Improving the Loan Process With eNotes

A game changer for risk reductions, processing speed, and overall efficiency.

The Inherent Weaknesses of Paper Notes

Paper promissory notes have long been the mortgage industry standard. But the electronic equivalent, eNotes, are quickly rising in popularity; there were 17,000 filed in 2018, which grew to more than 127,000 in 2019. Yet that record was shattered in 2020, which saw more than 460,000 eNotes registered. A lot of this growth can be attributed to pandemic-driven technology adoption, but it's not hard to see why eNotes are so in demand—they're faster, cheaper, and more secure.

Paper notes are slow, expensive, and delicate. They are often damaged or misplaced and require significant preservation efforts throughout the life of loan. Historically, paper notes are stored by a custodian within a physical vault designed to withstand natural disasters; they're commonly retrofitted with fireproof walls and waterless sprinkler systems. These traditional protections are essential because one of the paper note's biggest weaknesses is that there is only one original. There is no concept of a backup; a copy of the original note has no value whatsoever. Due to this fundamental weakness, great care and expense must be used in the handling, management, and safekeeping of this vital piece of paper, which on average is worth hundreds of thousands of dollars. The paper note is like an endorsed check—if you lose it, you can't cash it.

Additionally, each time the paper note is shipped, the risk is magnified exponentially. Before ending up in the custodian vault, a paper note is physically shipped several times; for example, first to the warehouse lender, then from the lender to the investor, and then from the investor to the custodian. Each time it is shipped, the expense and risk of loss or damage is substantial.

Why eNotes?

By comparison, the eNote effectively eliminates all the risk associated with the paper note because an eNote cannot be lost, since there is no single original record to lose. On top of that, an eNote can be backed up to the point that losing it is virtually impossible.

So how does this work? In the paper world, the note is signed and a copy is scanned and emailed to the appropriate business partners. It is clear who possesses the original note—which has a wet-ink signature—and who has copies. But in the eNote world, the concept of an original signed document is moot, as it is impossible to visually determine the difference between the executed eNote and its copies.

Instead, while multiple copies of an eNote can exist at any given time, only one is deemed the "authoritative copy," or the equivalent of the original paper promissory note. In the eMortgage industry, the authoritative copy of the eNote is determined by the MERS® eRegistry system, in conjunction with eVaulting technologies. The copy of the eNote that is stored within the MERS® eRegistry-designated "Location" Rights Holder's eVault is considered the authoritative copy.

The Power of eDelivery

Before an eNote is entered into the MERS® eRegistry, an eSignature(s) and a tamper-evident seal are applied. After it is in the MERS® eRegistry, eNotes can then be instantly eDelivered to multiple parties, with each party given a byte-by-byte exact representation of the document originally eSigned by the borrower(s). Additionally, eNotes can be confirmed that they are exactly the same by programmatically comparing them to each other. At any point, MERS® eRegistry users can confirm that the eNotes in their possession are exact copies of the registered eNote. The MERS® eRegistry also stores each registered eNote's hash, which provides a "fingerprint" for each eNote that can be verified.

Additionally, eVaults that have interfaces to the MERS® eRegistry allow for the eDelivery of an eNote copy, as well as the transfer of rights-holder permissions between MERS® members, which can be completed in seconds while paper delivery takes days. The eDelivery/transfer process updates all impacted members of the MERS® eRegistry that the authoritative copy has moved from one member to another. These steps can then be repeated as many times as necessary when the eNote is transferred to the next participant in the mortgage chain (e.g. originator to warehouse to investor). This improved process allows for multiple copies of an eNote to exist at any given time, while only one is considered the authoritative copy by the MERS® eRegistry.

An Effective eStrategy

As you examine your current processes, you'll see that with paper promissory notes, many resources are required to protect these delicate and vulnerable pieces of paper. Meanwhile the eNote—with its reduced risk, speedier processing, and overall efficiency—is the one of the most significant game changers the mortgage industry has ever seen. The core of any effective eStrategy must include a durable, secure repository to retain all electronic artifacts. This system must be capable of receiving inputs from all aspects of a client's workflow and must be integrated into the process to ensure all assets are managed in a consistent, verifiable manner. DocMagic's entire suite of solutions has been designed to seamlessly interact with our eVault to achieve this objective.

Chris Lewis
Enterprise
Solutions

Brian D. Pannell
Senior Implementation
Executive

Leah Sommerville
Senior Account
Executive