



NMLS Ombudsman Summary
Hyatt Regency San Antonio, San Antonio, TX
Regency East 1-2
9:00 a.m. - 12:00 p.m. (CT)

August 1, 2017

The NMLS Ombudsman, Scott Corscadden, called the meeting to order at 9:05 a.m.

1) NMLS Ombudsman Update

Scott Corscadden, NMLS Ombudsman

Supervisor, Bureau of Loans, Alabama State Banking Department

Corscadden reported that the Ombudsman had received 64 emails between January 1, 2017 and June 30, 2017. The emails covered numerous topics including questions on application submissions, licensing fee, consumer complaints, MLO test results and policies, press inquiries, and NMLS security policies. Corscadden discussed how the various avenues of replies to the emails as some are referred to a specific state agency, or to internal CSBS staff for follow up.

Corscadden also updated the group on several issues that had been discussed at previous Ombudsman meetings:

Backdating of license status in NMLS: This is an issue that was raised at a prior Ombudsman meeting and staff have been working with the states to research the reasons a state agency may backdate a licensee's license status. Corscadden noted that there are instances where such backdating is attached to a specific action and may be necessary such as in connection with a company closure request or to coordinate with due process timelines (e.g., court orders).

The overall issue of system changes and corrections, including the backdating of license approval and other record items has been the subject of one of the NMLS 2.0 operating policies. The NMLS 2.0 Steering Committee and the NMLS Policy Committee have approved the following policy: NMLS should limit the ability of a system user to make changes, correction or backdating of actions, license status, etc. Any such change deemed acceptable should be fully audited, transparent to impacted parties, and have limited impact on public reporting.

License Sponsorship Change Times: Corscadden noted that this issue is a follow up to information presented at the last meeting from the MBA on information they collected from their members on sponsorship timelines. CSBS is working within the governance process to determine how, and in what manner, state specific timelines can be published. It's important to know reasons why these licensing and sponsorship decisions may take time and, again, we are working to identify the underlying processes that may cause time lags and, where

possible, can be addressed in NMLS 2.0 (automatic sponsorship change). He noted that CSBS staff have been vetting this with the states and working through how to present the information in a meaningful and straightforward manner – by agency, by license type, how to differentiate between “clean” apps and those placed in Pending-Deficient, etc.

Mary Pfaff briefly walked through the exhibit provided in the Ombudsman packet that contained average and median timelines for both new and subsequent sponsorship approvals. Cliff Charland, Maryland, discussed some of the processes that states must follow and information that must be verified before approvals are made and noted that often the biggest issue is not receiving required information from all parties involved. Charlie Clark, Washington, stated that his agency is required to process 80 percent of applications and sponsorship change requests during a set time period and echoed Charland’s comment that the process depends on coordination from all parties.

William Kooper, MBA, inquired about the timeline for issuing more specific state numbers so that companies can better plan internally. Pfaff noted that the issue is still being considered by the NMLS Policy Committee but no set timeline has been decided.

Licensing of Foreign Entities: Rich Cortes, Connecticut, and Haydn Richards, Bradley, informed the group that AARMR has approved a working group of regulators and industry to determine possible solutions to the issues surrounding verification and validation of foreign company applicants and control persons. They requested that anyone interested in participating contact one of them. Mary Pfaff noted that functionality in NMLS 2.0 is being developed to help identify and process foreign entity information. Within the 2.0 requirements gathering process we are investigating, within the account creation process, a specific track for collecting data/documentation on foreign nationals (driven by lack of SSN and/or other questions). The system will collect as many data elements as possible and the record will be “tagged” as one with information that has not been fully validated. There will be an upload process for scanned foreign identification. Future development will include a strategy for obtaining data verification resources for foreign nationals.

NMLS Call Center: Corcadden gave an overview of a visit to the NMLS Call Center that he and Jim Payne, Kansas, made earlier in the year. He lauded the call center representatives and recommended that the practice of inviting state regulators to the call center continue as it have him a great appreciation for the wide range of issues that the center takes in and how those questions are responded to.

State Requirements for Ownership Reporting

Keisha Whitehall Wolfe, Mayer Brown

Whitehall Wolfe stated that they have noticed an increase lately in the number of states that are beginning to request smaller increments of licensee ownership percentages. She asked the group whether there has been any particular reason for the requests for additional information and whether any formal notice of such a change has been issued. While it is clear that states have the authority to request any information on ownership, there is a concern that the information is being collected simply “because it can” and that once a person is reported they are often then considered to be a control person which may not be the case (this can also lead to issues regarding attestations being made that are not correct).

Another question/concern noted was whether this type of information can be collected outside of NMLS to avoid its review and collection by states that otherwise would not have requested the data. At times, there has been discussion about setting up state specific sections in NMLS that could house information that is viewable by only the state agency that requested it.

Tom Brennan, Massachusetts, noted that in Massachusetts, they do require reporting of 100 percent of ownership, at least in the organization chart. The state needs to know which individuals are making profit from the company and does require all information be submitted through NMLS to ensure the System remains the one system of record for the state agency.

Rich Cortes, Connecticut noted the need to understand a company's voting structure to be able to determine the persons who can affect change and policy at an organization.

With regard to the issue of a separate state information section in NMLS, Cliff Charland, Maryland and Jim Payne, Kansas, among others, indicated they would be amenable to such a change but Kirsten Anderson, Oregon noted the benefit of all states seeing the same information, particularly as it relates to disclosure question responses.

The discussion continued with a suggestion that there should be a way in NMLS 2.0 to indicate the state that is requesting a certain unique piece of information. Also, Stacy Valerio, Connecticut brought up the issue of state ownership of licensee information as something that needs to be considered. Overall, the issues that were noted as needing further discussion, particular in light of NMLS 2.0 were: ownership information; segregation of information in NMLS and the filing and document upload protocols that would be needed in order to set up such a segregation.

Mortgage Call Report Update/Request for Comments

Rich Cortes, Principal Financial Examiner, Connecticut Department of Banking

Cortes, Chair of the MCR Working Group, noted that a request for comments on proposed changes to the MCR will be issued in September. He walked through many of the proposed changes to the report which include revised definitions and numerous refinements to the format and reporting structure. The proposal will also include a requested change affecting reporting requirements by deleting the existing GSE-related trigger for the expanded report and replacing that with requiring companies to file those segments of the report that correspond to the business activities that the company engages in (e.g., a broker would complete only the broker section; a company that only services would complete only that section).

Tim Lange, CSBS, stated that the working group is continuing their work on updating the MCR for conversion to NMLS 2.0. The 60-day public comment period will open in September when the request is published with targeted dates of February 2018 for publication of the new final specifications for the MCR and a projected go live date of January 2019.

Effects of Diversity Among State Requirements

Andrew Hall, Licensing Manager, Royal United Mortgage LLC

Hall's submission included several licensing-related topics that he noted illustrate the wide diversity in how states regulate the licensing process and the varying requirements across the different jurisdictions. He noted the successful adoption of the Uniform State Test as a model for other areas and discussed the difficulties involved in tracking and implementing the various jurisdictional requirements from the perspective of a mortgage company compliance officer.

Other comments included a suggestion that it would be helpful to have a toolbar or dashboard that would allow applicants to track the status of their applications. Stacey Valerio, Connecticut, noted that NMLS 2.0 will be able to help automate some of these processes and improve communications between the states and the licensees. There was general agreement between regulators and industry that improved communication, which will be a focus of NMLS 2.0, is essential to help improve the process.

Opportunities for State Regulators and Industry to Work Together for Regulatory and Compliance Clarity from CFPB "2.0"

Ken Markison, Vice President & Regulatory Counsel, MBA

Markison discussed the MBA's concern that upcoming changes to the CFPB could lead to more states adopting separate laws and rules. He particularly made the point that if there are changes in the regulatory world, the industry would like to ensure that they continue to work closely with the states towards the goal of more uniform guidance as to compliance with the federal rules. The MBA is very supportive of the establishment of state advisory boards and working towards providing structured guidance for compliance rather than a move toward compliance through enforcement.

State Examination System (SES)

Kyle Thomas, Vice President, Supervision and Accreditation, CSBS

Tony Vasile, Senior Director, Non-Depository Supervision, CSBS

Thomas and Vasile updated the group on plans and timelines for the development of the SES (formerly the Examination Management Tool Suite) which is being built as part of the NMLS 2.0 initiative. The system will facilitate the sharing of information and automate manual processes. SES will provide regulators and industry with an on-line, coordinated system for performing examinations and will include features such as a direct portal for industry/regulator communications and uploading of all examination-related documents; an ability for regulators to easily incorporate company information from NMLS and reports such as the Mortgage Call Report; and an archive for states to store examination reports and materials. They also discussed upcoming opportunities for regulator and industry stakeholder engagement in the process. The project was officially launched on August 1 and information on SES and engagement opportunities are posted on the NMLS 2.0 website (new.nmls.org).

Multistate Examinations

Chris Romano, Non-Depository Bureau Chief, Montana Division of Banking & Financial Institutions

Chuck Cross, Senior Vice President, Consumer Protection & Non-Depository Supervision, CSBS

Cross first introduced the members of the Multistate Mortgage Committee (MMC) who were in attendance at the meeting and gave a brief overview of the exams performed to date (since 2010, there have been 70 multistate exams which represent more than 700 individual state examinations). Romano, Vice-Chair of the MMC, discussed the increased focus on servicing examinations during 2016, which is continuing this year as 7 multistate servicing exams have been scheduled for 2017. Common findings among all exams include issues with accuracy of loan application information, lack of employee training, HMDA submissions, and unlicensed activity. Romano also reviewed some of the tools used by examiners such as the analytics developed by the Risk Profiling Group (RPG) that help determine risk factors used in the scheduling and prioritization of examinations and the Examiners Report that creates custom reports on a licensed company's activities extracted from the Mortgage Call Reports. That particular report was generated over 6,000 times in the past year by state examiners.

Open Discussion

Legal Name Change

Jack Konyk, Weiner, Brodsky, Keider PC

Konyk brought up an issue regarding situations where a change of legal name for a licensee can result in a time gap during which the company may be prevented from engaging in business due to the timing of regulator acceptance of the new name. Some jurisdictions require a change be made through the Secretary of State first which essentially then makes the "old" name no longer valid immediately. Stacy Valerio from Connecticut stated that this issue has been discussed as the rules regarding legal name change (and timing issues related to the change) do vary and that as further discussions are held on this topic, appropriate updates to system functionality will be considered.

Examination Process

Lisa Klika, Guild Mortgage

Klika asked whether it is possible to work with examiners to obtain a preliminary report of examination findings before the examination report is finalized and to have this be a built in step of the exam process. As the compliance officer for a large company, she indicated that early response and information would be helpful to ensure any issues are addressed.

Corscadden adjourned the meeting at 12:00 p.m., thanking all participants and noting that the next NMLS Ombudsman meeting will be held in conjunction with the NMLS Annual Conference in February 2018. The conference will be in New Orleans, LA.