry that is the system of record for the ownership of eNotes (i.e., transferable records under ESIGN and UETA).

### Value of MERS' Expertise

With its unique institutional knowledge and prodigious operating scale, MERS is high up on the “experience curve.” This position should allow MERS to see:

- a) Real value-added costs declining as accumulated experience results in low costs relative to technology substitutes.
- b) Those relative costs continue to improve if MERS' transaction growth exceeds market trend.
- c) Changes in cost structure become predictable and can be the basis for controlled services development and enhancements to operations.

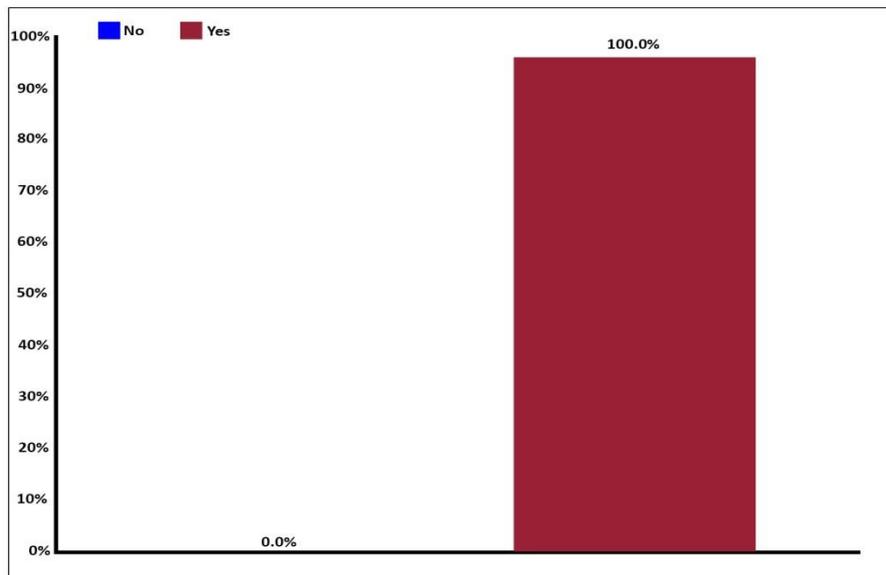
The theory of the experience curve is now forty-five years old. Even so, it remains a foundational element for building MERS' business strategy.

### MERS Is Well-Regarded by Its Members

MERS' organization and operating style builds on its unique high-utility technology interfaces to its members as well as management's unique ability to collaborate with a large and diverse customer base. It is our belief that the industry will benefit from the MERS experience base and its in-place interfaces to 5,000 lenders.

### Exhibit 2

**Do you find that the MERS® System is operationally reliable?**



Our field work (see **Appendix**) points to a near zero operating risk of doing business with MERS (Exhibit 2/p.3). Our survey data tells us that the business milieu encompassing MERS has changed from one of widespread press criticism of MERS to one of high regard for the company as a trusted business partner. Defined by a collaborative mortgage industry task force, the MERS® System, since inception, has been aligned with lender operational needs. Born of collaborating parentage, MERS is more intimate with its users than the average technology vendor.

The tight communication with its user community has enabled the MERS® System to generate profound benefits to them:

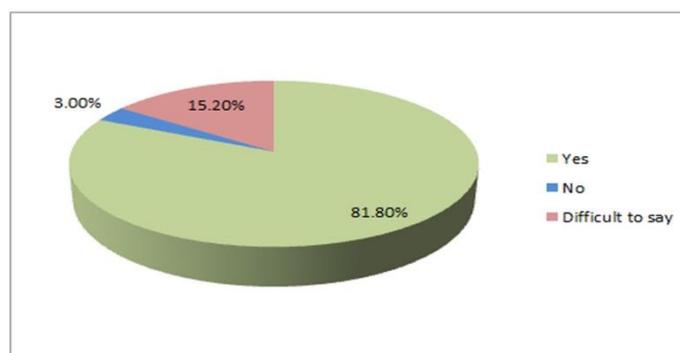
- a) Provides immediate access to information on mortgage ownership rights to both consumers and the industry.
- b) Gives lenders the ability to track individual mortgages throughout their life span and lessens the possibility of fraud.
- c) By eliminating paper processes, lowers the costs of servicing operations benefitting servicers and their borrowers (Servicing trade efficiency increases the intrinsic value of servicing assets).

The scale of the MERS® System has produced a sustained (and sustainable) competitive advantage for MERS. MERS has successfully integrated its technology into the origination and servicing systems of over 5,000 members, a remarkable market penetration for a specialized technology services company. The MERS® System operates with assets that are both unique and virtually irreplaceable.

In our research, we discovered that lenders regard MERS to be a good partner with which to do business (Exhibit 3/p.4). Despite frequent unquantified reports of financial, operational, compliance, legal and reputational risks at MERS, despite several price increases to members, and despite the added work burden and operational complexity created by the multi-agency Consent Order of 2011, we found lenders are favorably inclined to continue to work with and rely on MERS.

### Exhibit 3

#### Do you regard MERSCORP as a Good Business Partner?



The feedback from our survey reinforces that MERS delivers on the functionality it has designed for the core lending processes on which it has focused. Above, we reported the unanimous (100%) opinion that the MERS® System is operationally reliable. That level of operational quality derives only from in-depth functional knowledge, disciplined technology implementation, and an unrelenting review of operations. All these are proprietary assets on which MERS can build.

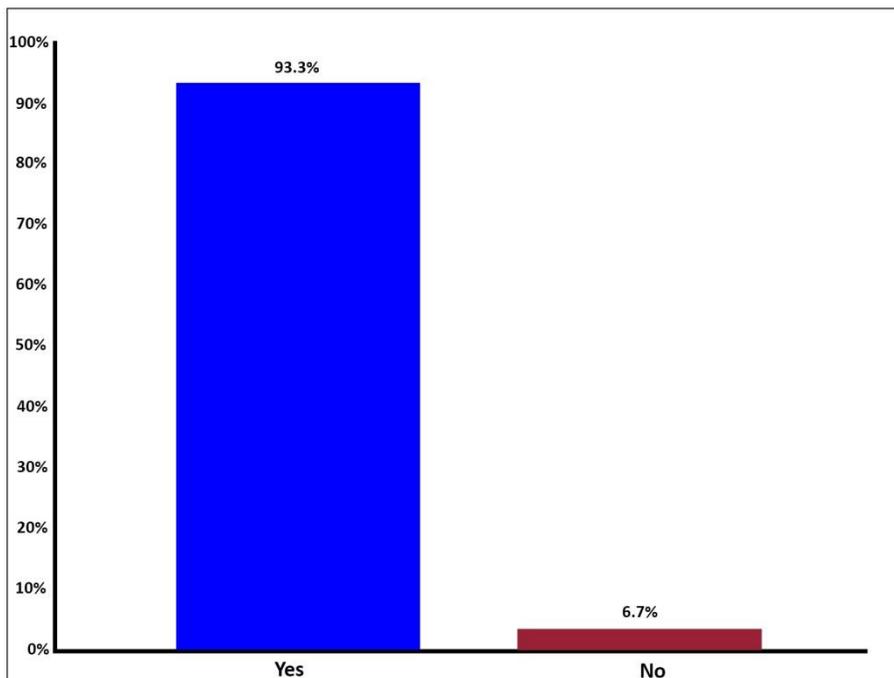
### Foundation of eMortgage

We also have documented that members have a thorough appreciation for the core functionality of another MERS application, the MERS® eRegistry. The MERS® eRegistry is the legal system of record identifying and tracking the owner (Controller) and custodian (Location) for registered eNotes. An offshoot of the MERS® eRegistry is MERS® eDelivery. MERS® eDelivery is a secure method for distributing eMortgage packages from one MERS® eRegistry member to another.

Users of the MERS® eRegistry attest to its competence. 93.3% of MERS® eRegistry users say that it improves the accuracy of note certification – an essential benefit of digitizing mortgage transactions (Exhibit 4/p.5).

## Exhibit 4

Would you say that MERS® eRegistry improves accuracy of note certification?



In our survey, we found that 83.3% of members believe that MERS' data integrity meets or exceeds the levels of data integrity they expect. That trust in data captured, stored and displayed by MERS constitutes confidence that comes with cumulative experience and successful technology and data management.

MERS' demonstrated data management skill provides strong support to lenders' compliance with regulators' data quality and accuracy in reporting requirements. Regulators, and particularly the Consumer Financial Protection Bureau (CFPB), have made data and information quality a hallmark of compliance enforcement. Feedback from members makes it clear that MERS has skillfully incorporated data compliance into its mortgage systems.

The MERS technology platform has proved to be stable and well-accepted by lender-users. Being stable, functionally mature and well-accepted by a broad cross section of mortgage lenders makes us believe that MERS is positioned to add new capabilities that share characteristics of existing core functionality, e.g., a national mortgage registry.

There is a high probability that selective innovations can be had with minimal disruption to MERS' baseline systems. Leveraging the MERS technology platform would not be invasive to core capabilities. Building on MERS' technology would have less development and operational risk than any "green field" development outside of the experience and the scale economies of the MERS platform. Also, the MERS interfaces-to-lender systems are an indispensable and invaluable asset to be leveraged by prospective applications.

### **The Future**

In our interview with Bill Beckmann, President and CEO of MERSCORP Holdings, Inc., Bill laid out his corporate objectives:

- "Right the ship" – demonstrate operational excellence
- Add more value to members
- Reduce member burden – simplify processes
- Explore MERS' future role in e-commerce, e- delivery
- Support the industry's and the Regulators' push to data-based and digitized operations

Our market-based research tells us that MERS is well on its way to meeting its tactical objectives. When the opportunity presents itself, MERS is ready to embark on the next stage of developing extensions to its technology portfolio, thereby increasing its value-add as a business partner to the mortgage industry.

## Appendix

The majority of conclusions and observations in this paper are based on a set of qualitative interviews performed by MORTECH Research on the relationship between MERS and its members. Our core undertaking was to measure the reputation of MERS and to assess members' perceived value of MERS services.

We contracted to complete 30 in-depth interviews with the objective of adjudging significant issues concerning MERS, the quality of its services, and the tenor of its relationship with the mortgage industry. We regard a sample size of 30 respondents as a reasonable basis to underpin our understanding of such issues.

Between May 21 and June 3, 2014, we fielded a survey questionnaire of 31 closed-ended and open-ended questions to a list of 43 officials of companies provided to us by MERS.

<b>Sampling Success Rate</b>	
<b>Sampling Base</b>	43
<b>Interviews</b>	33
<b>Cooperation rate</b>	77%
<b>Source: MORTECH, LLC</b>	

Our cooperation rate (% of sample actually interviewed) was 77%, sufficient to project the results to the sample of companies provided to us by MERS.