

Should They Fail

The Paper Way/Mortgage Backed Security (Tangible Paper Note - Legal) Example 1

(7) Example 1 Investment Trust:

(Principal) Note Amount	Interest Rate	Term Years	Total Accrued Interest	Total Payments
1. \$100,000	7.00%	30	\$139,510.98	\$239,510.98
2. \$125,000	7.00%	30	\$174,384.89	\$299,384.89
3. \$150,000	7.00%	30	\$209,266.34	\$359,266.34
4. \$175,000	7.00%	30	\$244,140.32	\$419,140.32
5. \$200,000	7.00%	30	\$279,021.94	\$479,021.94
6. \$225,000	7.00%	30	\$313,895.10	\$538,895.10
7. \$250,000	7.00%	30	\$348,769.07	\$598,769.07
Total Principal Balance			Total Accrued Interest	Total Accrued Payments
\$1,225,000.00			\$1,708,986.64	\$2,933,988.64

Sample MBS example, based on (7) fictitious loans and proper negotiation of the paper documents according to law:

MBS offering amount to investors (Minimum): \$1,225,500.00

Possible Tranches of the MBS

- Principal Only Payments
- Interest Only Payments

Banks entitlement to payments:

➤ Principal Payments	\$0.00
➤ Interest Payments	\$0.00
➤ Securitization Fee	Trust Prospectus
➤ Homeowner Collection Fee	Per Pooling and Servicing Agreement
➤ Investor Disbursement Fee	Trust Prospectus

Risk of loss to bank:	\$ 0.00
Risk of loss to investor	\$ Investment Amount Less Insurance Payment
Risk of Loss to Homeowner	\$ Principal Balance + Applicable Interest Payments

Custodian of Trust has possession of Paper Promissory Note with proper negotiation and endorsements, Paper Security Instrument with proper assignment of lien right transferred filed in Public Records reflecting negotiation of the paper note.

**The Electronic Way/Mortgage Backed Security
(Intangible Electronic Note - Lacks Supporting Laws)
Example 2**

(7) Example 2 Investment Trust:

<i>(Principal) Note Amount</i>	<i>Interest Rate</i>	<i>Term Years</i>	<i>Total Accrued Interest</i>	<i>Total Payments</i>
8. \$100,000	7.00%	30	\$139,510.98	\$239,510.98
9. \$125,000	7.00%	30	\$174,384.89	\$299,384.89
10. \$150,000	7.00%	30	\$209,266.34	\$359,266.34
11. \$175,000	7.00%	30	\$244,140.32	\$419,140.32
12. \$200,000	7.00%	30	\$279,021.94	\$479,021.94
13. \$225,000	7.00%	30	\$313,895.10	\$538,895.10
14. \$250,000	7.00%	30	\$348,769.07	\$598,769.07

<i>Total Principal Balance</i>	<i>Total Accrued Interest</i>	<i>Total Accrued Payments</i>
\$1,225,000.00	\$1,708,986.64	\$2,933,988.64

Sample MBS example, based on (7) fictitious loans and improper negotiation:

MBS offering amount to investors (Minimum): \$1,225,500.00

Possible Tranches of the MBS

- *Principal Only Payments*
- *Interest Only Payments*

Banks entitlement to payments:

➤ <i>Principal Payments</i>	<i>\$0.00</i>
➤ <i>Interest Payments</i>	<i>\$0.00</i>
➤ <i>Securitization Fee</i>	<i>Trust Prospectus</i>
➤ <i>Homeowner Collection Fee</i>	<i>Per Pooling and Servicing Agreement</i>
➤ <i>Investor Disbursement Fee</i>	<i>Trust Prospectus</i>

<i>Risk of loss to bank:</i>	<i>\$ MBS Offering Less (CDS's & CDO's)¹</i>
<i>Risk of loss to investor</i>	<i>\$ 0.00</i>
<i>Risk of Loss to Homeowner</i>	<i>\$ Alleged Principal Balance + Alleged Interest Payments</i>

Original Loan Originating Custodian has possession of Paper Promissory Note which lacks proper negotiation and endorsements to the MBS Trust. Paper Security Instrument lacks proper assignment to maintain continuous perfection of lien rights as being transferred and filed in Public Records reflecting negotiation of the paper

¹ If Trust not lawfully created, then how would one obtain a CDS or CDO on what could not lawfully exist?

note. Unlawful electronic filing in Public Records is a notice of assignment reflecting “negotiation of an unlawful electronic note.”

Example 1 represents a lawful execution of contracts of the homeowner’s promissory note and other documents for use as underlying collateral in a secondary market investment vehicle. The primary market contracts are in Tangible Paper form and, as such, they may be used as underlying collateral in the creation of the secondary market investment vehicle. The secondary market investment vehicles can be in Intangible electronic form. For the underlying collateral to remain valid and enforceable, the Paper Notes need to have been properly negotiated and upon negotiation, Public Records must be updated to show the new lien holder as to maintain a continuous perfected lien.

Example 2 appears to be identical to Example 1 in most respects, except that the primary market paper negotiable instruments were converted into electronic form. This electronic form (eNote) is being presented to the secondary market as the “Notes” for use as the underlying collateral in the secondary market trusts. The law does not support the creation or the existence of electronic promissory notes identified as an “eNote”.

The DTC Registry tracks the Investor’s beneficial ownership interests in secondary market electronic Certificates. (Legally Supported).

The MERS Registry tracks the Certificateholder’s beneficial ownership interests in the primary market homeowner’s electronic promissory notes. (Electronic Promissory Notes Lack Supporting Law, the Underlying Collateral). The MERS Registry should also reveal the identity of the Originating Custodian.

Author’s comments: there are many secondary market trusts, each with their own governing documents, but in most cases the requirements are similar. Also, the Fannie Mae method that creates a principal and interest split for use in Mega Certificates will not be addressed in this paper.

The primary market does not rely upon the laws governing the secondary market and the secondary market does not rely upon the laws governing the primary market. The primary market laws and the secondary market laws in a limited fashion are similar, but the legal requirements are majorly different.

The secondary market certificates rely upon laws other than the UCC for electronic legal support, but the primary market still relies upon the UCC which does not allow for electronic documents and no other laws apply.

Should They Fail Darn Toot’n

Crimes Were Committed

The sound of cold hard steel slamming shut needs to be heard!