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Exploring Return on Automation

MORTGAGE TECHNOLOGY

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MERS Works

The system for tracking note ownership benefits lenders, borrowers and governments.

EVERY PARTICIPANT IN THE MORTGAGE INDUSTRY FACED ITS SHARE of challenges when the housing bubble burst in 2007 and was followed closely by a recession and surge in foreclosures. But as the industry steadily moves toward developing a fully paperless mortgage environment, Mortgage Electronic Registration Systems, Inc.—among the most widely misunderstood companies in the market—has withstood these difficulties and emerged today as a vital e-commerce utility for U.S. housing finance.

MERS is owned by Merscorp Holdings Inc., a business-to-business organization comprised of thousands of lender, servicer, investor and government entity members and maintains a nationwide electronic database called the MERS System. More than 78 million mortgages have been recorded in the name of MERS, of which 26 million are currently active loans. The MERS System tracks changes in servicing rights and ownership interests in nearly 70% of mortgages across the country.

MERS and the products that make it work have streamlined the way mortgage loans are originated, traded and tracked with a unique business model that eliminates the need for assignments of the mortgage lien when servicing rights are transferred from one member to another. As a result, consumers, investors and mortgage companies have saved millions of dollars each year in unnecessary fees and related costs, as well as reduced the errors and delays associated with multiple paper filings.

Before MERS, there were often breaks in the chain of title when lenders consolidated or went out of business and the successors weren't recorded in county land records. MERS resolves this issue, while creating significant time savings in the entire loan process and producing higher customer satisfaction, lower costs and higher quality to the mortgage process. Since the pricing of mortgage loans has become so competitive, lower costs are usually passed on to the consumer.

In addition, Merscorp Holdings has provided various state and local governments with free access to the MERS System to help them find the entity responsible for maintaining properties that are vacant due to foreclosure or abandonment. These property preservation entities are easy to find if the mortgage is registered on the MERS System.

The MERS System also provides borrowers with a free and easily-accessible database where they can look up their servicers' contact information, and in most cases, who owns their loan. Because it is an electronic process that builds on the county land records, the MERS System increases the efficiency and lowers the cost of the mortgage process. New servicers and beneficial owners of a loan are required to identify themselves on the MERS System within days of the actual transfer of interests.



PERSPECTIVES

MERS also contributes to the market's continued evolution. The terms "paperless mortgage" and "e-mortgage" pervade conversations in housing finance like never before and industry participants frequently note how parties will benefit from a full e-mortgage transition that eliminates the need for paper documents and ink signatures.

MERS positions the industry to implement an e-mortgage environment quickly. Three elements of the MERS utility that enable these efforts include the Mortgage Identification Number, or MIN; the MERS eRegistry and MERS eDelivery.

The MIN is a unique, 18-digit standardized numbering system that has been integrated throughout the mortgage industry. It is the only industrywide identifier used from loan registration through payoff, and because it is placed on the recorded security instrument, it is included in the county land records.

The MIN is one of the most important existing tools for tracking loan-level mortgage data. Through its use of the MIN, the MERS System identifies the servicer and, in most cases, the beneficial owner of a mortgage loan for borrowers on the MERS System and identifies the owner of e-notes on the MERS eRegistry.

Merscorp Holdings also operates the MERS eRegistry and MERS eDelivery, tools that are essential elements for e-mortgages. The MERS eRegistry serves as the legal system of record that identifies the owner and custodian of registered e-notes. The eRegistry allows e-notes to be registered and uniquely identified for tracking and verification. There are currently more than 300,000 e-note registrations on the MERS eRegistry and the company processes hundreds of new registrations each day.

MERS eDelivery provides a secure method for lenders to transfer e-mortgage packages by using the eRegistry's infrastructure, open interface and standards. MERS eDelivery reduces document management overhead, shortens cycle times and improves process efficiencies.

The security features of e-notes create a high barrier to fraudulent origination practices and the MISMO data standards used to construct them create the transparency and accountability desired by regulators. Best of all, an electronic closing provides a far better experience for the borrower than the traditional, paper-based alternative.

Before MERS, housing finance was cumbersome. When servicing rights were transferred, it was necessary to record mortgage assignments in county records from the seller to the buyer so that the buyer would appear as the new mortgagee, especially if it wanted to receive service-of-process or other notifications affecting the property.

Also, loans were frequently originated in the name of one lender and then sold to aggregators, which then might sell the servicing rights to another party. In each case, a paper assignment was executed, the assignment was recorded and fees were paid so that each new mortgagee would appear in the land records.

To complicate matters, it could take several months for some jurisdictions to record assignments for large servicing rights sales. Many land recorders struggled to manage the volume of filings, which could make it more difficult for consumers to refinance. Error rates as high as 25% were common, with assignments recorded in the wrong sequence or missing altogether.

MERS' involvement in the mortgage market is substantial and a significant component of its ability to function properly.



Mortgage industry participants created MERS to serve as the common mortgagee and the MERS System as the central, electronic registry for tracking interests in loans and facilitating the transfer, acquisition and identification of those interests. The goal was to eliminate paper assignments, reduce errors and decrease costs. MERS' involvement in the mortgage market is substantial and a significant component of its ability to function properly.

While the past few years have revealed challenges in the industry and MERS, recent improvements to the process ensure that the MERS System will continue to serve and advance the goal of providing efficient and effective mortgage tracking.

During the past several years, Merscorp Holdings has increased efforts in the areas of quality assurance, accountability and oversight. Specifically, members are required to more frequently reconcile the data they enter on the MERS System to the data on their own systems. In addition, Merscorp Holdings requires an annual external review and certification of member compliance with the MERS System quality assurance rules.

Regulatory oversight of MERS and its members' use of the MERS System, along with new audit, risk management and corporate governance practices, provide an enhanced system of checks and balances. Merscorp Holdings continues to meet and enhance these quality assurance programs and audits.

MERS is a critical enabler for the mortgage industry's migration to an e-commerce-based business model. Established during a time when housing finance required more efficient mortgage transactions, MERS provides critical tools that streamline the process. And their unique benefits allow the industry to continue an evolving march toward a paperless environment. **MT**

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