NMLS Ombudsman Meeting  
Hyatt Regency San Antonio  
San Antonio, TX  
Regency East 1-2  
9:00 a.m. – 12:00 p.m. (CT)  
August 1, 2017

Agenda:

1. **Scott Corscadden, NMLS Ombudsman**  
   Supervisor, Bureau of Loans, Alabama State Banking Department  
   - Ombudsman Update and Issue Review  
   Exhibit 1-3

2. **Keisha Whitehall Wolfe, Mayer Brown**  
   - State Requirements for Ownership Reporting  
   Exhibit 4

3. **Rich Cortes, Principal Financial Examiner, Connecticut Department of Banking**  
   - Mortgage Call Report Update and Highlights of Upcoming Proposed Changes (Request for Public Comments to be issued in September 2017)  
   Exhibit 5

4. **Andrew Hall, Licensing Manager, Royal United Mortgage LLC**  
   - Effects of Diversity Among State Requirements  
   Exhibit 6
5. Ken Markison, Vice President & Regulatory Counsel, MBA
   William Kooper, Vice President of State Government Affairs & Industry Relations, MBA
   
   - Reports of CFPB’s Demise are Premature - Opportunities for State Regulators and Industry to Work Together to Achieve Greater Regulatory and Compliance Clarity from CFPB 2.0

6. Examiner’s Forum
   
   - State Examination System (SES)
   - MMC Update

7. Open Discussion
I. SUMMARY OF NMLS OMBUDSMAN ISSUES

NMLS Ombudsman Emails

In addition to topics raised at the open NMLS Ombudsman meeting in February 2017 at the NMLS Annual Conference, the Ombudsman received 64 emails between January 1, 2017 and June 30, 2017. The emails are reviewed by the Ombudsman who either responds directly to the submitter or refers the question to SRR staff. Many of the questions are answered by referring the individual to: (1) the internal Regulatory User Group (RUG); (2) NMLS Call Center; (3) the NMLS Resource Center; (4) a specific state regulator; or (5) the CFPB.

Quite often, the emails relate to issues that have been already raised through the NMLS Call Center; generally when the individual is not happy with the resolution and is seeking another avenue of review. The process followed in these cases is to identify the case in the call center’s case management system for the issue and obtain the background information. This informs the follow up which may be an escalation of the case through the Call Center or an email from the Ombudsman stating the reasons for the original decision.

None of the emails received this year contained any query or issue that rose to the level of needing further policy review by the NMLS Policy Committee. The subjects of the emails vary greatly in specifics, but fall into the general categories of: license application submission; licensing-related fees; inability to change information submitted as part of a record; MLO test issues; consumer complaints; system log-in issues; license renewal; specific state questions; press inquiries; and privacy and security NMLS policies.

The breakdown of how responses were generated is as follows:

*Research performed internally* (21)
All system operational questions which generally involve a review of Call Center findings or access to the individual’s NMLS history. Depending upon the inquiry, the
person may be referred to the Call Center for resolution or the Ombudsman sends a
response containing the details and follow up received from RUG

Referral to Testing Department for review and follow up (5)
Questions and/or complaints about test scores and or other issues are performed by the
testing department which has procedures in place to track and resolve issues.

Referral to the Appropriate State Agency (22)
For any questions regarding applicability of licensing requirements, other state law
issues, license application status, state licensing fees or complaints regarding a state licensee, the individual is directed to a contact at the applicable state agency.
Depending upon the question, the Ombudsman or staff may reach out to a state for
additional information or questions.

Direct Response from Ombudsman (16)
Basically, any inquiry that concerns NMLS policy issues such as issuance of NMLS
Unique IDs, system security policies, or process for criminal background checks.

February NMLS Ombudsman Meeting

Several of the topics brought up at the February meeting have prompted further review
and research. Raising the issue of backdating of certain license status effective dates
brought this practice in NMLS to the forefront. The NMLS Policy Committee has
discussed the practice and the underlying reasons for backdating. The issue is included
in a recently approved policy for NMLS 2.0 that will limit the ability of system users to
make changes, corrections, or the 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.

Other issues that have been, or are in the process of being addressed more fully
include a request to publish license sponsorship change timelines, licensing of foreign
entities, and the level of ownership and affiliate information requested on the NMLS
company licensing form.

NMLS Ombudsman Outreach

In addition to the two public annual meetings at the NMLS Annual Conference and
AARMR, the Ombudsman attends annual meetings of state regulatory groups such as
NACARA and NACCA. Earlier this year, the Ombudsman attended an NMLS Call
Center Town Hall meeting where he spoke to the Call Center representatives about the
types of issues he receives and answered questions from the attendees.
GETTING TO KNOW THE NMLS CALL CENTER

2,658
The number of license checklists that the call center provides support on

694
The number of separate state licenses that the call center provides support on

96%
Overall satisfaction rate for callers to the NMLS Call Center

96%
Satisfaction with agent knowledge for callers to the NMLS Call Center

98%
Quality assurance success rate on accuracy of information provided on calls to the call center

Jacksonville, Texas - the location of the NMLS Call Center

80,698
Users

4 out of every 10 callers receive a follow-up email with self-help documents

All data for calendar year 2017 (through June)
Review of 2016 License Sponsorship Timelines in NMLS

July 2017
All Sponsorships

- 217,716 requested in 2016
- 4 median days to decide
- 14.8 average days to decide
- 29 states have a median decision time of 5 days
HISTOGRAM OF MEDIAN SPONSORSHIP DECISION TIMES BY # OF STATES (ALL SPONSORSHIPS)

Exhibit 3
First Sponsorships

154,749 requested in 2016
8 median days to decide
17.4 average days to decide
34 states take 8 days or less to decide
Change of Employment Sponsorship Request

- 1 median day to decide
- 8.2 average days to decide
- 62,967 requested in 2016
- 7 states take more than 5 days to decide
July 18, 2017

VIA ELECTRONIC MAIL

Scott Corscadden
NMLS Ombudsman
c/o Conference of State Bank Supervisors
1129 20th Street, N.W., 9th Floor
Washington, DC 20036
ombudsman@nmls.org

RE: Ombudsman Discussion Topic

Dear Mr. Corscadden:

We are submitting this communication for discussion and consideration during the August 2017 NMLS Ombudsman meeting in San Antonio, Texas.

Generally, the NMLS policy guidebook directs the disclosure of persons with 10% or greater direct interests and 25% or greater indirect interests. Considering that the guidebook was last revised in 2012, when submitting filings one also looks at the respective jurisdiction’s statutes, regulations, guidance, and checklists. However, with regard to license types that are managed on NMLS, over the past several months an increasing number of regulators seem be requesting identification of 100% direct and indirect ownership. How many state laws actually require the reporting of the less than 10% direct or indirect owners?

We recognize that several statutes generally include language that allows regulators to request any information deemed necessary for the processing of the application. Whereas it seems that this language was previously reserved for extraordinary circumstances, regulators now seem to be using it to compel disclosure of information that is not otherwise specifically authorized by statute or regulation.

Additionally, in the past, regulators were content with the provision of this information outside the NMLS since it was a statutory requirement that was only applicable to a minority number of states and a state specific document location was unavailable in NMLS. Presently, the
Mr. Scott Corscadden  
July 18, 2017  
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requirement is still only applicable to a minority number of states and a state specific document location is still unavailable in NMLS, yet some regulators are now insisting that this information be uploaded to NMLS for review by both the requesting and non-requesting regulators.  

The concern we raise is not that regulators are requesting information, but the manner in which the request is presented. If it is a standard request, why is not included on the checklists? As more regulators seem to be requesting this information, what is the reason for the request and is it justified? Since not all regulators need (or have requested this information), may the response be submitted directly to the requesting regulator outside the system or will a confidential state specific document upload location be designated on NMLS for the requesting regulator? Further, if this requirement is imposed for new license applicants in a state, what does it mean from those entities who are already licensed? Will the state require that licensees retroactively report any less than 10% owners?  

As we prepare to develop and launch NMLS 2.0, I urge states to consider whether the effort (to both regulators and applicants/licensees) to obtain, maintain, review and store reports of less than 10% direct and indirect owners (especially where there is not a statutory or regulatory requirement) is a necessary standard exercise. Let us not just blindly implement “requirements” – and based on the number of states that actually have a statutory/regulatory mandate to obtain the reporting of less than 10% ownership interests, this should not be elevated to a standard requirement in the NMLS 2.0.  

Thank you for your consideration of this topic and for the opportunity to participate in the upcoming Ombudsman meeting.  

Best regards,  

Keisha Whitehall Wolfe / CGA  

Keisha Whitehall Wolfe  
Counsel
Mortgage Call Report Update
July 2017
MCR Only States
What’s in the Way?

Legislative Requirements

- **California** – Processed and Underwritten loans
- **Massachusetts** – debt collector
- **Michigan** – definition of mortgage loan
- **Missouri** – state statute
- **South Carolina** - state statute
- **West Virginia** – state statute

Servicing & Loan Data

- **D.C.** – servicing
- **Kentucky** – servicing & loan data
- **Maine** – loan data
- **North Carolina** – servicing & loan data
Focus of Public Comment Proposal

- Filing Requirements based on Business Activities
- Correspondent Lending
- Field AC1100 and Servicing Reporting Requirements
- Financial Condition
The Revision Plan

• **Through July 2017**
  ▪ Discuss vision, goals and potential changes with industry

• **August 2017**
  ▪ In-person discussion on proposals

• **September 2017 to January 2018**
  ▪ 60-day public comment period and assessment

• **February 2018**
  ▪ Issue final MCR revision

• **January 2019**
  ▪ Implement MCR revision for Q1 2019 reporting
2017 AARMR Conference Ombudsman Topic:

"Diversity"

All,

My name is Andrew Hall. I serve as Licensing Manager for Royal United Mortgage LLC, based out of Indianapolis, IN and I have been involved with licensing at Royal United Mortgage since licensing became a thing. Prior to that, I myself was a Mortgage Loan Originator. We are a midsized mortgage lender currently doing business in 30 states... also, we were just named Indianapolis' Best Midsize Company to work for by the Indianapolis Star (2nd year in a row actually); my one and only shameless plug, I promise.

My topic is on diversity. In most instances and scenarios, I believe diversity to be an absolute asset. In the realm of being a mortgage lender in multiple states, diversity is most often and at a minimum, a hurdle to overcome. In some scenarios, it’s an absolute deal breaker. I will provide a simple example of this a bit later. My goal in covering this topic today is to not only shed light on the vast diversity there is in the many jurisdictions who govern the mortgage landscape, but also to make a plea to our regulators to understand the private sectors’ hurdles with this and to offer my assistance in absolutely any fashion you can fathom in finding solutions that will appease all who make and enforce the rules. Who knows, we may even strengthen the oversight that is most definitely a necessity.

Let us start by illustrating some facts on the vast differences between jurisdictions:

To start, let me state again that we do business in 30 states, thus, I can only speak specifically on those where we do business or those I have researched. Rest assured all of you, I will not name you by name nor “call anyone out” whether or not I think you are leading the way or holding us down. That said, these are not ‘alternative facts’, but rather actual facts, so please, at minimum, notice where you stand and how you compare.

1. 29 of the 30 state we do business in have adopted the UST. My speech professors always said start with a positive, so that’s where I’m starting folks. Thank you to all of the jurisdictions who have pushed this through. This, I believe, is definitive evidence that no matter how difficult the climb, there is always a way to the top; change is possible. Thank you again.

Here comes the middle part, where the positives start fading a bit. I made a note to smile while reading these few in the hopes that they don’t come across as negatively as they may make me feel in the audio. We’ll see if it works.

2. Let’s start with cost: Beginning with licensing for MLO’s, the range is staggering. Including NMLS fees, as well as credit and background costs, our states range from $131.25 to $653.25 a pop, a range of $522. Branch costs are even further apart where they range from literally $0 to $1520. And yes, you guessed it, Company costs illustrate an even wider range of $2802, starting at $298 and lofting up to $3100 per application, all of these being of course, non-refundable (even in those instances where they take two + years to get approved through no fault of the applicant).
3. Jumping back a bit, as I already mentioned the UST piece, let’s cover prerequisites for MLO licensing. All states of course require 20 hours of education and a passing score on the national exam. From there, it’s all over the place. Starting with states that require nothing more than the National EDU and a passing score to states that require a separate state test, to states that require no additional PE hours to states that require 15 additional state specific PE hours, and everything in between including some quite fascinating quirks therein I might add. Imagine explaining all of this to folks new to the mortgage industry, looking to begin their illustrious career as a mortgage loan originator. I feel like I’m bilingual at this point, I can speak and read English and I can speak and read Mortgage Licensing prerequisites, both quite fluently at times actually.

4. Now on to turn times; that is, the average time it takes a state to approve a MLO license. You are all looking at the same thing right, with the same goal in mind, assuring that this person is not a threat to your consumers? One would think this should be pretty competitive and comparable right? I regret to inform you it’s not even close. Speaking solely YTD thus far, the fastest state we currently work in is averaging 2.38 days to turn a MLO app (I will find you and I will hug you after this, count on that!). Our slowest: 166.08 days (There will be no hugs for that one). I have 7 states currently turning apps in less than 10 days, Bravo to all of you in this group. I have 15 states turning them in under 15 days, 20 in under 20 days, 24 in under 30 days and 6 that are taking more than 30 days to review and approve a MLO application. I understand about being understaffed and over worked, I am as well (probably underpaid too, but that’s a separate speech all together!). This piece is not difficult, even in the worst jurisdictions. But what is reasonable here? 10 days? 15 days? 2.38 days? I can’t even make a recommendation because the results are all over the place. I have no idea what is reasonable, but I know something most definitely is. What I can and will say again is that the money for every single one of these applications MUST be paid up front and is non-refundable. As such, there absolutely needs to be accountability on this piece. If we’re paying you up front to complete a task, I need to know when that task will be completed and it needs to be a reasonable amount of time! I wouldn’t hire a contractor, pay him or her to do work on my house, let alone pay him or her up front and not know when it will be done, nor would any of you. We in the industry expect nothing more than reasonableness and communication here, that I assure you. How do we get there is the question?

5. Lastly, varying state requirements as it pertains to branches: I said I wouldn’t say anyone’s name in this, but we are not licensed in his state and I know this is his favorite subject, so Tom over in Massachusetts, grab your note pad buddy, let’s get this piece figured out so you can stop hearing about it and I can stop talking about it. Where do I even start with this: some states don’t do branching at all, some do. Some allow home branches, some don’t. Some have distance requirements, some don’t. Some require signage and physical office space, some don’t. Some require the branch manager to hold a MLO license, some don’t. Some have separate bonding requirements, most don’t. Some require the lease be in the company name, which if you think I’m going to co-sign on a lease for a MLO so he or she can work from home, you have lost your marbles completely! Let’s agree on one thing, if only one thing today folks. It’s 2017. I know most of you, including myself when I’m talking to my kids at least, had to walk uphill both ways to school, barefoot in the snow, it was horrendous if my memory serves. But the landscape has changed folks. With the use of technology and a bit of logic, this piece does not need to be so difficult and it certainly shouldn’t be so vastly different between jurisdictions. Those states out there that have already discovered the simplicity piece, thank you! Now PLEASE spread the word will you! If you are in one of those states where it is difficult and the law stands in your way, ask me if I will help. I’ll type up letters to your governor until my fingers have worn down, much like my toes on account of the frost bite from walking to school, all you have to do is ask and all I need is to know is that we are marching down the battlefield on the same team.
As promised, here is my example; Opening a new branch location with licensed MLO’s in multiple states: It should not be unreasonable for a compliant and stable company to want to open a new origination branch, create new jobs and initiate the growth of our people in a new location say 600 miles from our home office, with the intent to send maybe 3 or 4 of our most talented, seasoned, licensed and compliant MLO’s down to spearhead it and get it off the ground as well as remain there to work once it’s up and running. In our landscape, unless the company and those you are sending are only doing business in ONE state, that scenario is literally IMPOSSIBLE without chopping off completely the MLO’s ability to earn a living or risking non-compliance in one or more of the jurisdictions you wish to do business. The truth is, we have but one choice, and that is to comply... and then explain to our people why we have to suspend their ability to earn a living.

In summary, as I said, my goal here today was to illustrate some differences, make a few points, state a few facts, but ultimately ask for your help in working towards a more uniform environment. While the UST piece is proving to be impactful, and we appreciate it greatly, this mindset and action truly needs to continue to spread. Speaking for myself and my company, our goal is compliance first, 110%, and it absolutely always will be. I believe that most here today could easily say the same and those in the industry would likely attest to the obstacles they themselves have encountered. The diversity that exists in our environment as it pertains to the varying regulation and operational norms between states is not diversity that fosters growth. I understand the hurdles involved here, on both sides of the track, and I understand that it’s not easy to initiate change in any environment. My point is, if it’s not apparent yet, there absolutely needs to be uniformity in many more aspects of our world, very much like the UNIFORM State Test. From turn times, to costs, to branching, to prerequisites, to many more I could name if I had an endless clock to work with. I believe the ultimate goal of everyone in this room as it pertains to regulation, including licensing, is the exact same. Let’s say we all start acting like it and forge a new path toward a more UNIFORM mindset of regulation and compliance.

With Regards,

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MULTI-STATE MORTGAGE COMMITTEE REPORT TO STATE REGULATORS 2016
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Message from the Chair

Looking back on 2016, the Multi-State Mortgage Committee (MMC or Committee) realized new successes and confronted familiar challenges. Amid all of the hard work the MMC put forward this past year, I am happy to report that the Committee remained focused on the goals set forth in the Nationwide Cooperative Protocol and Agreement for Mortgage Supervision (Protocol and Agreement). Back in 2007, state mortgage regulators came together and agreed to synchronize their efforts, outlining specific goals for multi-state mortgage supervision. Fast forward nine years and the same commitments to “foster consistency, coordination, and communication among state regulators” proves to be just as important to the states and the MMC today as they were in 2007. Multi-state mortgage supervision has certainly evolved over this time, but these goals continue to serve as guiding principles for the MMC, and more importantly the states.

With a well-established, risk-based approach to non-bank mortgage supervision, the MMC is always working to improve the efficiency and effectiveness of multi-state examinations and enforcement. From our perspective, effective supervision needs effective communication. The mortgage supervision process requires coordination with several stakeholders, both inside and outside the state regulatory system. The Consumer Financial Protection Bureau (CFPB) and the state Attorneys General proved to be great partners throughout this past year.

In 2016, the MMC once again had the opportunity to work with the CFPB and the state Attorneys General on a number of mortgage supervision matters. These partnerships, which leveraged each other’s respective resources, expertise and authorities, yield a stronger and safer mortgage lending and servicing environment for consumers. And similar to recent years, the MMC worked with the State Coordinating Committee (SCC) to facilitate and oversee coordinated mortgage examinations with the CFPB, focusing on mortgage origination (forward and reverse) and servicing activities.

The SCC, CFPB and the MMC began this coordinated effort of mortgage supervision in 2014. And though we have always operated quite well together, I think we will look back on 2016 as the year in which coordinated state and federal mortgage supervision began to reach its full potential. Examiners-in-charge (EICs) for both the MMC and the CFPB are encouraged to be proactive, in terms of sharing information, sharing examination findings and meeting with each other on a regular basis throughout the examination process. Leadership from the SCC, the CFPB, and the MMC have brought this partnership forward to where we are all operating in an environment that fosters collaboration and positive results for all.

Coordination among state and federal regulators has never been more important given the size and
complexity of the non-bank mortgage lending and servicing markets. In 2016, non-bank mortgage lenders originated 4.4 million loans totaling over $1 trillion dollars in mortgage lending production, and in this same time serviced roughly 25 million loans.¹ This volume of activity is significant within the overall U.S. economy, and the safety and soundness of this industry is always a consideration at the forefront of the Committee’s risk-based supervision approach.

As we look forward into 2017, and to the current rising interest rate environment, the MMC expects to see entities, who were once heavily reliant on the refinance market, to shift their focus to new revenue sources, such as purchase business and/or mortgage servicing. Some of these entities will undergo substantial shifts in their business operations and plans; and with these shifts the potential compliance risks will be high. The MMC will be watching for these changes in the market, and will work to understand the impact these changes will have on consumers.

On behalf of the MMC, I would like to thank the states that participated in MMC examinations in 2016. We recognize that, in today’s time of competing needs and limited resources, states who participate are making a conscious choice to use their resources to make the state system stronger. We also extend our deepest appreciation to the examiners, EICs, and the Single Points of Contact for the examinations, for their hard work and dedication. We recognize that it can be challenging to balance a multi-state examination along with other work, so we thank them for their efforts. Finally, we thank our partners, at both the state and federal level, for their invaluable efforts as we work to advance mortgage supervision. We are committed to working closely with members of the industry to support activities that foster a consumer-friendly mortgage environment. Both mortgage regulators and industry participants play a significant role in upholding consumer protection standards, promoting economic growth, and fostering innovation. With these shared goals in mind, the MMC looks forward to a successful 2017.

Thank you for all your support.

Kirsten Anderson
Oregon Division of Financial Regulation
Chair, Multi-State Mortgage Committee

Composition of the Multi-State Mortgage Committee

The MMC is made up of 10 members: five appointed by the Board of Directors of the Conference of State Bank Supervisors (CSBS) and five appointed by the Board of Directors of the American Association of Residential Mortgage Regulators (AARMR). Each member serves a two-year term. The composition of the MMC is significant, as it represents both a geographic and philosophical perspective on the state regulatory system. By engaging members from across the country, a fair and reasonable approach to state regulation is achieved. Significant deliberations take place every week on issues confronting state regulators. Building and maintaining a coalition that strengthens the entire state system is accomplished through teleconferences and in-person meetings as these representatives from the states provide a clear avenue for sharing information. This upholds a consistent supervisory approach across state lines. In its role, the MMC serves as the main coordinating body for the state system of mortgage supervision. As a single representative voice, the MMC is able to effectively and efficiently communicate with state agency leadership and carry out commissioner directives on a national level.

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<tr>
<th>2016 Multi-State Mortgage Committee</th>
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<tbody>
<tr>
<td>Arkansas Securities Department</td>
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<td>Florida Office of Financial Regulation</td>
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<tr>
<td>Illinois Department of Financial &amp; Professional</td>
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<td>Kentucky Department of Financial Institutions</td>
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<td>Maryland Office of Financial Regulation</td>
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<td>Massachusetts Division of Banks</td>
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<td>Montana Division of Banking &amp; Financial Institutions</td>
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<td>Oregon Division of Financial Regulation</td>
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<td>Washington Department of Financial Institutions</td>
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The MMC meets weekly throughout the year devoting significant attention to both examinations and regulatory enforcement. In addition to its regular meetings, the MMC held two in-person meetings in 2016 to review processes and progress in multi-state supervision.

Several members of the Committee contributed to various regulatory and trade events throughout the year. This interaction keeps the Committee connected to current issues and trends, while enabling the MMC to maintain a dialogue with both their colleagues and the industry.
CSBS/AARMR Nationwide Cooperative Protocol and Agreement for Mortgage Supervision

In early 2007, state mortgage regulators began signing the Nationwide Cooperative Protocol and Agreement (Protocol and Agreement) outlining a basic framework for the coordination and supervision of multi-state mortgage entities. The initiative established the MMC as the oversight body charged with implementing and directing processes under the Agreement. All states have signed on to the agreement, except for Colorado (Figure 1).

The Agreement sets forth the following goals for the MMC:
- Protect consumers;
- Ensure the safety and soundness of multi-state mortgage entities;
- Identify and prevent mortgage fraud;
- Supervise and examine in a seamless, flexible, and risk-focused manner;
- Minimize regulatory burden and expense; and
- Foster consistency, coordination, and communication among state regulators.
MMC Guide to Coordinated Supervisory Action for Mortgage Servicers

Multi-state mortgage servicers, who are non-bank entities that specialize in loan servicing, have grown dramatically in size, complexity and market importance in the post-crisis mortgage market. These entities have acquired substantial portfolios of mortgage servicing rights (MSRs), many of which consist of riskier loans that require a heightened level of service and support. These portfolios generally operate in all 50 states for the largest servicers, which emphasizes the need for supervisory coordination within the states.

In light of the potential enforcement challenges these multi-state mortgage servicers present, in 2016 the MMC finalized and provided to all states a comprehensive guide for state mortgage regulators to coordinate supervisory actions against a mortgage servicer. The guide is titled, Guide to Coordinated Supervisory Action: Mortgage Servicers (Guide). It is intended to provide process and legal options for supervisory actions that contemplate or result in the restructuring or resolution of a multi-state mortgage servicer. In providing these options to state mortgage regulators the guide outlines principles, a process for coordinating supervisory actions, legal considerations for the remedies available to the states, and a framework to respond to bankruptcy proceedings.

The Guide also establishes a process to facilitate communication between states contemplating actions, including recommending that any signatory to the Protocol and Agreement notify the MMC of any anticipated action against a multi-state mortgage servicer. It provides guidance on the development and implementation of supervisory actions, which includes building a common set of underlying facts for supervisory actions and coordinating the corresponding corrective action. Template documents are available within the Guide to assist in this development and implementation.

Servicing Examination Findings

Over the past three years, a significant portion of the MMC’s supervisory efforts have been focused on mortgage servicing examinations and the enforcement related to those examination findings. Non-bank mortgage servicers continued to increase their mortgage servicing market share in 2016, accounting for 40% of the overall market.² This is a continuing market trend, evident within the examinations conducted and concluded in 2016.

Another sustained and concerning market trend within mortgage servicing supervision is that the likelihood of a negative consumer experience increases as a non-bank mortgage servicer undergoes rapid growth. Accelerated growth through the acquisition of MSRs is challenging to institutions from a compliance perspective. The MMC is working to ensure that the technology,

² Sources: Inside Mortgage Finance via Bloomberg and NMLS Mortgage Servicing Data.
policies and operational procedures within the industry are in place to uphold borrower protections.

Mortgage servicing examination results over the past year have once again identified issues regarding the ineffective oversight and management of third-party service providers. Examination teams found that a number of non-bank mortgage servicers failed to effectively oversee core mortgage servicing functions carried out by third-party service providers, particularly with respect to escrow account maintenance. Common consumer issues cited in connection with this lack of oversight include: failure to timely pay taxes and homeowners’ insurance, improperly imposing lender force-placed insurance, and failure to provide an accurate accounting of escrow balances.

The MMC found little difference in the violations of state and federal law noted in 2016, when compared to the prior year. Generally, the 2016 servicing examination findings include violations and deficiencies related to the following:

- Annual disclosures and timely notices
- Error resolution
- Loan transfer disclosures
- Escrow maintenance and analysis
- Records retention
- Payment processing and account maintenance
- Default servicing and loss mitigation
- Notices of lender placed insurance

In prior years, a significant portion of servicing examination findings were tied to the mortgage servicing requirements of the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA), and 2016 proved to be no different. As non-bank mortgage servicers continue to purchase large pools of MSRs, the MMC recognizes the difficulties within the loan transfer process, but the Committee has also noted the industry’s operational struggles to achieve successful transfers while maintaining compliance with state and federal law. The impact to consumers has not been minimal, and the MMC is working to address these issues through examinations, monitoring loan transfer activity, and by evaluating the impact of significant bulk transfers.

As the Committee remains focused on mortgage servicing activity, the importance of effective technology and the underlying systems that make up a servicing platform cannot be understated. The mortgage servicing industry is heavily reliant on technology solutions to carry out the daily activities needed to comply with consumer rights and protections. MMC examinations indicate that mortgage servicing platforms with incompatible or improperly configured technology systems have a direct negative impact on borrowers, particularly in the loan transfer process. Furthermore, MMC examination teams have found that when technology systems within a mortgage servicing platform are not operating in unison it is difficult and time consuming to create a complete and accurate loan file. This tends to slow down the supervision process and ultimately points to record retention issues, all of which are problematic for consumers, regulators and the institution.
Origination Examination Findings

In 2016, two new types of mortgage origination examination findings stood out as emerging issues. The first issue relates to Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance. MMC examination teams uncovered multiple instances of companies failing to have independent third parties conduct audits to assess compliance with its anti-money laundering policies, procedures and controls. MMC examiners also found that in certain cases companies failed to provide AML training to their employees as required by their internal AML programs. Since 2012, non-bank mortgage companies have been required to meet BSA/AML requirements, and the MMC views compliance with these rules as an important component of a safe and sound mortgage operation. These BSA/AML findings are tied to the core pillars of the regulation, and this is a trend the Committee will continue to monitor.

Another emerging issue identified this past year relates to the Home Mortgage Disclosure Act (HMDA). MMC examination teams found numerous data discrepancies within the Loan Application Registers (LAR) submissions, when compared to the data contained in the reportable loan files. Within the review process, examiners seek to validate the accuracy of the LAR data submitted to meet the requirements of HMDA, and in multiple instances it was determined that the data was either inaccurate or incomplete. As the CFPB works to update the HMDA submission process, which may eliminate some of these issues, the MMC will also continue to monitor this trend. In 2018, HMDA LAR submissions will be provided to the CFPB through a new web interface the Bureau has developed called the HMDA Platform. This new web-based data submission and edit-check system was designed to streamline the HMDA submission process and reduce burden on HMDA filers.3

Licensing violations were, again, a significant finding in MMC mortgage origination examinations. Unlicensed activity at both the branch level and the loan originator level has been identified. With the passage of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 and the codification of the Nationwide Multi-State Licensing System (NMLS) into law, state mortgage regulators are required to ensure compliance with licensing mandates. Whereas many types of compliance violations are handled as routine regulatory matters, the MMC views company adherence to licensing requirements for both origination and servicing activities as critical components of board oversight and management controls. This type of violation, in most instances, is addressed through enforcement, and the MMC will continue to coordinate multi-state actions for unlicensed activity.

While the mortgage origination industry has mature operational processes in place, companies were cited for a wide range of state and federal violations in 2016. Generally, the MMC’s 2016

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origination examination findings include violations related to the following:

- Records retention
- Timely application disclosures
- Oversight of third-party agents
- Collection of unallowable fees
- Inaccurate HMDA submissions
- Inaccurate application
- Advertising
- Unlicensed activity

**Risk-Profiling Group Analytics Tool**

In 2014 the Risk Profiling Group (RPG) of the MMC, in partnership with the NMLS, developed metrics for an examiner risk profiling tool that has become a key component to the Committee’s risk-based approach to mortgage supervision. The examiner risk profiling tool, called the Mortgage Call Report (MCR) Analytics Tool, provides examiners with key information, such as market share, loan data, and a composite risk score that can be used to identify companies with certain risk profiles. The tool allows the user to drill down for more detailed information about the loan portfolio and financial condition of a particular company. The tool also eliminates the need for examiners to manually conduct certain calculations and allows for direct export of the calculations to an examination report.

The MCR Analytics Tool provides valuable charts and graphs of loan origination volume by dollar and number of loans, as well as categories of loans that quickly provide a picture of lending performance in a single state, region or nationwide. It also allows users to set up side-by-side performance comparisons of companies, segregated by state, region or nationwide to identify commonalities or distinctions. The MMC has reported that in 2016 examiners across the country used the MCR Analytics Tool more than 10,000 times throughout the year to assist in their day-to-day examination work.⁴

In 2015 the RPG set its sights on building out the reporting capabilities of the tool. The group created new functionality within the MCR Analytics Tool that allows examiners to auto-generate a formatted report that offers information about the volume of mortgage origination activity, financial condition and loan originator activity as it relates to an individual company. The report is titled the Mortgage Examiners Report. Examiners can simply select the company, state(s) and filing quarters for the examination period under review and the tool will provide a company-specific report that assists examiners in their pre-exam scoping responsibilities.

Within the Mortgage Examiners Report there is a company profile that includes licensing information and identifies the peer group to which the company belongs. The report also includes information regarding unlicensed mortgage loan originator (MLO) activity, where the tool cross-

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⁴ Source: State Regulatory Registry (SRR) Data Analytics
references licensing dates from the NMLS, with the activity for loan originators in the MCR quarterly filings. Having this information in a single, concise document has helped improve the speed and effectiveness of state mortgage regulators’ examination efforts. The MMC has also reported that in 2016 examiners across the country used this report generated from the MCR Analytics Tool more than 6,900 times throughout the year to assist in their day-to-day examination work.5

The initial version of the Mortgage Examiners Report was created to assist examiners in their mortgage origination examinations, however, given its success, the MMC will create a new version of the report focusing on mortgage servicing activity. The MMC views the creation and usage of these reports as an important step in advancing mortgage supervision through a uniform collection of tools for examiners, allowing them to more efficiently analyze the data collected.

**CFPB-State Coordinated Supervision**

In 2013, the CFPB and CSBS established the CFPB-State Supervisory Coordination Framework (Framework) to facilitate a process of coordinated supervision of non-bank entities under joint federal and state authority. The SCC is the official state coordinating body under the Framework. The SCC is responsible for annually developing a list of proposed coordinated examination targets and working with the CFPB to set a coordinated examination schedule.

Within the normal course of this coordinated process, the SCC delegates to the MMC the responsibility for developing the initial list of proposed mortgage examinations. Once the list has been agreed to by both the SCC and the CFPB, the MMC sends invitations to participate to state regulators, selecting EICs and SPOCs, directing the scope of the examination, monitoring and oversight, and ultimately approving the final report and follow up.

In 2015 the CFPB and SCC developed the CFPB-SCC Coordinated Examination Guidance tool. The guidance is designed to provide direction for both the CFPB EIC and the SCC EIC for coordinated examinations. The guidance includes suggested best practices for coordinated examinations and a step-by-step listing of action items to be completed during a coordinated examination. The development of the CFPB-SCC Coordinated Examination Guidance exemplifies the states’ commitment to coordinate with the CFPB, and offers consistency within the coordinated examination process.

The MMC strongly supports the EIC/SPOC events coordinated by CSBS and the CFPB to provide the EICs and SPOCs of the examinations the opportunity to meet in person to begin exam planning early in the process. We believe these events have contributed substantially to the

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5 Source: SRR Data Analytics
improvements we have seen in coordinated examinations.

The coordinated mortgage examinations included a combination of origination and servicing examinations and ranged in size from seven to 22 states participating. A total of 37 states participated in coordinated mortgage examinations in 2016. The EICs and SPOCs for these examinations were provided by Connecticut, Florida, Georgia, Idaho, Kansas, Kentucky, Maine, Montana, New York, Ohio, Oregon, and Washington state.\(^6\)

**Summary**

In 2017 the MMC will continue to refine its processes to provide more efficient and effective supervision, and to ensure that state examiners are well educated and prepared in supervising the mortgage industry. One initiative the Committee began in 2016 that will continue in 2017 is the development of a comprehensive mortgage examiner training program that will address the training needs for examiners at all experience levels. The MMC has also started to update and enhance the MMC Mortgage Examination Manual (found [HERE](#)) and its corresponding job aides by incorporating updated examination procedures for new rules and regulations.

The MMC spent a considerable amount of its time examining the non-bank servicing sector in 2016. As discussed, the rapid growth and acquisition of MSRs by non-bank mortgage servicers has again led to significant examination findings. Several examinations reflected a need for improvement in management information systems for accurate and efficient monitoring of mortgage servicing operations, particularly with respect to escrow account maintenance.

For the near term, the MMC will continue to focus supervisory resources on the non-bank mortgage servicing sector, which is a vital part of the housing market. Non-bank mortgage servicers are facilitating hundreds of millions of mortgage payments every year. This effort requires a high level of coordinated communication between federal and state regulators, law enforcement, and the industry, to assess mortgage servicing risk assessments and decrease the possibility of borrower harm.

The MMC’s heavy focus on mortgage servicing follows the understanding that mortgage loans originated with problems have a higher likelihood of continuing with problems as they mature through the life-cycle of the transaction. Further, the increase in transfer of mortgage servicing rights to non-depositories in recent years have stressed these servicers’ sometimes inadequate operating systems and infrastructures, requiring greater regulatory attention. Despite the regulatory needs of the servicing market, the Committee also intends to allocate resources in 2017 to the supervision of both the servicing and origination market.

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\(^6\) The majority of examinations the MMC oversees are coordinated examinations with the CFPB.
Similar to past years, the MMC is committed to the use of technology in the examinations it coordinates. The use of risk profiling and data analytics is the most effective means to enhance examination efficiency. Assessing the risk of the largest non-bank mortgage originators and servicers in the country requires a comprehensive supervisory platform that is not only deep, but wide enough to provide a true picture of an institution. Without technology, such depth and breadth would be inefficient and unfeasible.

Participation in the multi-state process gives individual states the opportunity to share valuable supervisory knowledge, while conserving precious examination resources and strengthening the entire state regulatory system. The MMC will continually seek EICs and examiners who want to share their skills and enhance their experience and knowledge by being a part of the coordinated examination and multi-state examination process. The MMC looks forward to a successful 2017 and to working with all of the Committee’s state and federal partners.
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