



**FHLBank**  
Chicago

# Loan Collateral Eligibility: eNotes and Other Electronic Documents

July 25, 2025

Members continue to transform their lending channels through the implementation of new and innovative technologies in pursuit of efficiencies, cost savings, and an improved borrower experience. In support of this progression, we implemented the Member Collateral Electronic Promissory Notes (eNotes) Acceptance Requirements and Guidelines ("eNotes Acceptance Requirements").

As these technological changes are implemented, there may be an impact on the eligibility of loans pledged as collateral to FHLBank Chicago. The purpose of this document is to address and answer questions that focus on the deployment of new technology and its impact on loan eligibility. Our goal is to ensure all members have the information they need to make informed business decisions for their financial institution while also optimizing their collateral capacity.

## Commonly Used Terms:

**eNote:** A promissory note that is originated, signed, and stored electronically according to the standards for a transferable record. An authoritative electronic copy of the note exists in a file format known as a MISMO SMARTDoc and is registered with an eRegistry and stored in an eVault. In order to be acceptable as pledged collateral, an eNote must be a valid and enforceable transferable record pursuant to the Uniform Electronic Transactions Act ("UETA"), the Electronic Signatures in Global and National Commerce Act ("ESIGN") or otherwise applicable law. All eNotes must meet FHLBank Chicago's eNotes Requirements.

**MERS eRegistry:** The MERS® eRegistry is the mortgage industry's "system of record" for holders of eNotes. A national eNote registry is part of the industry's response to develop systems that can rely upon the UETA and E-SIGN to establish legal effectiveness of electronic notes for mortgage loans. The registry identifies the current Controller (holder) and Location (custodian) of the Authoritative Copy of an eNote. The controller of an eNote can have the equivalent rights as that of a "Holder in Due Course" of a paper negotiable promissory note.

**MISMO:** MISMO® (Mortgage Industry Standards Maintenance Organization) is the standards development body for the mortgage industry. MISMO developed a common language for exchanging information for the mortgage finance industry. MISMO is a subsidiary of the Mortgage Bankers Association.

**eVault:** An eVault is a specialized document storage system, sometimes referred to as a data warehouse, that holds eNotes (and other digital loan documents) and manages their

transfer across vaults. eVault technology works by permanently binding electronic signatures to a document and creating a tamper-proof audit trail that demonstrates ownership and compliance.

**Transferable Record:** An electronic record as described in Section 16 of UETA and in Title II, Section 201 of E-SIGN.

**Hybrid Closing:** A loan where some mortgage loan documents have been signed electronically, but a paper note and note related items have been executed with a Wet Ink Signature.

**Wet Ink Signature:** An original signature written on a piece of paper, as opposed to a fax copy or to an agreement offered verbally or electronically.

**Imaged Note:** A loan where a Wet Ink Signature note had been executed and electronically scanned.

## Questions and Answers:

**Q1: What eligible loan types will FHLBank Chicago accept as eNotes?**

**A1:** At this time, we accept eNotes for 1-4 family residential loans and closed-end second lien mortgage loans ("1-4 family loans").

**Q2: What is preventing FHLBank Chicago from accepting eNotes in other eligible asset classes?**

**A2:** The infrastructure and market standards required to support eNotes in other asset classes is not yet established like it is for 1-4 family loans. There are many roadblocks to navigate including:

- The MERS eRegistry is an integral part of FHLBank Chicago's acceptance requirements as it allows FHLBank Chicago to control and perfect our security interest in 1-4 family loans. At this point in time, the MERS eRegistry does not accept eNotes for other asset classes and there is no other active industry registry that will accept eNotes for non 1-4 family loans.
- The lack of defined and standardized documents prevents validation of the electronic record for other asset classes. The lack of standardized documentation creates interoperability issues between any potential Registry and an eVault to validate the eNote record.

**Q3: If as a lender I can legally foreclose on a promissory note executed with a digital signature that does not meet the eNote requirements, why will the FHLBank Chicago not accept the loan as eligible collateral?**

**A3:** We acknowledge that documents executed with a digital signature may be enforceable provided they comply with all applicable laws including ESIGN and UETA. However, pledging these types of loans as collateral presents several issues:

- If the member is required to deliver loan documents, FHLBank Chicago would not be able to obtain control over the loan; and
- FHLBank Chicago's inability to liquidate the loans in the case of a default under the Advances Agreement.

Without the infrastructure, documents, and technology embedding the required protections in the closing process used by members to originate eNotes, we have no way of confirming that they are holding the true original note, and additionally that the note has not been altered. FHLBank Chicago would have no control or protection in the process as a secured lender.

**Q4: For eligible 1-4 family loan eNotes, why does FHLBank Chicago require delivery of the authoritative copy of the eNote to their eVault? If I am a member who is not currently required to pledge on delivery for non-eNotes, why then do I have to deliver an eNote?**

**A4:** We require eNotes to be delivered to our eVault for the following reasons:

- Delivery of the eNote provides absolute certainty that we are in control of the Authoritative Copy. The eNote Acceptance Requirements are heavily reliant upon the MERS eRegistry and FHLBank Chicago's designation as Secured Party. Possession of the eNote creates redundancy of control that protects FHLBank Chicago in the event of a MERS system failure; and
- It is impractical for FHLBank Chicago to perform due diligence, onboard and continually monitor every eVault vendor solution that is offered in the market place. By requiring delivery of the Authoritative Copy of the eNote we avoid potential interoperability issues with our eVault and member technology solutions. We are hopeful that in the future the mortgage industry can create a designation or certification for vendors that potentially alleviates this issue.

**Q5: Do eligible 1-4 family eNotes receive the same margin as traditional wet ink signature notes?**

**A5:** Yes, the FHLBank Chicago will apply the same margins for both traditional wet ink signature executed notes and eNotes. FHLBank Chicago's margins are published and available on [eBanking](#), and margins are subject to change in accordance with any future policy updates.

**Q5: Will FHLBank Chicago accept Hybrid Closing loans for all loan types?**

**A5:** Yes, we will accept hybrid closing loans, where all documents with the exception of the original promissory note can be executed electronically or imaged, for all eligible loan types.

**Q6: Why does FHLBank Chicago need to be able to take possession of a physical note or eNote if we have an image?**

**A6:** In order to protect the interests of the cooperative, we may require members to deliver loan collateral so that in the event of liquidation or bankruptcy, FHLBank Chicago's security interest in the loan collateral is protected. Without being able to take possession of an original note or eNote, we run the risk that its interest in the collateral may be compromised during the liquidation process.

**Q7: When will FHLBank Chicago be able to accept imaged notes where the original is not retained?**

**A7:** FHLBank Chicago has no plans to allow members to pledge loans where the original note has not been retained and only an imaged note is available. An imaged note does not meet the requirements as an acceptable original note or eNote due to the fact that they fail to meet the requirements established by ESIGN and UETA to make them transferrable records.

**Q8: Will FHLBank Chicago accept modifications, renewals, extensions, or any other change in terms to the original note if executed with a digital signature that is not**

**in compliance with the eNotes Requirements?**

**A8:** Yes, loan modifications, renewals, extensions, or any other change in terms executed with an electronic signature will be accepted as long as an original wet ink signed promissory note from origination is still in full force, in effect, and in possession of the member.

**Q9: Who can I contact if I have questions about the eNote Acceptance Requirements?**

**A9:** If you are evaluating changes to your lending channels to adopt eNotes or have already implemented eNotes and have questions about the eNote Acceptance Requirements, we encourage you to contact your sales director or our collateral department at [collateral@fhllbc.com](mailto:collateral@fhllbc.com). Please also reference FHLBank Chicago's [Readiness Checklist](#) for additional information.