PAYMENT RAIL OPTIONS

Use Case Scenarios

Here's a look at how money could be transferred using four different payment alternatives for a hypothetical transaction.

Transaction

MR. AND MRS. SELLER have accepted the bid of Mr. and Mrs. Buyer for the purchase of their single-family home for $950,000. Buyers have agreed to pay a 10% deposit at contract, an additional 20% at closing, and will finance the remaining 70% of the purchase price payable at closing.

Buyers will fund the deposit and the additional 20% of the proceeds from its account at Buyers' Bank. Lender will originate the mortgage for the purchase, transferring funds through Lender's Bank. Funds will be held in escrow by Abstract Title at Title Company's Bank.

Sellers' Bank holds Sellers' mortgage, which will be paid off at closing.

The listing agent for the home is Sellers' Agent and Buyers are represented by Buyers' Agent (collectively, Agents).

Contract is scheduled to be executed on March 1 and closing is scheduled for May 1. Assume that (a) there are no other mortgages or other encumbrances to be discharged at closing, (b) the financing to be provided by Buyers will be secured solely by the mortgage in favor of Lender, and (c) with respect to wire transfers, Abstract Title will use FedWire and Title Company's Bank will use CHIPS.

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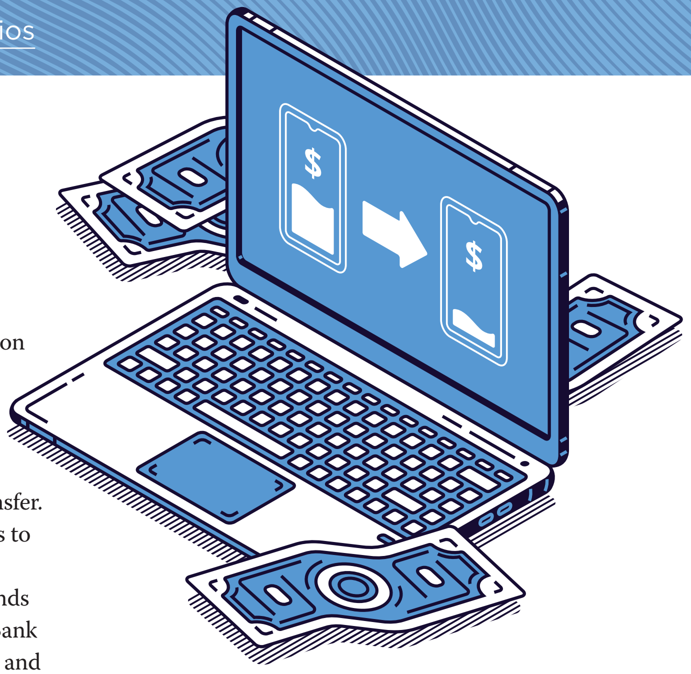


1. Wire

Transaction Limits: Subject to specific bank transaction limits (Otherwise, there is no transaction limit for wire transfers of amounts that would be necessary in connection with the hypothetical transaction.):

- Buyers will be able to pay the deposit and additional 20% of the purchase price by wire transfer.
- Lender will be able to pay the mortgage proceeds to escrow by wire transfer from Lender's Bank.
- Title Company's Bank will be able to disburse funds on behalf of Abstract Title to Sellers, to Sellers' Bank to pay off Sellers' mortgage, and to pay Agents A and B at closing by wire.

Timing

- Assuming that Buyers initiate the wire transfer for 20% of proceeds on the day of closing, the transaction may not settle until up to two banking days after closing; if the funds are transferred the day before, the funds may have settled on the day of closing or may settle the following day.
- Assuming that Lender's Bank initiates the wire transfer for the mortgage proceeds on the day of closing, the transaction may not settle until up to two banking days after closing.
- Funds disbursed via wire at closing will settle in the payees' respective accounts one to two banking days after closing.
- Where funds are received via wire on the day of closing and then transferred via any payment method the same day, Abstract Title bears the risk that either of the incoming wires (from the Buyer or the Lender) does not settle.

Fraud/Allocation of Risks

- Buyers or Buyers' Bank will bear the risk of a fraudulently misdirected wire transfer of the 10% deposit and additional 20% of proceeds. Buyers' Bank may cancel the wire instructions if it sends, at the Buyers' direction, a notice of cancellation that is received by the receiving bank before the receiving bank accepts the wire, or later if the receiving bank agrees in its discretion to the cancellation.
- Lender or Lender's Bank will bear the risk of a fraudulently misdirected wire transfer of mortgage proceeds, with the same rights to cancel as described above.
- If Buyers timely report to Buyers' Bank that the transaction from Buyers to Title Company was unauthorized, then Buyers' Bank bears the risk of loss. The transaction must have been "unauthorized," that is, in fact not executed by Buyers to be eligible; the risk of loss for a misdirected transaction or a transaction fraudulently induced by a third party but executed by Buyers falls on Buyers. However, whether the transaction was authorized, if Buyers used a commercially reasonable security procedure offered by Buyers' Bank, Buyers' Bank proves that it followed the procedure in good faith, and Buyers fail to prove that there was interloper fraud, the loss falls on Buyers. Interloper fraud occurs when the fraudster was not a person entrusted by Buyers with duties to act for Buyers in requesting the wire or who gained access Buyers' transmitting facility from a source not controlled by Buyers.
- With respect to funds transferred by Abstract Title at closing:
  - Abstract Title will bear the risk of fraudulent **FedWire** transfers if it authorizes such transfers or (i) if it uses commercially reasonable security procedures offered by Title Company's Bank, (ii) Title Company's Bank proves that it followed the procedure in good faith, and (iii) Abstract Title fails to prove that there was interloper fraud.
  - Title Company's Bank will bear the risk of fraudulent **CHIPS** transfers as the Participant in the CHIPS system. Title Company's Bank may share in payments made to TCH under the insurance policy maintained by TCH.

2. Real-time Payments (RTP)

Transaction Limits: Subject to specific bank transaction limits (RTP rules permit transactions over RTP up to $1 million):

- Buyers will be able to pay the deposit and additional 20% of the purchase price over RTP.
- Lender will be able to pay the mortgage proceeds to escrow over RTP because it will be below RTP's $1 million transaction limit.
- Abstract Title will be able to disburse funds to Sellers, pay off Sellers' mortgage, and pay Agents A and B at closing over RTP, subject to the transaction limit.

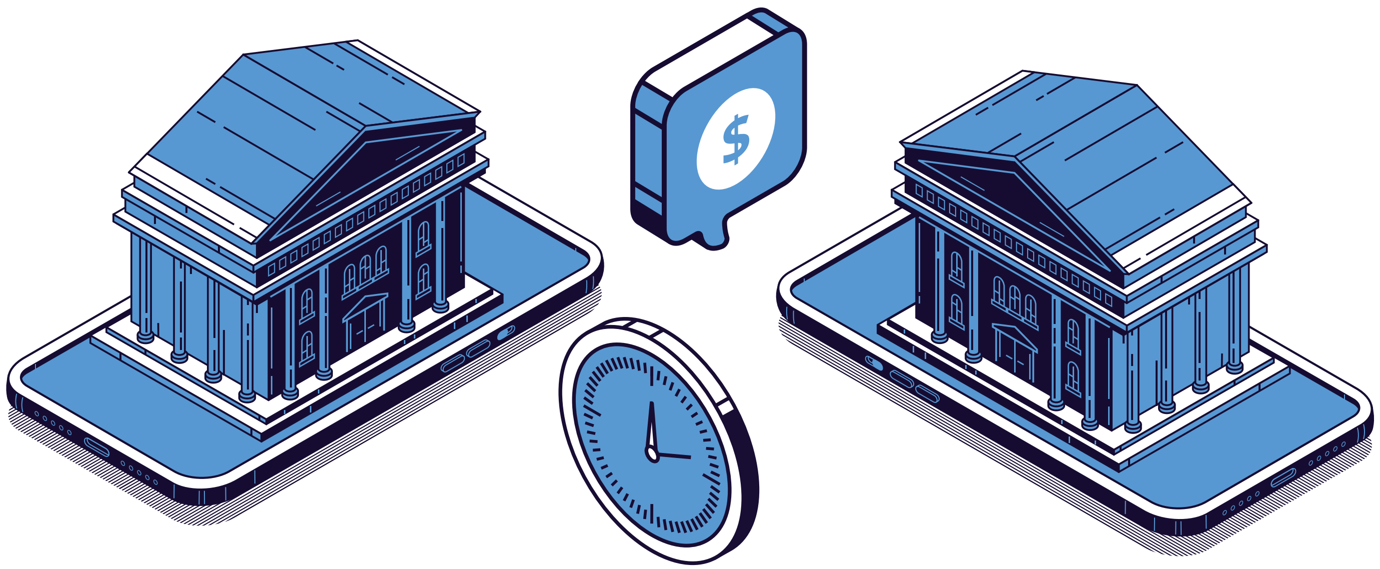
Timing

- Buyers' payment of 10% deposit could be made at time contract is executed, and 20% of proceeds at closing. Title Company's Bank will receive irrevocable funds within seconds of payment by Buyers' Bank.
- Buyers' Lender could send mortgage proceeds at closing to Title Company's Bank and Title Company's Bank will receive irrevocable funds withing seconds of payment by Lender's Bank.
- Title Company's Bank could disburse funds at closing to sellers, Sellers' Bank, and Agents, and each payee would receive irrevocable funds within seconds of payment by Title Company's Bank.

NB: RTP's Request for Payment would not be available for any of the fund transfers, which are not authorized under the current RTP Operating Rules.

Fraud/Allocation Risks

- All fund transfers over RTP will be irrevocable.
- Title Company's Bank will have no obligation to return any fund transfer by Buyers' Bank or Lender's Bank on behalf of Buyers or as mortgage funds from Lender.
- Sellers' Bank will have no obligation to return any funds transferred by Title Company's Bank for benefit of Sellers
- Banks for Agents A and B will have no obligation to return any funds transferred by Title Company's Bank for benefit of Agents. (Payor bank can initiate a Request for Funds message upon notification from Payor of an erroneous or fraudulently induced payment. The payee bank must respond but is not obligated to return funds.)
- If Buyers timely report to Buyers' Bank that the transaction from Buyers to Title Company was unauthorized, then Buyers' Bank bears the risk of loss. The transaction must have been "unauthorized," that is, in fact not executed by Buyers to be eligible; the risk of loss for a misdirected transaction or a transaction fraudulently induced by a third party but actually executed by Buyers falls on Buyers.
- If Buyers' Bank must reimburse Buyers, Buyers' Bank may seek indemnification from other third parties to the extent permitted under other applicable law.
- All transferors will otherwise bear the risk of fraud or other loss.



3. FedNow

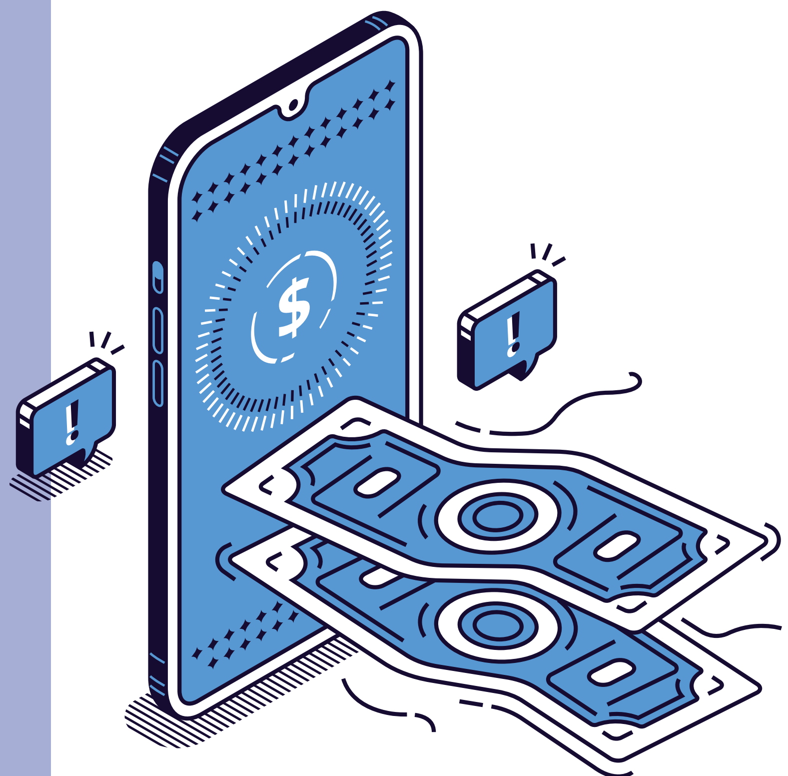
Transaction Limits

- Buyers' deposit and 20% proceeds payment would be within FedNow transaction limits. (This assumes the limit will be adjusted to $500,000 maximum by sending bank.)
- Lender's transfer of mortgage proceeds to escrow would exceed FedNow's transaction limits and will not be supported.
- Title Company's Bank's post-closing fund disbursements to Sellers' Bank and to pay off Seller's mortgage may be supported by FedNow depending on whether each is within FedNow's transaction limits. This will depend on the relative amount attributable to Seller as sales proceeds as compared to the amount of the payoff of their mortgage.
- Title Company's Bank's disbursement of funds to Agents A and B would be supported by FedNow.

Timing:

- Buyers' payment of 10% deposit could be made at time contract is executed, and 20% of proceeds at closing. Title Company's Bank will receive irrevocable funds within seconds of payment by Buyers' Bank.
- Lender would have to use a different rail to send mortgage proceeds to Title Company's Bank and depending on which rail is used will determine when funds received by Title Company's Bank will be final. (See timing for other rails.)
- The relative amounts attributable as sales proceeds versus mortgage payoff will determine whether Title Company's Bank could disburse funds at closing to Sellers and Sellers' Bank over FedNow. If disbursement is over FedNow, funds could be disbursed at closing and payee will receive irrevocable funds within seconds. If the payment is above FedNow's transaction limit, then an alternative rail would have to be used, and timing for finality of payments made at closing will depend on the rail used. (See timing for other rails.)

Funds disbursed at closing to Agents would be irrevocable to Agents within seconds of payment.

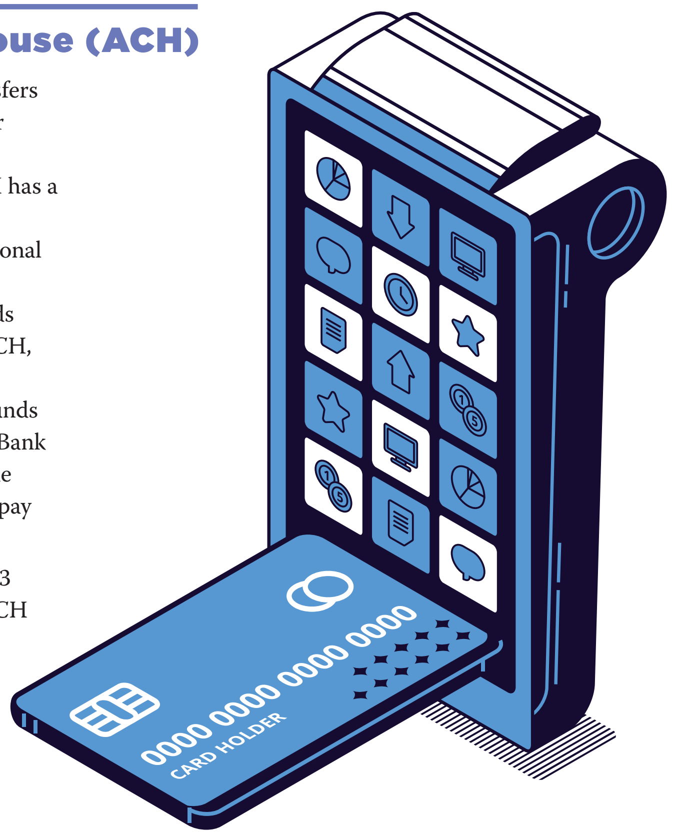


NB: FedNow rules do not limit use of the Request for Payment function in connection with any of the fund transfers.

Fraud/Allocation Risks

- All fund transfers over FedNow will be irrevocable. For payments over other rails will depend on which rail is used.
- For payments over Fed Now, all payees' banks will have no obligation to return funds to all payors' banks. (Payors' banks may request a return of funds, but payee bank is not obligated to return funds.)
- If Buyers timely report to Buyers' Bank that the transaction from Buyers to Title Company was unauthorized, then Buyers' Bank bears the risk of loss. The transaction must have been "unauthorized," that is, in fact not executed by Buyers to be eligible; the risk of loss for a misdirected transaction or a transaction fraudulently induced by a third party but executed by Buyers falls on Buyers.
- If Buyers' Bank must reimburse Buyers, Buyers' Bank may seek indemnification from other third parties to the extent permitted under other applicable law.
- All transferors will otherwise bear the risk of fraud or other loss.

4. Automated Clearing House (ACH)



Transaction Limits: All relevant fund transfers will be within transaction limits for both Regular ACH and Same Day ACH. (Regular ACH has unlimited transaction limits and Same Day ACH has a $1 million limit. Thus:

- Buyers will be able to pay the deposit and additional 20% of the purchase price by ACH.
- Lender will be able to pay the mortgage proceeds to escrow by ACH, including over Same Day ACH, which has a $1 million limit.
- Title Company's Bank will be able to disburse funds on behalf of Abstract Title to Sellers, to Sellers' Bank to pay off Sellers' mortgage (including over Same Day ACH, which has a $1 million limit), and to pay Agents A and B at closing by ACH.

Timing: Regular ACH transfers may take up to 3 business days or longer to settle and Same Day ACH may settle in 1 day but depending on time of payment it may require an additional day.

Thus:

- Buyer's payment of the deposit could be made at time of contract and settle before closing.
- Buyer's Payment of the 20% sales proceeds would have to be made substantially in advance of closing over either Regular or Same Day ACH to ensure settlement in Title Company's Bank at time of closing, and Title Company would likely need affirmative evidence of cleared funds. Assuming that Buyers initiate the ACH transfer for 20% of proceeds on the day of closing, the transaction will not settle until after closing; if the funds are transferred the day before via Same Day ACH only, then the funds may have settled on the day of closing or may settle the following day.
- Lender's transfer of mortgage funds to Title Company's Bank would have to be made in advance of closing over either Regular or Same Day ACH to ensure settlement in Title Company's Bank at time of closing. Assuming that Lender initiates the ACH transfer for mortgage proceeds on the day of closing, the transaction will not settle until after closing.
- Title Company's Bank could make ACH transfers at closing (i) of sales proceeds to Sellers, (ii) of mortgage payoff to Sellers' Bank, and (iii) to Agents A and B, but funds will settle days later. The delayed settlement of mortgage payoff funds to Sellers' Bank, particularly for mortgages over $1 million where Same Day ACH would be unavailable, may be unworkable due to the need for lien release and additional interest.
- Where funds are received via ACH on the day of closing and then transferred out (via any payment method) the same day, Abstract Title bears the risk that either of the incoming ACH transactions (from the Buyer or the Lender) does not settle.

The timing for a request to return funds will depend on whether the transaction is a consumer or commercial transaction and whether it is a credit or debit entry. We address only credit entries below. We understand that debit entries are not contemplated; while debit entries could reduce the risk of interloper fraud, they would require Abstract Title as the originator to take on substantial additional risk of liability from unauthorized (or claimed unauthorized) transactions.

- Front-end consumer credit transaction: Buyers' Bank initiates a credit transfer on behalf of the Buyers as "originators" (e.g., for the deposit or the 20% payment of proceeds) to Title Company's Bank. Buyers will be the "originator," Buyers' Bank will be the ODFI, Title Company's Bank will be the RDFI, and Abstract Title will be the "receiver." Buyers' Bank may initiate a reversal if (i) the payment is a duplicate of one previously initiated Buyers' Bank, or (ii) there are discrepancies between the information concerning the transaction with respect to parties, date, or amount of transaction. Buyers' Bank generally would have 5 banking days following the initial transaction to initiate a reversal.
- Front-end commercial credit transaction: Lender initiates a credit transfer of mortgage proceeds to Title Company's Bank. Lender is the "originator," Lender's Bank is the ODFI, Title Company's Bank is the RDFI, and Abstract Title is the "receiver." Lender's Bank may initiate a reversal if (i) the payment is a duplicate of one previously initiated by Lender's Bank, or (ii) there are discrepancies between the information concerning the transaction with respect to parties, date, or amount of transaction. Lender's Bank generally would have five banking days following the initial transaction to initiate a reversal.
- Back-end consumer credit transaction: On behalf of Abstract Title, Title Company's Bank disburses sales proceeds to Sellers at closing. Abstract Title is the "originator," Title Company's Bank is the ODFI, Sellers' bank is the RDFI, and Sellers are the "receiver." Title Company's Bank may initiate a reversal if (i) the payment is a duplicate of one previously initiated by Title Company's Bank, or (ii) there are discrepancies between the information concerning the transaction with respect to parties, date, or amount of transaction. Title Company's Bank generally would have five banking days following the initial transaction to initiate a reversal.
- Back end commercial credit transaction: On behalf of Abstract Title, at closing Title Company's Bank disburses funds to Sellers' Bank to pay off Sellers' mortgage and to Agents A and B as payment of their commissions. In each case Abstract Title is the "originator" and Title Company's Bank is the ODFI. With respect to the specific transactions, Sellers' Bank is both the "receiver" and RDFI for the mortgage payoff, and Agents A and B are the "receivers" of the commission payments with their respective banks being the RDFI. Title Company's Bank may initiate a reversal if (i) the payment is a duplicate of one previously initiated by Title Company's Bank, or (ii) there are discrepancies between the information concerning the transaction with respect to parties, date, or amount of transaction. Title Company's Bank generally would have 5 banking days following the initial transaction to initiate a reversal.

Fraud/Allocation Risks:

- For credit transactions, the risk of settlement failure rests with the receiver (i.e., the payee) until settlement has occurred.
- For credit transactions, the risk of payment reversal rests with the receiver (i.e., the payee) for five business days due to the ODFI reversal window. While the grounds for reversal are limited, the RDFI generally must honor a reversal within that five-business day period and debit the funds from the receiver's account if a proper credit reversal is received.
- For the credit transactions that are debited from a consumer's account (e.g., Buyers' payment of earnest money or down payment), the risk of an unauthorized transaction rests with the Buyer's Bank. Buyer's Bank is required under Regulation E to reimburse Buyer for an unauthorized transaction. Buyer's Bank could seek relief against or indemnification from Abstract Title as the recipient of the funds, but only if there is a separate basis in state tort law to do so.