The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 7th Street, S.W.
Washington, DC 20219

August 14, 2023

RE: FHFA Request for Input on the Enterprises' Single-Family Pricing Framework

Dear Director Thompson,

We, the undersigned organizations, welcome the opportunity to respond to the May 15, 2023, Request for Input on the Enterprises' Single-Family Pricing Framework and how it can enhance FHFA's ability to ensure that the Enterprises fulfill their mission. We share a common interest in advancing industry adoption of eMortgages, which are defined in the mortgage industry as being mortgage loans for which the promissory note, referred to as an electronic promissory note or "eNote", is generated, presented, and signed electronically in a closing transaction referred to as an eClosing.

The Enterprises have accepted eMortgages in their loan programs for twenty years now, yet the mortgage market's adoption of eMortgages has lagged behind. Although there are countless studies and data that validate the operational and capital efficiency gains eMortgages offer, the cyclicality of the mortgage market combined with limited outlets for acceptance in the secondary market have created a reluctance and uncertainty in the market, which restricts market participants' investments in eMortgage technology and limits their ability to scale adoption.

Accordingly, we urge the FHFA and the Enterprises to continue to lead the market on eMortgage innovation and incentivize their adoption by reducing the upfront and/or ongoing guarantee fees for loans originated and delivered to the Enterprises as eMortgages. Such a financial incentive would significantly accelerate eMortgage adoption in the industry, which remains low at less than 10% of mortgage loans originated, and which, as detailed herein, would yield numerous benefits to the Enterprises, consumers, lenders, and investors. Widespread eMortgage adoption will help the Enterprises reduce their risk profile and capital requirements, and advance their mission-related goals, specifically in the areas of affordable housing, market liquidity, process efficiency, innovation, and environmental, social, and governance (ESG).

eMortgage Innovation Results in a Better-Quality Asset and Enhanced Risk Mitigation

One of the more significant industry objectives over the last few decades has been to ensure that data and documentation associated with each mortgage loan is complete, reliable, authoritative, useful, and can be seamlessly transferred between primary and secondary market participants. The objective became ever more imperative as a result of the experience of the 2008 housing crisis. During the crisis, loss mitigation efforts and foreclosures were plagued by issues resulting from lost or incomplete paper loan files, such as lost promissory notes, missing signatures, incorrect data, and generally the lack of sufficient evidence that the loan was properly originated.

eMortgages and the underlying technology that supports them provides an accessible solution to these issues. The eMortgage is the cornerstone of a better loan product and is driving the full digitization of the loan file. The mortgage industry has developed a standardized format for eNotes (i.e., MISMO SMART Doc®) that ensures data elements of a loan can be uniformly defined, captured, organized, and transmitted consistently between market participants. This enables systems to readily extract data from the eNote to compare and match it to loan data stored in participant' systems of record (e.g., investor's loan delivery system). With eMortgages, the Enterprises and other investors are now able to automate collateral certification processes that were previously manual ("stare and compare"), which made those processes more time-consuming, costly, and prone to human error.

eMortgages are a powerful tool in the fight to prevent and detect fraud, as well as the disclosure of NPI/PII, in mortgage loan transactions. The eClosing process leverages multi-factor authentication to accomplish more reliable verification of the identity of borrowers and other participants in loan transactions. Through system controls, eClosing platforms limit the documents and information presented to each participant to ensure they can only see and sign what is pertinent to them. Once a SMART Doc eNote is signed, it is rendered tamper-evident by the application of a cryptographic seal. Systems that ingest copies of eNotes, such as eVaults, can use this seal to validate that the eNote has not been altered post-execution. Lastly, critical events such as identity verification, signing, and sealing are all recorded with date and time stamps and reference to the applicable user or system involved with the event in an immutable audit trail. Where a transaction involves remote online notarization (RON), there is even an audio-video recording produced and maintained as further evidence of the transaction.

eMortgages Provide Economic Benefits to the Enterprises in the Form of Reduced Counterparty Risk and Administrative Expenses

With eMortgages, the Enterprises are better protected against losses that could result from counterparty risk. The Enterprises manage the risk of noncompliant loan production by exercising their rep and warrant rights to force originators to buy back loans. Indeed, originators are currently experiencing a surge in repurchase demands from the Enterprises. This loss mitigation tool is ineffective when the seller servicer becomes insolvent and cannot buy back the loan. eMortgages result in better loan quality and help mitigate that counterparty risk. In addition, eMortgages, which must be registered on an eNote registry that serves as a legal system of record, facilitate a streamlined repurchase process in which there is better transparency and fewer questions around parties in interest.

eMortgages also reduce the Enterprises' administrative expenses that must be recouped via guarantee fees. Issues that often arise with paper note loans, such as missing signatures, pages, and documents, are virtually eliminated with eMortgages, significantly decreasing the frequency of downstream remedial processes.

eMortgages Provide a Better Borrower Experience, Particularly for First-Time and Underserved Homebuyers

eMortgages help the Enterprises as they pursue their mission relating to first-time and underserved homebuyers. A loan closed as an eMortgage is a natural fit and a friendlier process for these buyers, who are likely to fuel ongoing housing demand. In addition, an increasing number of first-time homebuyers are from younger generations, who have come to expect technology-enabled processes and are averse to outdated onerous paper and in-person ones.

In a traditional closing, a consumer travels to a title/settlement company office, is presented with a stack of paper documents, many they have not previously seen, and are asked to read and sign them all while an agent, notary, and others in the room at the same table watch and wait. When a closing involves an eMortgage, the eNote, and possibly other documents, are presented electronically via an eClosing room. Documents can be made available to the consumer ahead of the scheduled closing ceremony, enabling the consumer, who might be a first-time homebuyer, to review those documents at their own pace online, and arrive at closing better informed and prepared.

The consumer can also sign certain documents ahead of closing, reducing the time needed on the actual closing day. eClose technologies facilitate communication between the consumer, lender, title company, and even real estate agent; if the consumer has a question about a document or the closing process, they can easily reach out for assistance. An eClosing can also occur entirely remotely, making the process much more convenient for all involved. Remote eClosings are particularly helpful for consumers who may be located far away from the nearest title company, may not be co-located with other participants in the transaction, or may be temporarily out-of-state or out-of-the-country (e.g., servicemembers stationed overseas). This all also benefits underserved borrowers who often work on an hourly basis, without paid leave, and would have to take time off from work, losing out on income, to attend their closing.

eMortgages Advance Affordability

The savings realized due to eMortgage innovation, which run to the benefit of originators and investors and result from efficiencies gained at loan origination and in secondary marketing processes, average between $100 and $400 per loan. These savings, as well as the guarantee fee incentives we are advocating, reduce the cost of originating a mortgage, which can be passed on to borrowers. This serves the Enterprises' mission to make housing more affordable, as well as accessible.

eMortgages Enhance Stability and Liquidity in Housing Finance

By accelerating delivery of a loan from the primary to secondary market, eMortgages support the Enterprises' mission of providing liquidity to the housing market. This can generate significant economic advantages and execution efficiencies for market participants. Factors contributing to this acceleration include: reduced delays at closing from redraws, data issues, and missing signatures; immediate registration and then transferability of the eNote; less time spent on quality control reviews; and auto-certification of documents and data. Ultimately, originators can experience substantial savings from a faster loan sale to the Enterprises because that will reduce the amount of time that originators need to finance holding the loan on their balance sheet and pay hedging costs for the loan.

eMortgages Advance ESG Objectives

The move from paper mortgages and in-person closings to paperless remote online closings delivers clear ESG benefits. Every paper mortgage requires 1 – 2 reams of paper, as multiple parties need a copy of the thick stack of loan documents. An in-person closing requires that the borrower and other parties travel to a meeting place. The closing documents might then need to be physically transferred to the lender, to the correspondent bank or other aggregator, to the servicer, and to a secondary market investor. An eMortgage can eliminate these carbon-heavy industry practices. A surge in industry adoption of eMortgages that results in a lower carbon footprint will create reputational value for the entire mortgage industry. Companies can count eMortgage activity towards their ESG corporate goals. From both an environmental and social perspective, eMortgage specified pools have the potential to get better pricing that could be passed on to all borrowers.

Conclusion

For all the reasons stated above, the Enterprises' pricing structure should financially incentivize the delivery of eMortgages. This would serve as a catalyst to launch broader movement towards innovation and the next generation mortgage process.

Sincerely,

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