Texas Department of
Savings and Mortgage Lending

2nd Annual

MORTGAGE INDUSTRY SEMINAR

Wednesday, November 19, 2014

2:00 – 2:05	Welcome Comments *Commissioner Caroline C. Jones*
2:05 – 2:20	TDSML Mortgage Examination Data *Senior Examiner - Bill Poe*
2:20 – 2:30	Social Media *Senior Examiner - Ellena Meier*
2:30 – 2:40	Examination Cycles & Rating Results *Senior Examiner – Justin Accola*
2:40 – 2:50	NMLS National Mortgage Data *Examiner - Patrick Hulse*
2:50 – 3:00	NMLS Texas Mortgage Data *Examiner - Terry McFarland*
3:00 – 3:15	Break
3:15 – 3:35	Consumer Complaints *Director of Mortgage Examination - Tony Florence*
3:35 – 4:00	Enforcement Actions *General Counsel - Ernest Garcia* *Associate General Counsel – Chris Schneider*
4:00 – 4:30	Licensing Timeframes / MCR Deficiencies *Director of Licensing - Steven O'Shields*
4:30 – 5:00	Q & A Open Forum – What Do You Want to Know?
5:00	Closing Comments *Commissioner Caroline C. Jones*

TDSML Mortgage Examination Data

Bill Poe, Senior Examiner

Examination Authority

Mortgage Company Loan Originators

Finance Code Chapter 156

7 Texas Administrative Code 80

Mortgage Banker Loan Originators

Finance Code Chapter 157

7 Texas Administrative Code 81

Examination Data

- Fiscal Year 2014

Examinations completed	366
Licensees covered by exams	3,240

- Fiscal Year 2013

Examinations completed	543
Licensees covered by exams	3,236

- Fiscal Year 2012

Examinations completed	279
Licensees covered by exams	5,543

Most Cited Exam Violations

- **Failure to deliver a properly executed TX Mortgage Company / TX Mortgage Banker Disclosure**

  TAC 80.200(a) Mortgage Company Originators

  TAC 81.200(a) Mortgage Banker Originators

- Originator Information
- Process for a consumer to file a complaint with the Dept.
- Information about filing a Recovery Fund claim
- Delivery information

Most Cited Exam Violations

(continued)

- **Unlicensed / Unauthorized Activity**
  - Individual begins originating loans prior to license application being approved
  - RMLO continues to originate after license expired
  - RMLO originates loans with an inactive license

Most Cited Exam Violations

(continued)

- **Advertising**
  - RMLO's NMLS ID missing on business cards or website
  - Website does not display the Complaint/Recovery Notice
  - Social Media (Facebook) including advertisements but not including requirements (NMLS ID and Complaint /Recovery Fund Notice)
  - Advertising does not have physical address

Most Cited Exam Violations

(continued)

- **Issuance of Incomplete Qualification or Approval Letters**
  - TAC 80.201 (Form A & B)
  - TAC 81.201 (Form A & B)

Conditional Qualification or Approval Letters

- Originator Data (NMLS, Address, Phone)
- Loan Data (Loan Amount, Rate, Term, LTV)
- Application & Verification Data (Credit, Income, Down Payment, Etc…)

Most Cited Exam Violations

Federal

- **Failure to document Changed Circumstances**
  - Documentation of valid changed circumstance
  - All issued revised GFEs and documentation maintained

- **Incomplete or lack of BSA/Anti-Money Laundering Program**
  - Normally smaller operations

Most Cited Exam Violations

Federal

- **Failure to Deliver Fully Completed Adverse Action**

- Accurate reason for adverse action
- Credit score/factors information if required
- Accurate federal regulator information

New Regulations

- ECOA Appraisal Delivery Disclosure
- Homeownership Counseling Organization List

QUESTIONS?

SOCIAL MEDIA

HOW TO COMPLY IN THE CONNECTED AGE

ELLENA MEIER
SENIOR EXAMINER

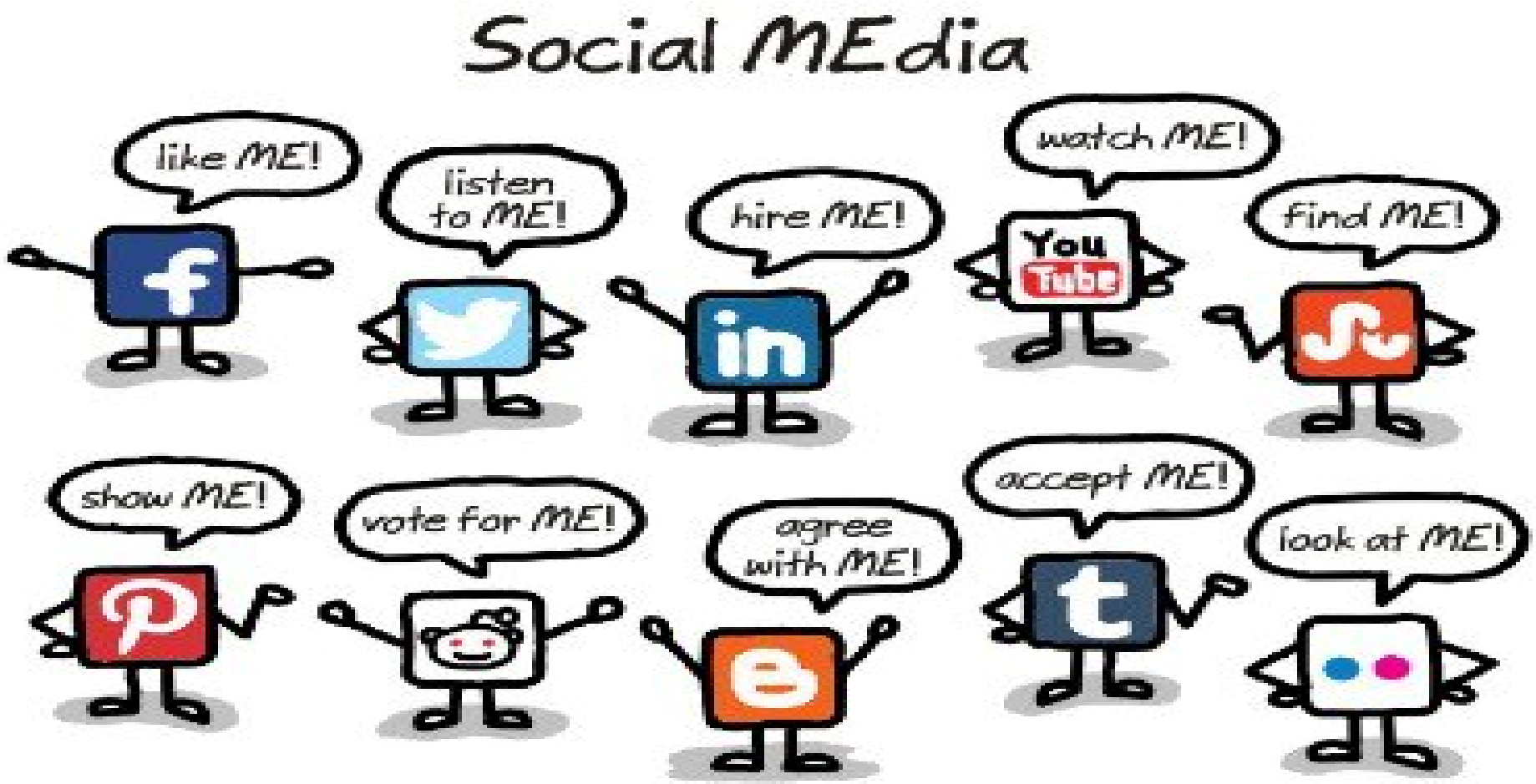
SOCIAL MEDIA

Wikipedia defines social media as:

The social interaction among people in which they create, share or exchange information and ideas in virtual communities and networks.

SOCIAL MEDIA CAN TAKE MANY FORMS:

- ✓ Facebook
- ✓ Twitter
- ✓ Blogs
- ✓ Yelp
- ✓ YouTube
- ✓ LinkedIn


Social MEdia
like ME!
listen to ME!
hire ME!
watch ME!
You Tube
Find ME!
show ME!
vote for ME!
agree with ME!
accept ME!
look at ME!

SOCIAL MEDIA:
CONSUMER COMPLIANCE RISK MANAGEMENT GUIDANCE

Federal Financial Institutions Examination Council (FFIEC)

- The Guidance defines social media as a form of interactive online communication in which users can generate and share content through text, images, audio, and/or video.

- Social media is a dynamic and constantly evolving technology and thus any definition of this technology is meant to be illustrative and non exhaustive.

SOCIAL MEDIA BEST PRACTICES

Establish a Risk Management Program that:

- Identifies, Measures, Monitors, and Controls Risk
- Risks include:
  - Consumer Harm
  - Compliance and Legal Risk
  - Operational Risk
  - Reputational Risk

Our Social Media is buzzing. We are trying to understand what it means!
© Copyright LeadForce1 Inc. All Rights Reserved

BEST PRACTICES

- Determine the risks and benefits associated with social media
  - Mission statement: Identify measurable goals for the use and purpose of social media for your organization
  - Risk Assessment
- Involve all departments in the development of the program to allow for a comprehensive assessment
- Designate a staff person to maintain the program as well as monitor and conduct periodic reviews of the social media accounts

EXAMPLE OF UNMONITORED FACEBOOK PAGE

“STAY AWAY from this company loan officers lie to u drag there feet and when it comes time to close they rip u off 2500 dollars and say there’s nothing they can do about it reporting them to the licensing Committee and the better business bureau”

“Absolute worst service. Would not recommend, unless you have time to waste and wait.”

.

BEST PRACTICES CONTINUED

Employee use of work-related social media

- Define what type of content is acceptable and unacceptable
- Implement an approval process for establishing a social media account as well as content/posting requiring pre-approval
- Conduct regular employee training
- Establish and implement repercussions for violating the policies and procedures

TEXAS SML REQUIREMENTS

- Social media accounts need to display the Texas Complaint/ Recovery Fund Notice, NMLS ID, and physical address.
  - Facebook: The Notice can be displayed in the “About” section in full or as a hyperlink titled “Texas Complaint Notice” which directs consumers directly to the Notice posting on your website.
  - Twitter: The hyperlink, as noted above, can be posted in the profile section.
- Social media advertisements are held to the same Regulation Z provisions as other forms of advertisements. (i.e. APR)

REGULATION Z: TRUTH IN LENDING ACT

- Regulation Z defines advertisement as a commercial message in any medium that promotes, directly or indirectly, a credit transaction.
  - Triggering terms
    - Amount or percentage of any down payment
    - Number of payments or period of repayment
    - Amount of any payment
    - Amount of any finance charge

Questions?

Examination Cycles & Ratings

Justin Accola, Senior Examiner

Overview

- Rating System & Definitions
- Target Examination Cycles
- Historical Compliance Ratings

Compliance Rating System

- Based on system established by FFIEC for assessing banks
- Numerical Ratings: 1 through 5
- Lowest Number = Most Favorable Rating

Rating Definitions: 1

- **1** – Strong Compliance Position

  - Entity & originators exhibit equal emphasis on compliance and origination
  - Proactive compliance program and management commitment thereto
  - ***Limited violations***
  - Independent review process or sufficient controls to provide ongoing assurance of quality.

Rating Definitions: 2

- **2** – Satisfactory Compliance Position
  - There is a program of compliance, formal or informal, sufficient to prevent systemic violations
  - Individual loan file may have multiple problems, but those problems are isolated
  - In general, violations involve technical aspects of law and are easily correctable
  - **No significant fee issues**

Rating Definitions: 3

- **3** – Less Than Satisfactory Compliance Position
  - Systemic compliance and/or documentation problems including some fee issues and/or repeat violations
  - Compliance management system and/or commitment to compliance is in need of improvement
  - Although systemic, violations are not egregious or widespread
  - The Department will require a plan of corrective action and formal response to ROE

Rating Definitions: 4

- **4** – Deficient Compliance Position
  - Widespread documentation problems, numerous fee issues, consumers entitled to reimbursement
  - Entity and/or originators exhibit a lack of sufficient commitment to compliance issues to avoid violations
  - Repeat violations may be evident and numerous
  - The Department may take formal enforcement action

Rating Definitions: 5

- **5** – Critically Deficient Compliance Position
  - Lack of critical loan file documentation
  - Potential fraud
  - Inability or refusal to provide requested documentation, lack of cooperation with Department's efforts to conduct exam
  - The Department will take formal enforcement action, possibly including revocation of license/registration

Target Examination Cycles

- 1 Rated = 36 months
- 2 Rated = 30 months
- 3 Rated = 24 months
- 4 Rated = 18 months
- 5 Rated = 12 months

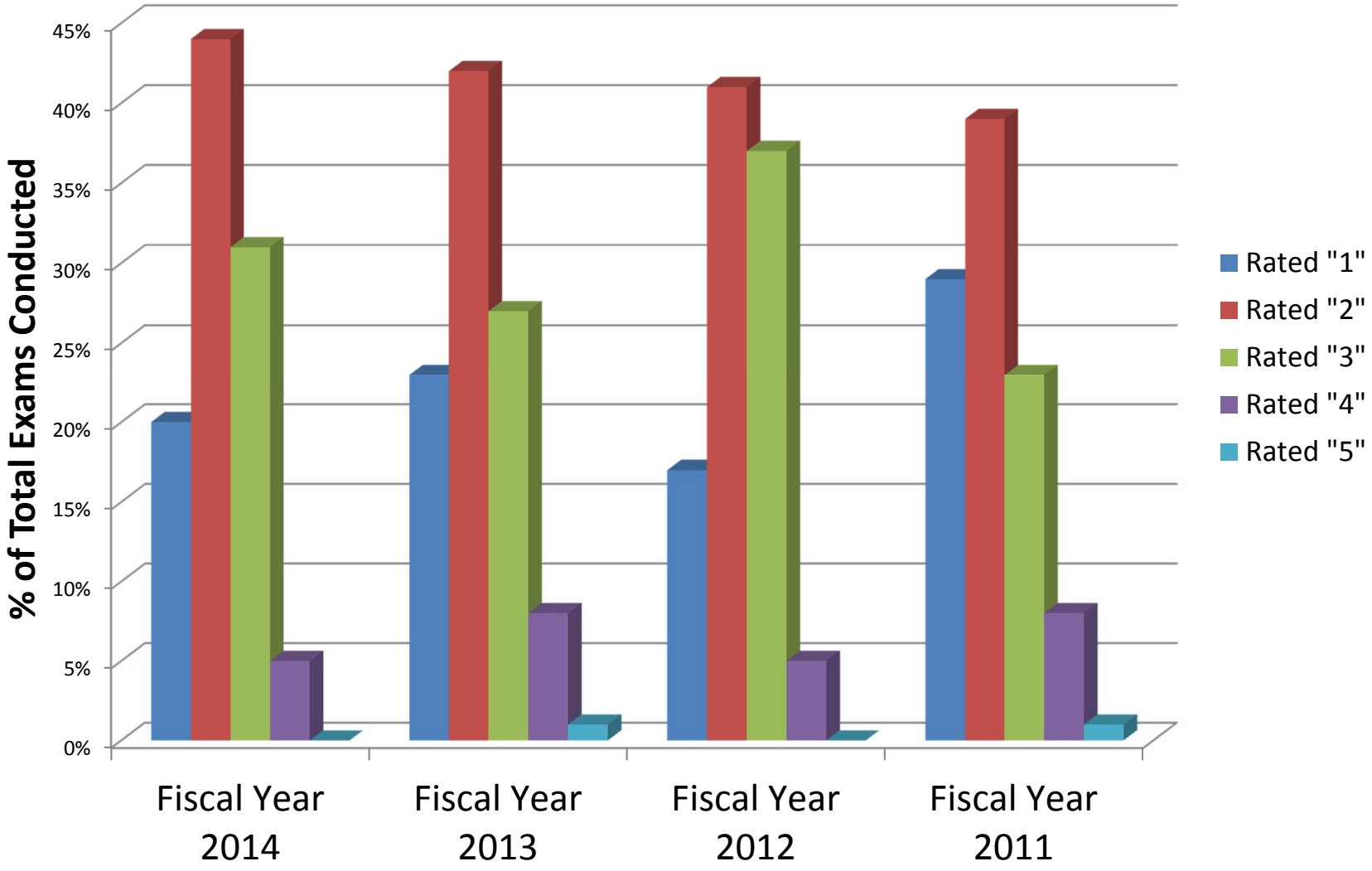
Target Examination Cycles

- Criteria for being accelerated in the examination cycle may include:
  - Increase in consumer complaints
  - Enforcement action taken by another state regulator
  - CFPB / MMC examination participation
  - Rapid growth (loan volume <u>or</u> MLO sponsorships)

Target First Examination

- Mortgage Call Reports reviewed quarterly for Texas loan production activity.
- New licensees/registrants should expect an exam <u>within 6 months</u> of reporting first Texas loan production
- Allows the Department to detect and help correct common compliance problems early

Migration of Exam Ratings 2011-14



Regulatory Guidance

- Resources on the Department's website specific to compliance and examinations:

  - Important updates are posted to www.sml.texas.gov

Texas Department of Savings and Mortgage Lending

Agency News and Important Updates

Texas Constitutional Amendment

Reverse Mortgages
Texas Constitution Section 50(k)
Senate Joint Resolution No.18

Truth in Lending / Regulation Z

Section 1026.36(g),
Name and NMLSR Id on Loan Documents

Supreme Court of Texas

Texas Home Equity
Texas Constitution Section 50(a)(6)
Supplemental Opinion on Motion for Rehearing

Qualified Mortgage (QM) Rule Information

CFPB's - QM - Basic Guide

CFPB - Regulatory Implementation

Regulatory Guidance

- Resources on the Department's website specific to compliance and examinations:

  - Updates also sent via **listserv** email notifications. Visit website to subscribe.

Texas Department of Savings and Mortgage Lending

Residential Mortgage Loan *Origination*

State Savings Banks

Residential Mortgage Loan *Servicing*

Consumer Information

Forms

Contact Us

Search

Verify/Search for RMLO Licensee

NMLS Registration & Resource Center

Agency News and Important Updates

Texas Constitutional Amendment

Reverse Mortgages
Texas Constitution Section 50(k)
Senate Joint Resolution No.18

Truth in Lending / Regulation Z

Section 1026.36(g),
Name and NMLSR Id on Loan Documents

Supreme Court of Texas

Texas Home Equity
Texas Constitution Section 50(a)(6)
Supplemental Opinion on Motion for Rehearing

Qualified Mortgage (QM) Rule Information

CFPB's - QM - Basic Guide

CFPB - Regulatory Implementation

Quick Links

- Apply/Register
- NMLS Information
- Download Lists of Licensees
- Pay Penalties Online
- Join RMLO ListServ

Regulatory Guidance

- Resources on the Department's website specific to compliance and examinations:

  - Compliance & Reporting link in the Residential Mortgage Loan Origination section: www.sml.texas.gov/ResidentialMortgageLoanOriginator/rmlo_compliance_reporting.html

Texas Department of
Savings and Mortgage Lending

Residential Mortgage Loan Origination: Mortgage Banker Field Examination Resources

Resource Documents & Forms

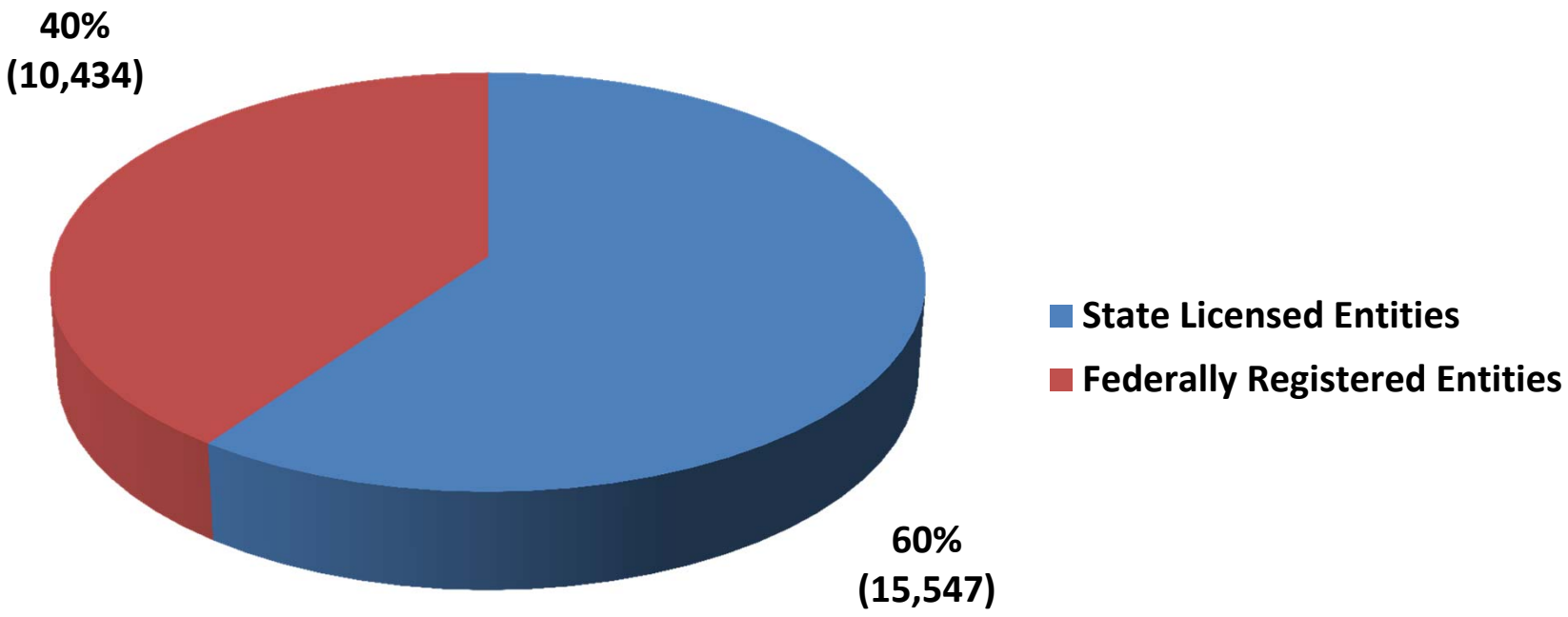
Resource Document	File Type
Mortgage Banker Examination Overview	
Examination Process: What You Should Anticipate	
Examination Notice Letter	
Mortgage Banker Initial Information Request	
Application Compliance Worksheet	
Prepaid Finance Charges/APR Calculation Table	
Examination Rating System	
Required Disclosure Forms and Notices	

Any Questions?

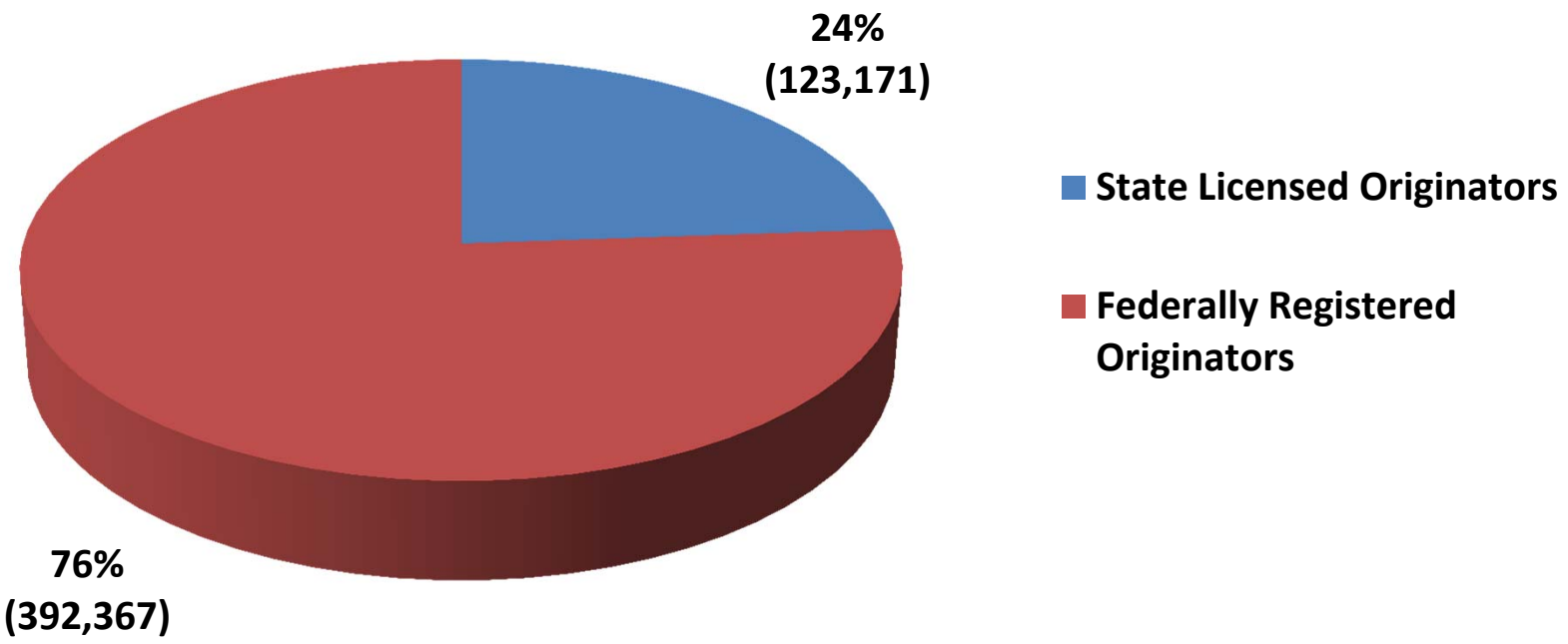
NMLS NATIONAL MORTGAGE DATA

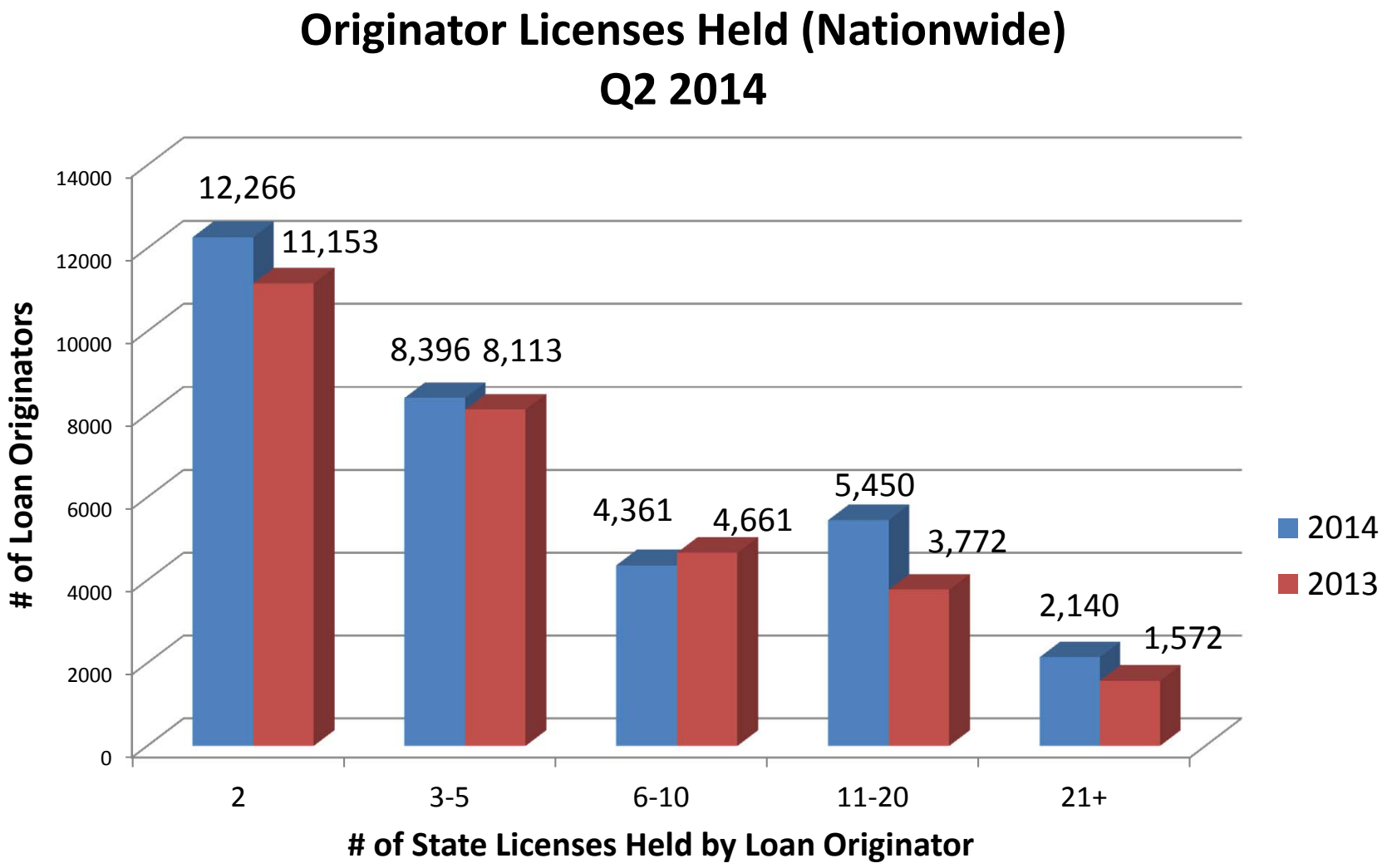
Patrick Hulse
Examiner

State Licensed Entities vs. Federally Registered Entities
Q2 2014

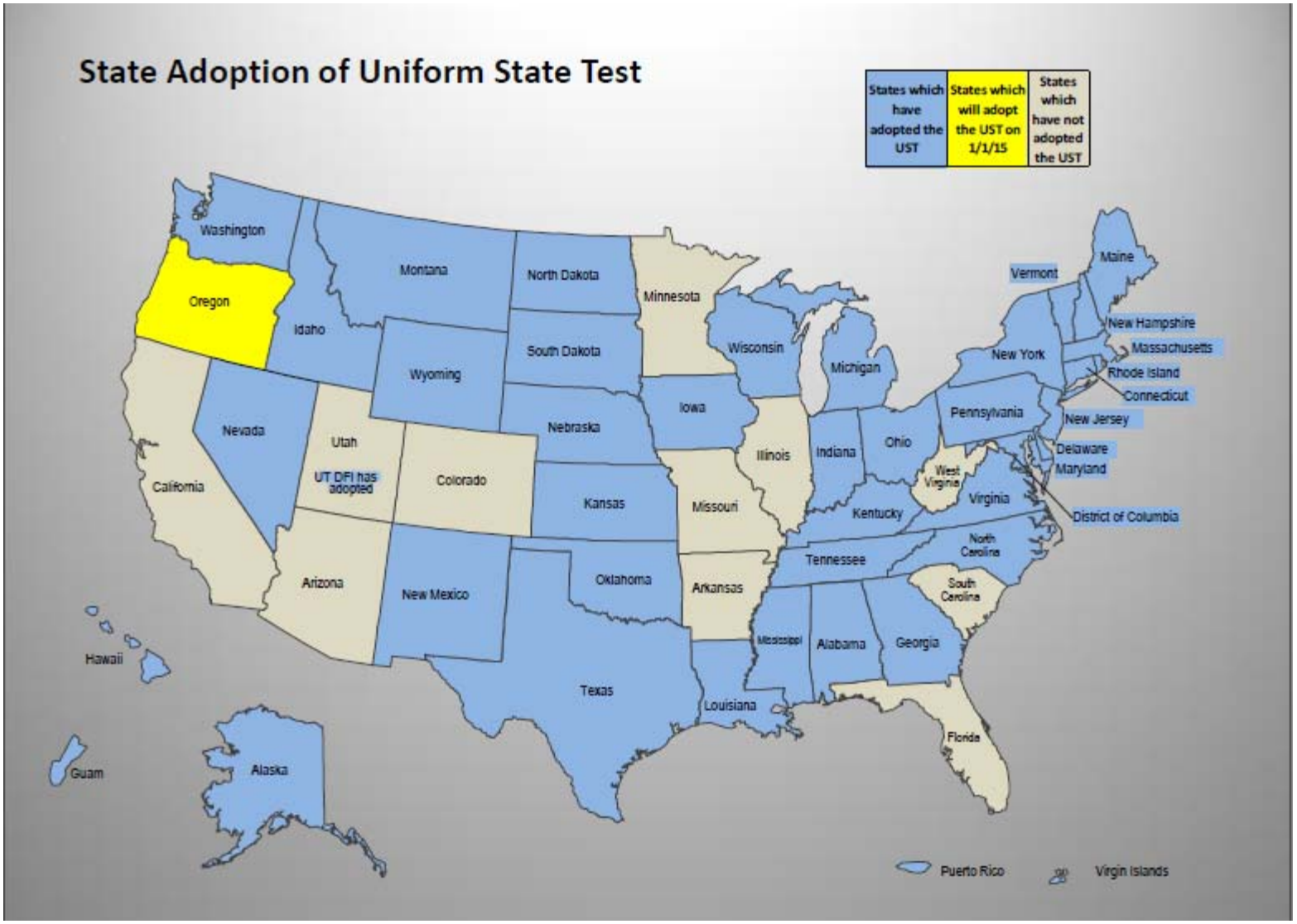


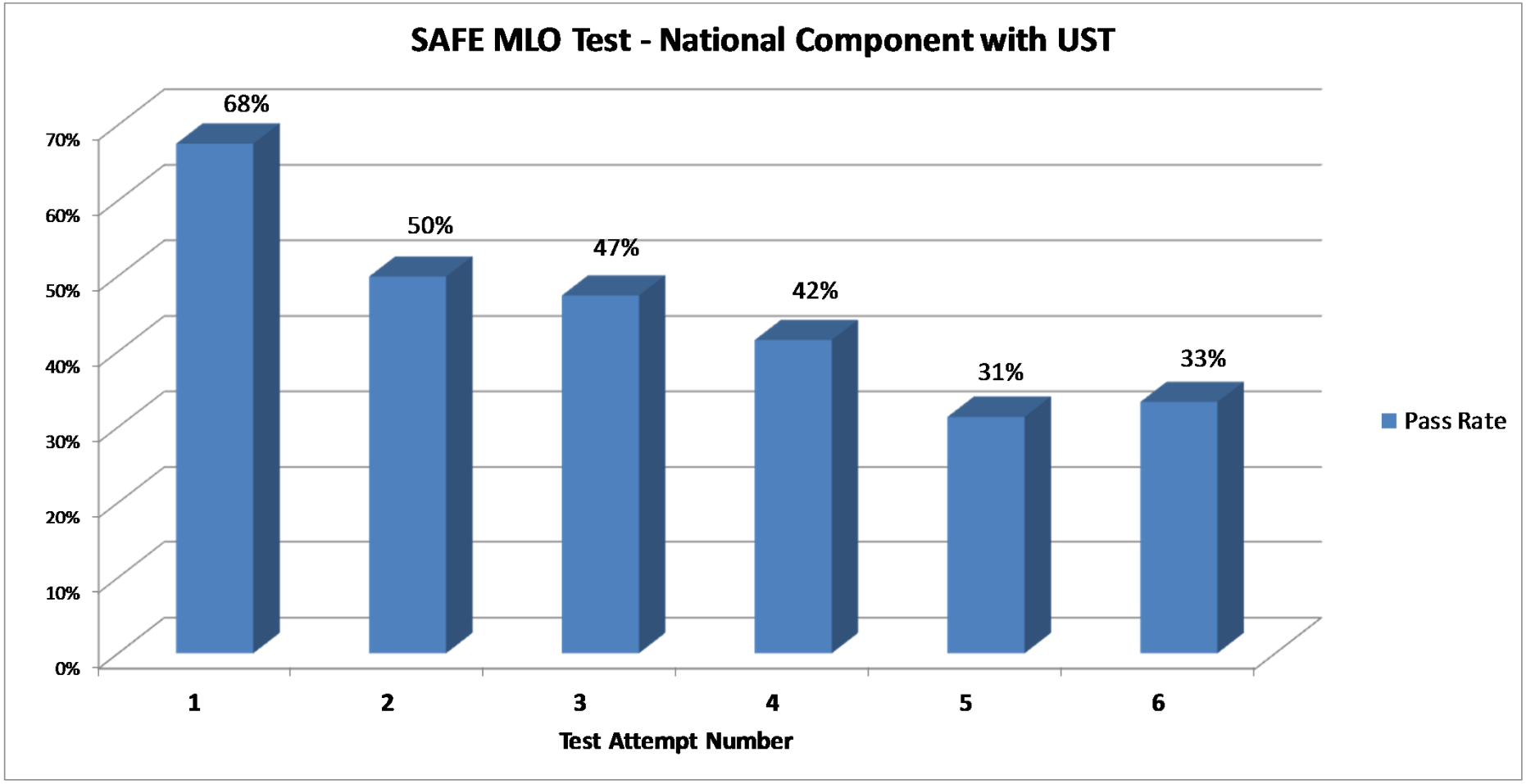
State Licensed Originators vs. Federally Registered Originators
Q2 2014



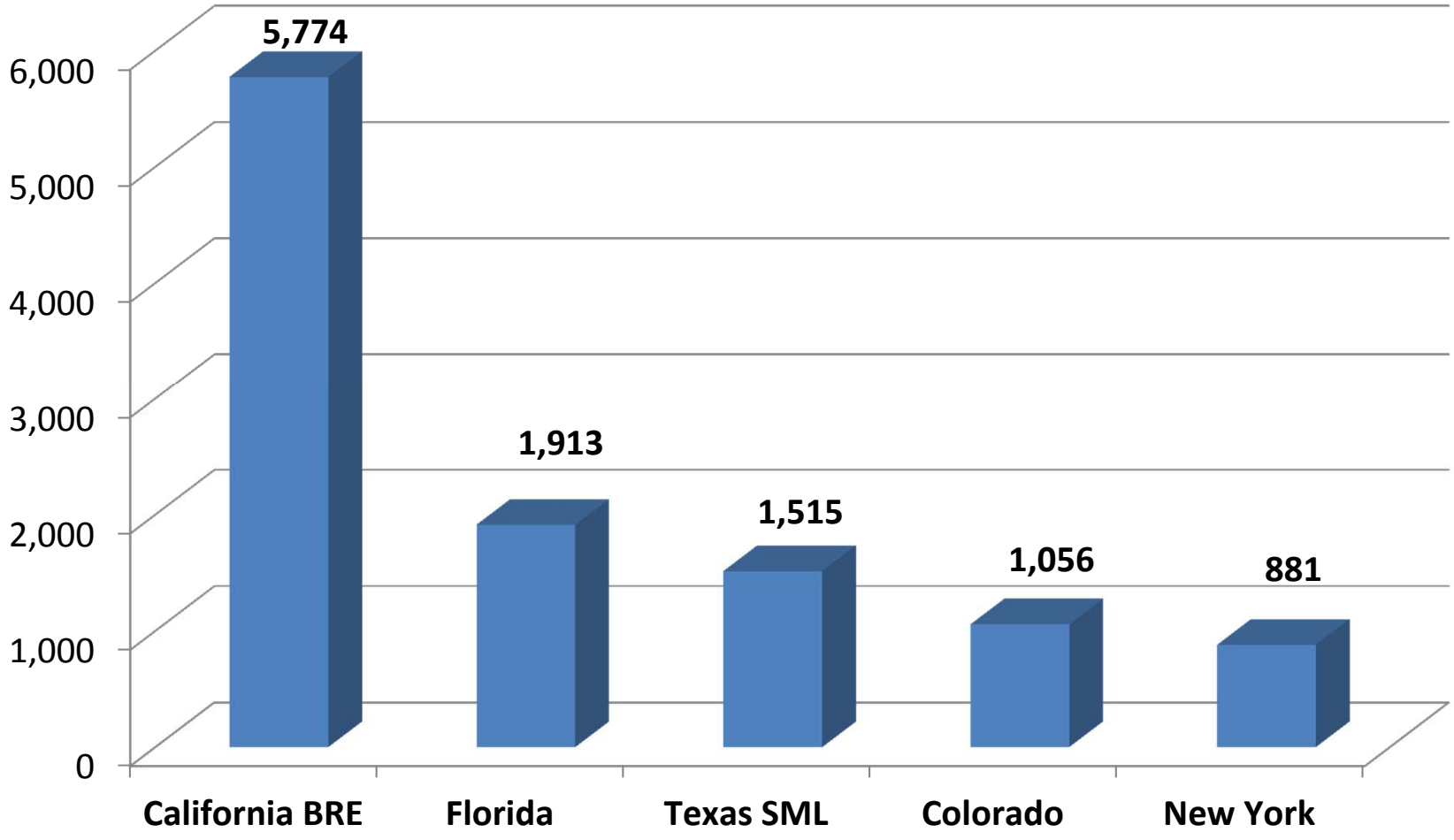


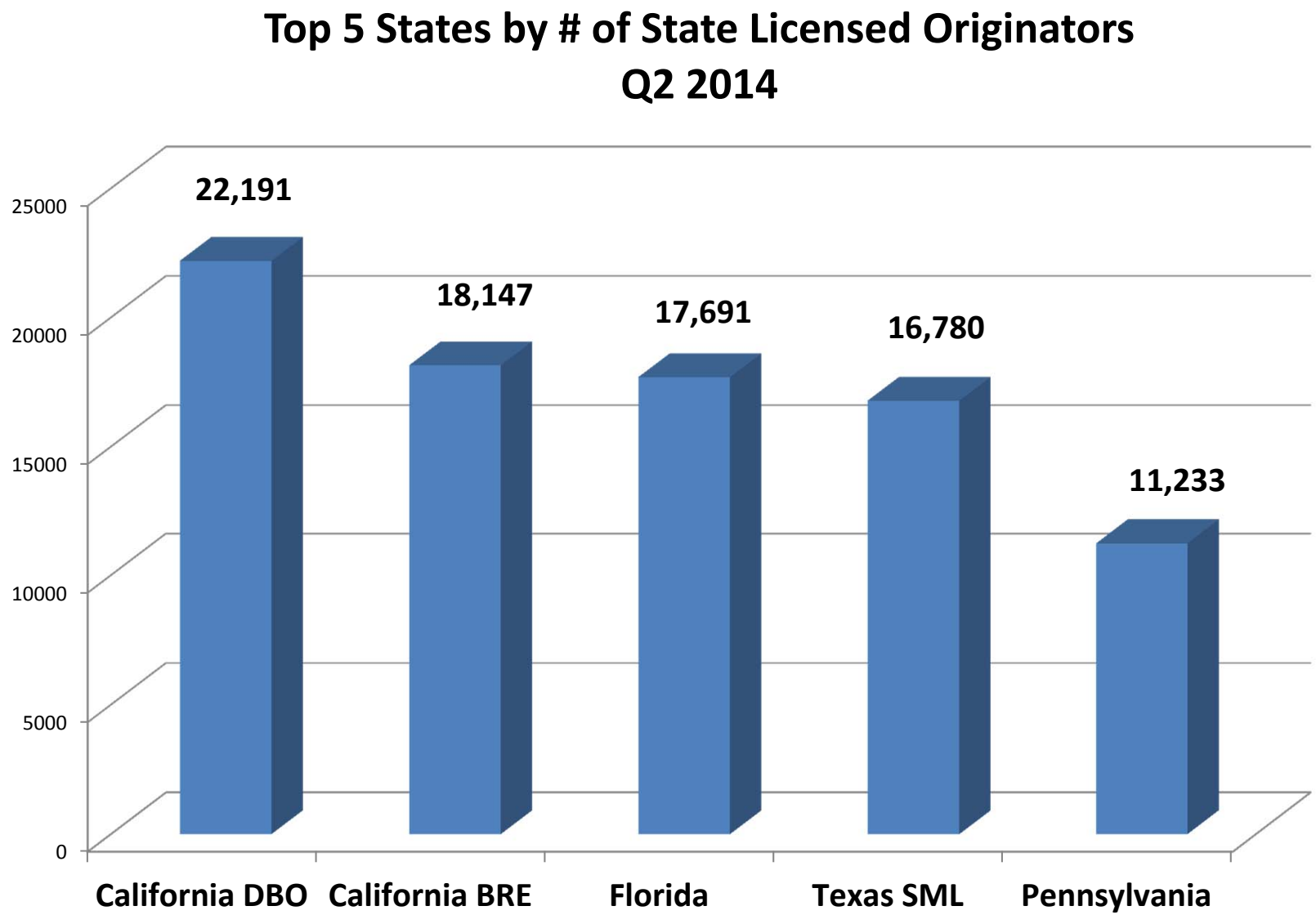
* Out of 123,171 state licensed originators nationwide, 90,558 held only one state license (74%)


State Adoption of Uniform State Test
States which have adopted the UST
States which will adopt the UST on 1/1/15
States which have not adopted the UST
Washington
Oregon
California
Nevada
Idaho
Montana
Wyoming
Utah
UT DFI has adopted
Arizona
Colorado
New Mexico
North Dakota
South Dakota
Nebraska
Kansas
Oklahoma
Texas
Minnesota
Iowa
Missouri
Arkansas
Louisiana
Wisconsin
Illinois
Michigan
Indiana
Ohio
Kentucky
Tennessee
Mississippi
Alabama
Georgia
Florida
South Carolina
North Carolina
Virginia
West Virginia
Pennsylvania
New York
Vermont
Maine
New Hampshire
Massachusetts
Rhode Island
Connecticut
New Jersey
Delaware
Maryland
District of Columbia
Hawaii
Alaska
Guam
Puerto Rico
Virgin Islands


SAFE MLO Test - National Component with UST
68%
50%
47%
42%
31%
33%
70%
60%
50%
40%
30%
20%
10%
0%
1
2
3
4
5
6
Test Attempt Number
Pass Rate

Top Five States by # of State Licensed Mortgage Entities
Q2 2014

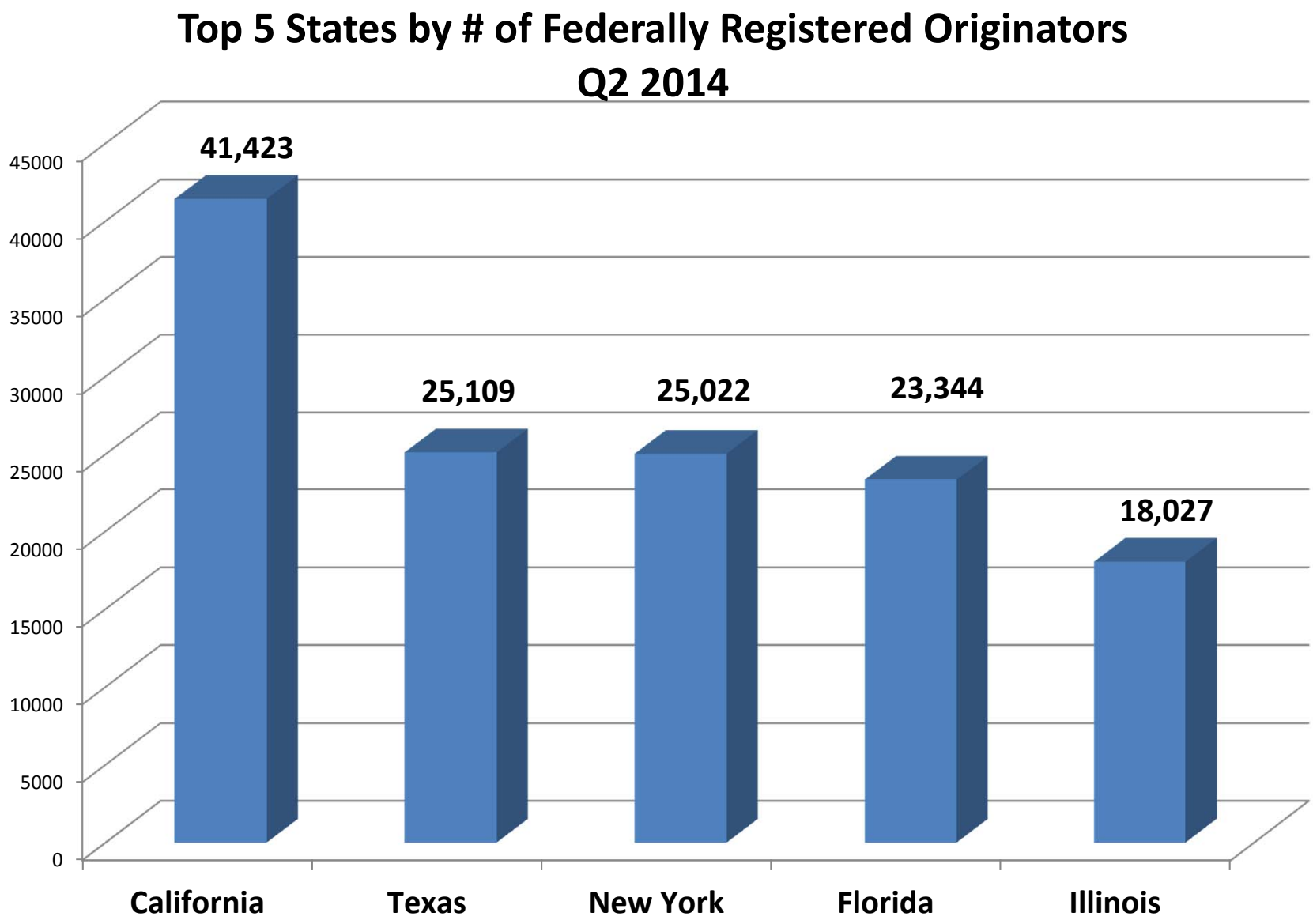


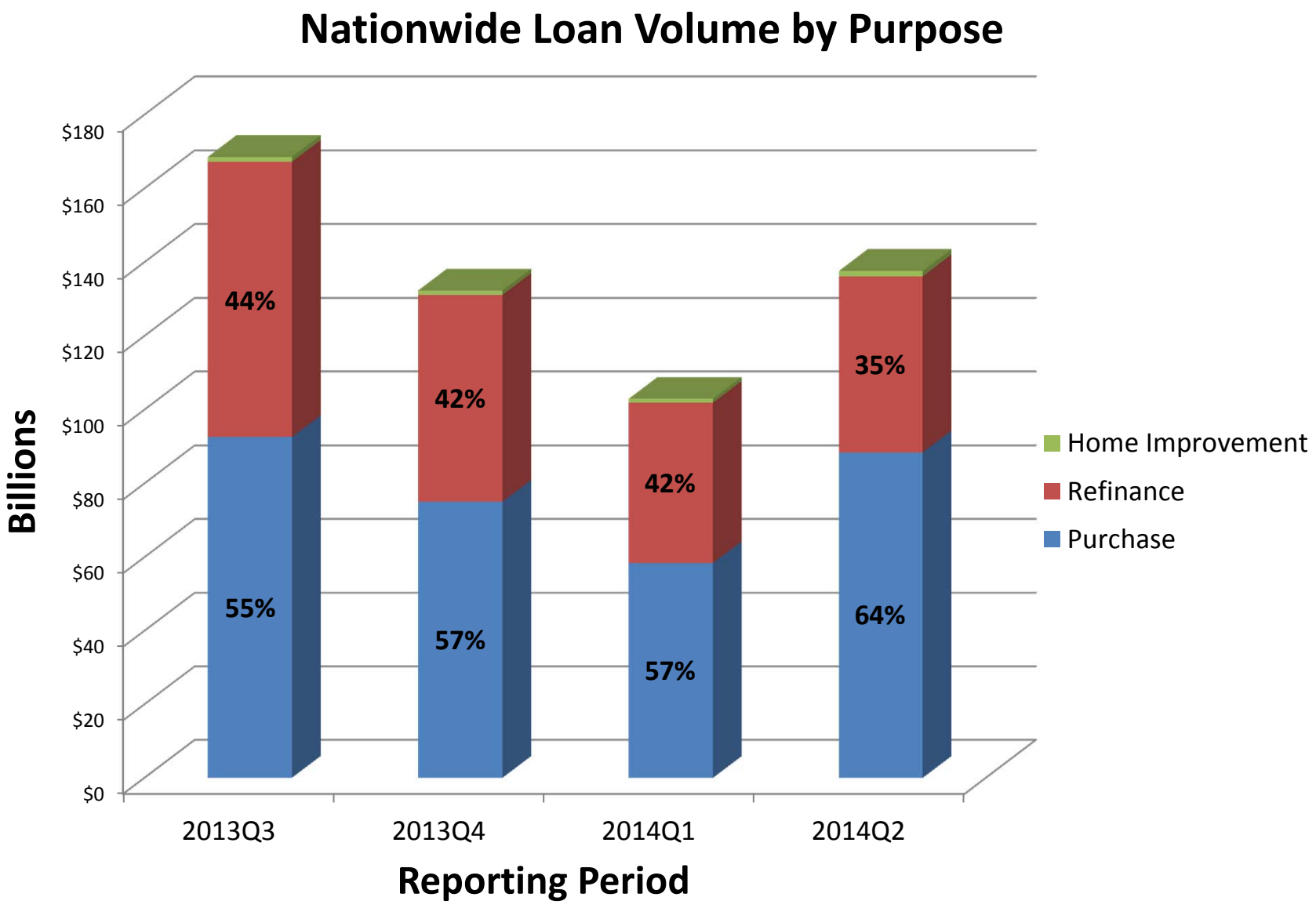

Top 5 States by # of State Licensed Originators
Q2 2014
25000
20000
15000
10000
5000
0
22,191
18,147
17,691
16,780
11,233
California DBO
California BRE
Florida
Texas SML
Pennsylvania

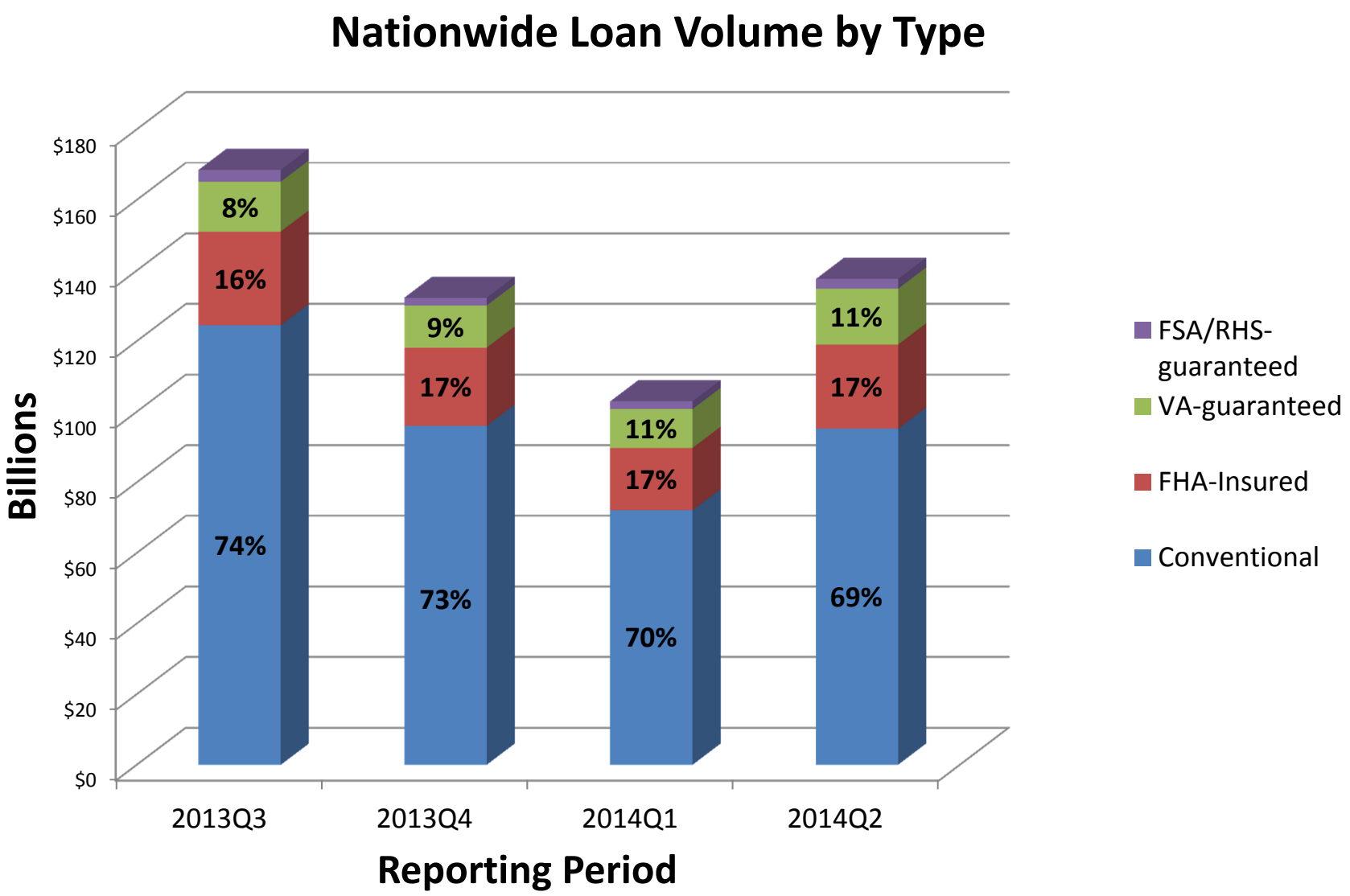
Top 10 States by MLO Growth Over Previous 12 Months

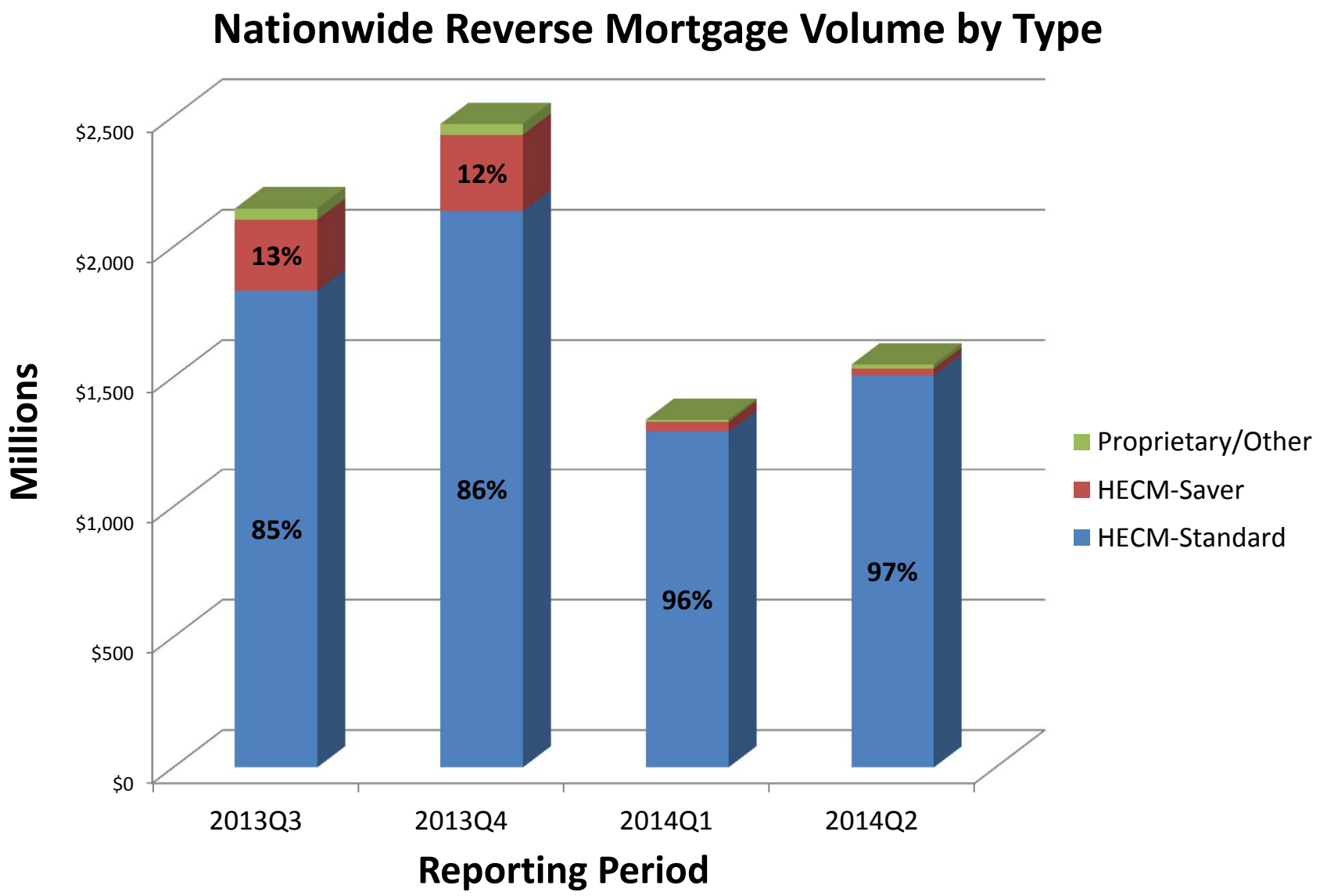
(Q 3 2013 to Q 2 2014)

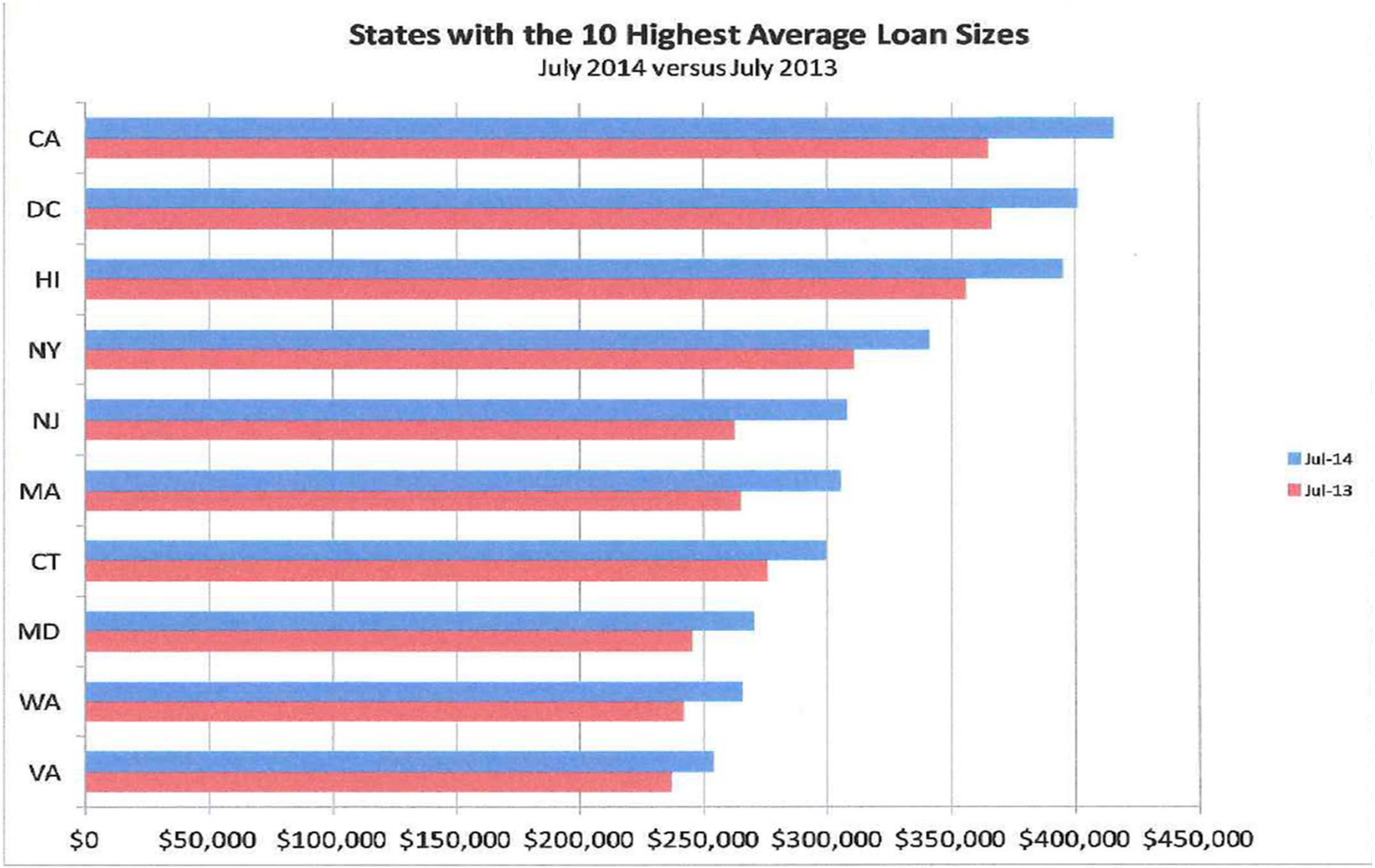
Regulator	Net Growth
South Dakota	63%
Montana	49%
Wyoming	45%
Alaska	45%
Louisiana	41%
North Dakota	39%
Alabama	39%
Kansas	38%
Vermont	37%
Wisconsin	35%


Top 5 States by # of Federally Registered Originators
Q2 2014
45000
40000
35000
30000
25000
20000
15000
10000
5000
0
41,423
25,109
25,022
23,344
18,027
California
Texas
New York
Florida
Illinois

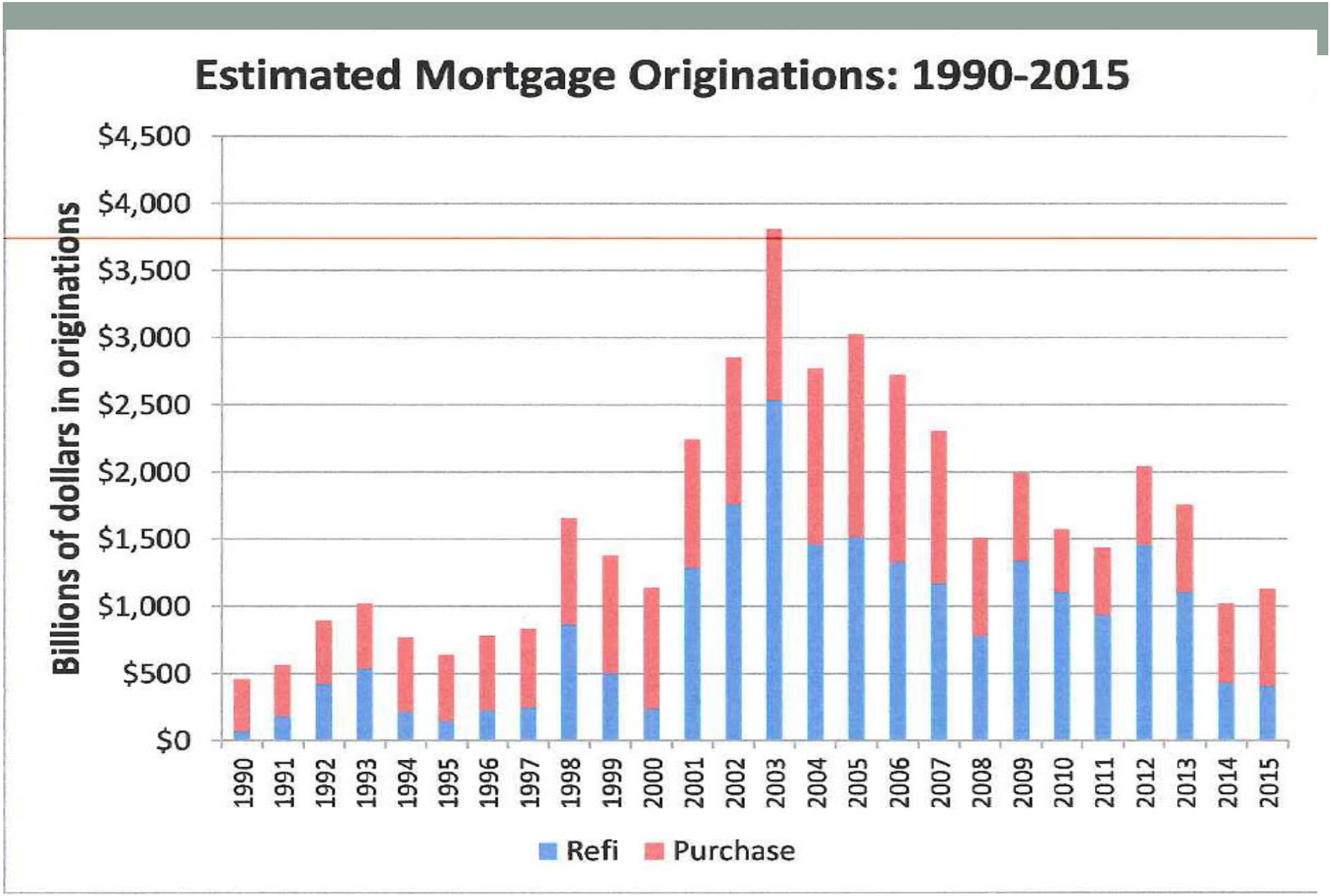

Nationwide Loan Volume by Purpose
Billions
$180
$160
$140
$120
$100
$80
$60
$40
$20
$0
44%
55%
42%
57%
42%
57%
35%
64%
2013Q3
2013Q4
2014Q1
2014Q2
Reporting Period
Home Improvement
Refinance
Purchase


Nationwide Loan Volume by Type
Billions
$180
$160
$140
$120
$100
$80
$60
$40
$20
$0
8%
16%
74%
9%
17%
73%
11%
17%
70%
11%
17%
69%
2013Q3
2013Q4
2014Q1
2014Q2
Reporting Period
FSA/RHS-guaranteed
VA-guaranteed
FHA-Insured
Conventional


Nationwide Reverse Mortgage Volume by Type
Millions
$2,500
$2,000
$1,500
$1,000
$500
$0
13%
85%
12%
86%
96%
97%
2013Q3
2013Q4
2014Q1
2014Q2
Reporting Period
Proprietary/Other
HECM-Saver
HECM-Standard



Source: MBA Monthly Profile of Mortgage Activity



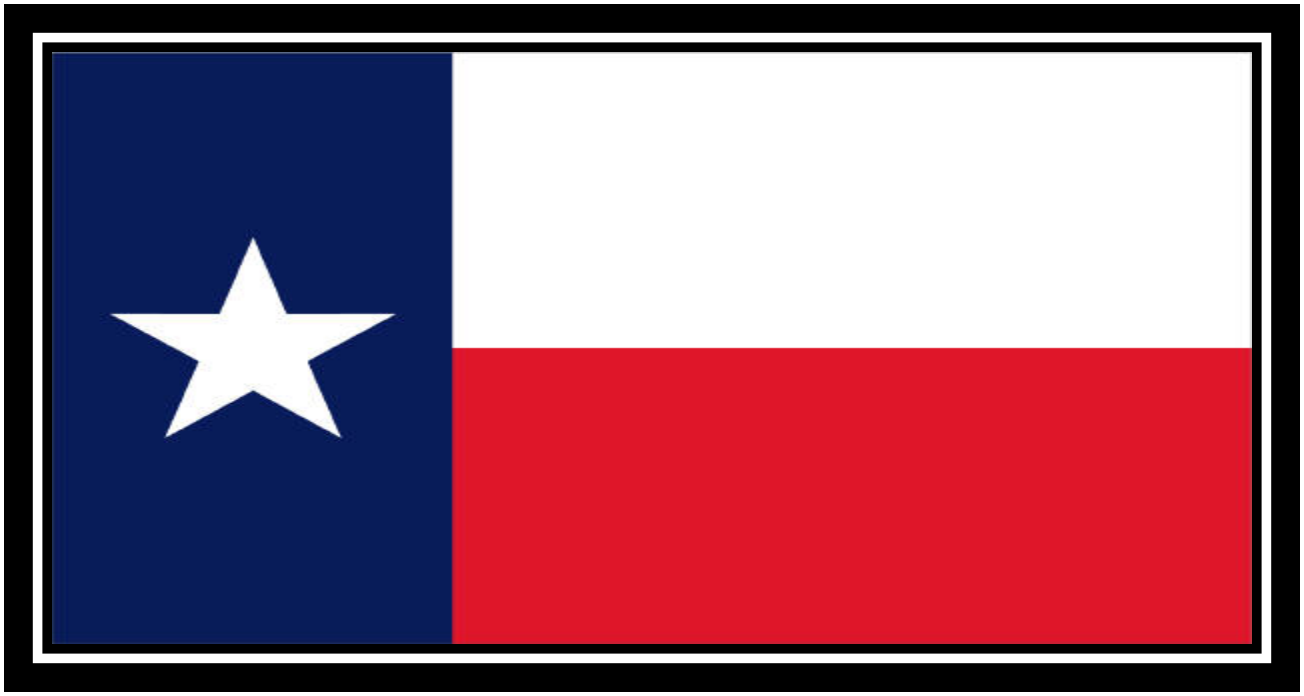
Source: MBA 2014 June Forecast

MBA Loan Volume Projections for 2015

- Increase of 28% in home purchase originations
- Decrease of 8% in refinance originations
- Overall increase of 12% in originations in 2015

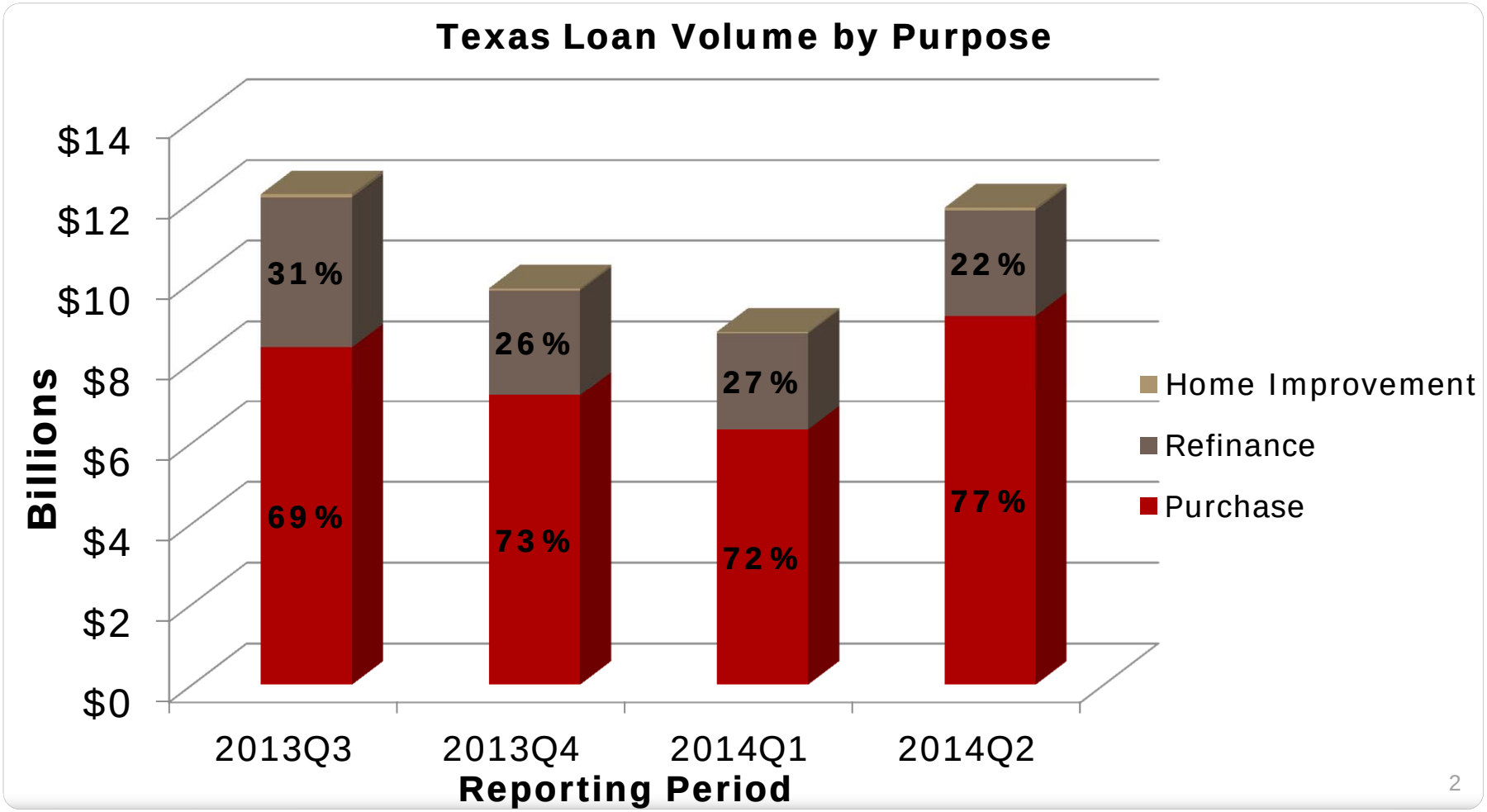
Source: MBA Mortgage Finance Forecast September 2014

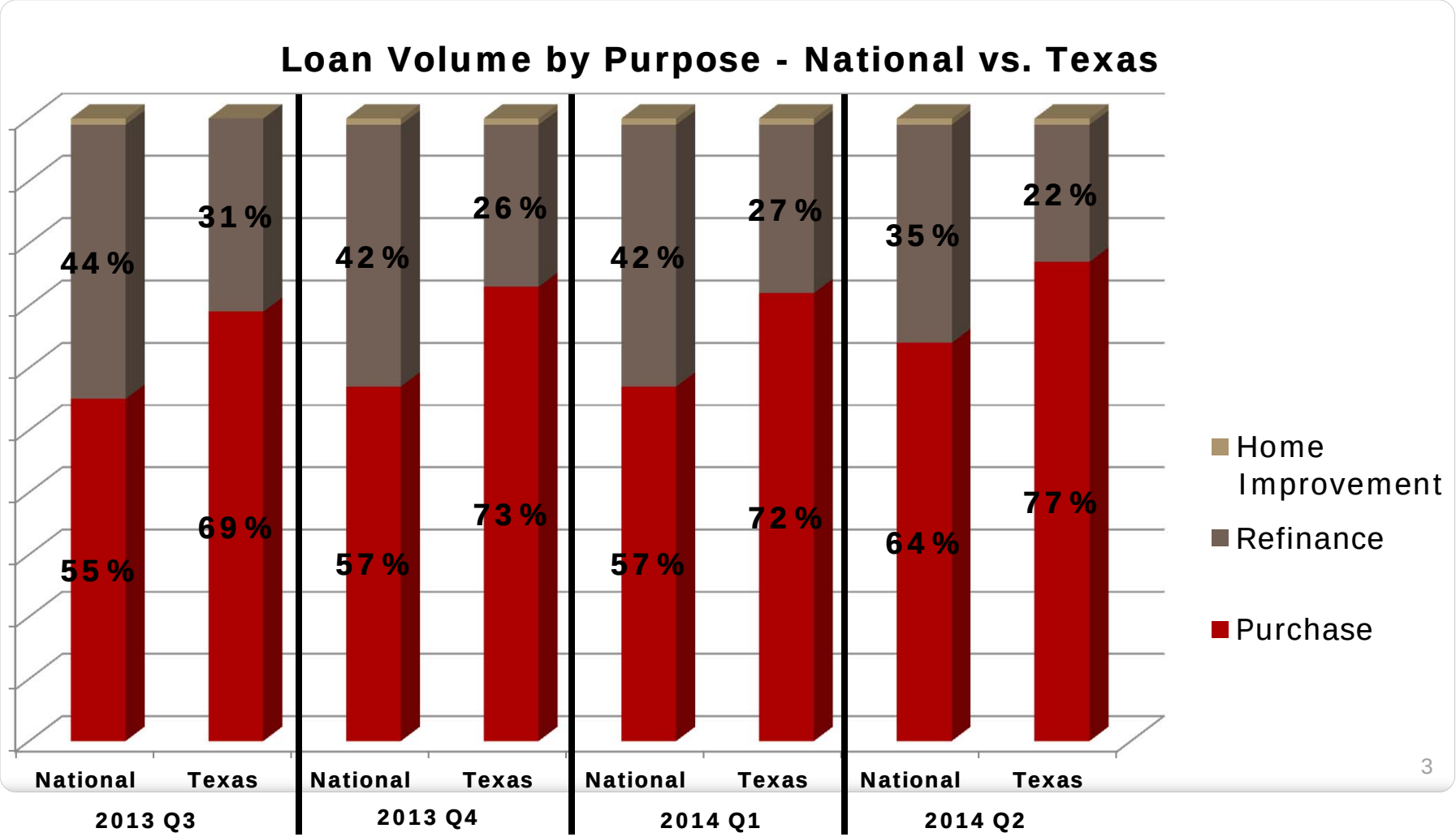
QUESTIONS?

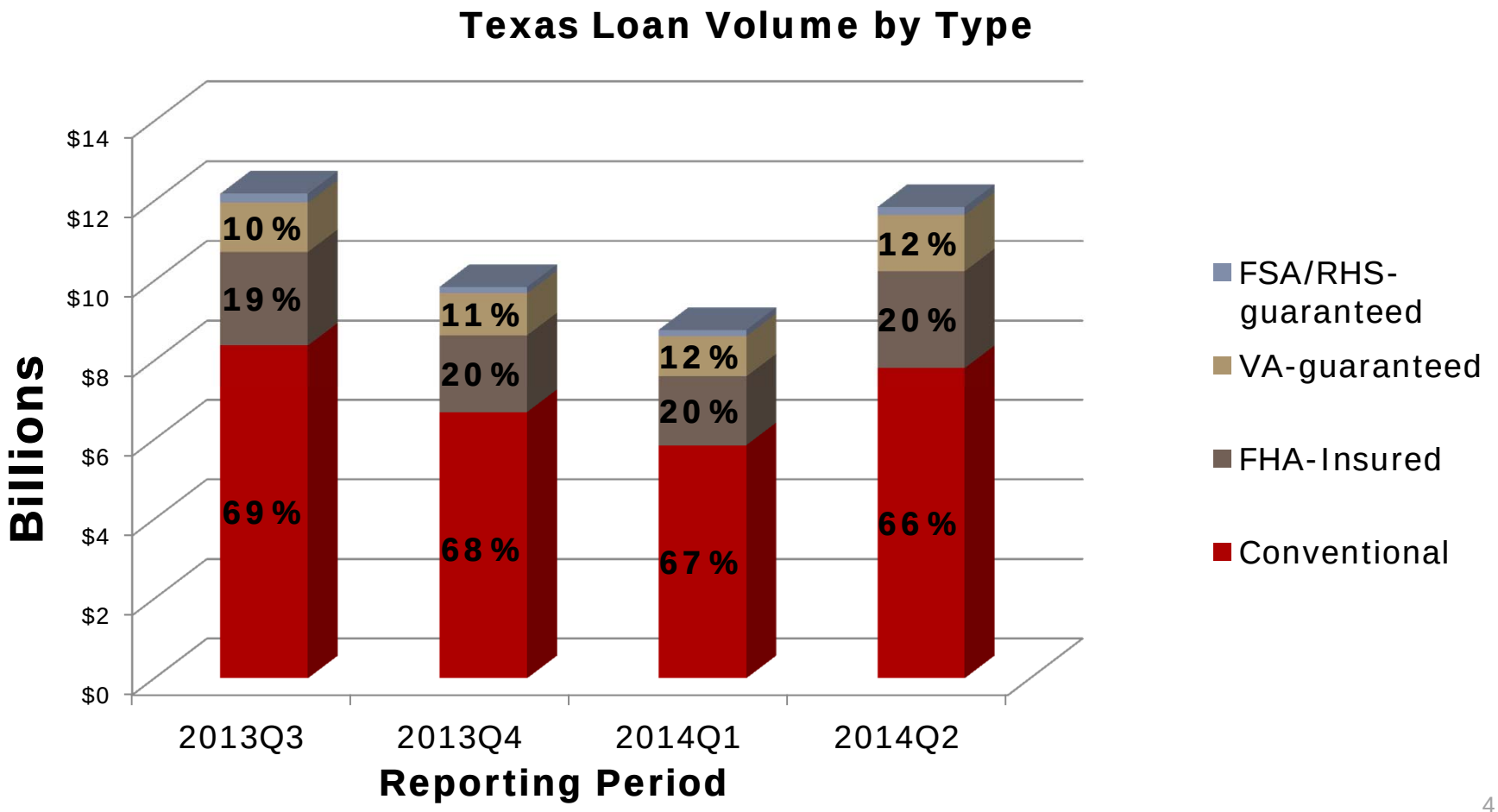


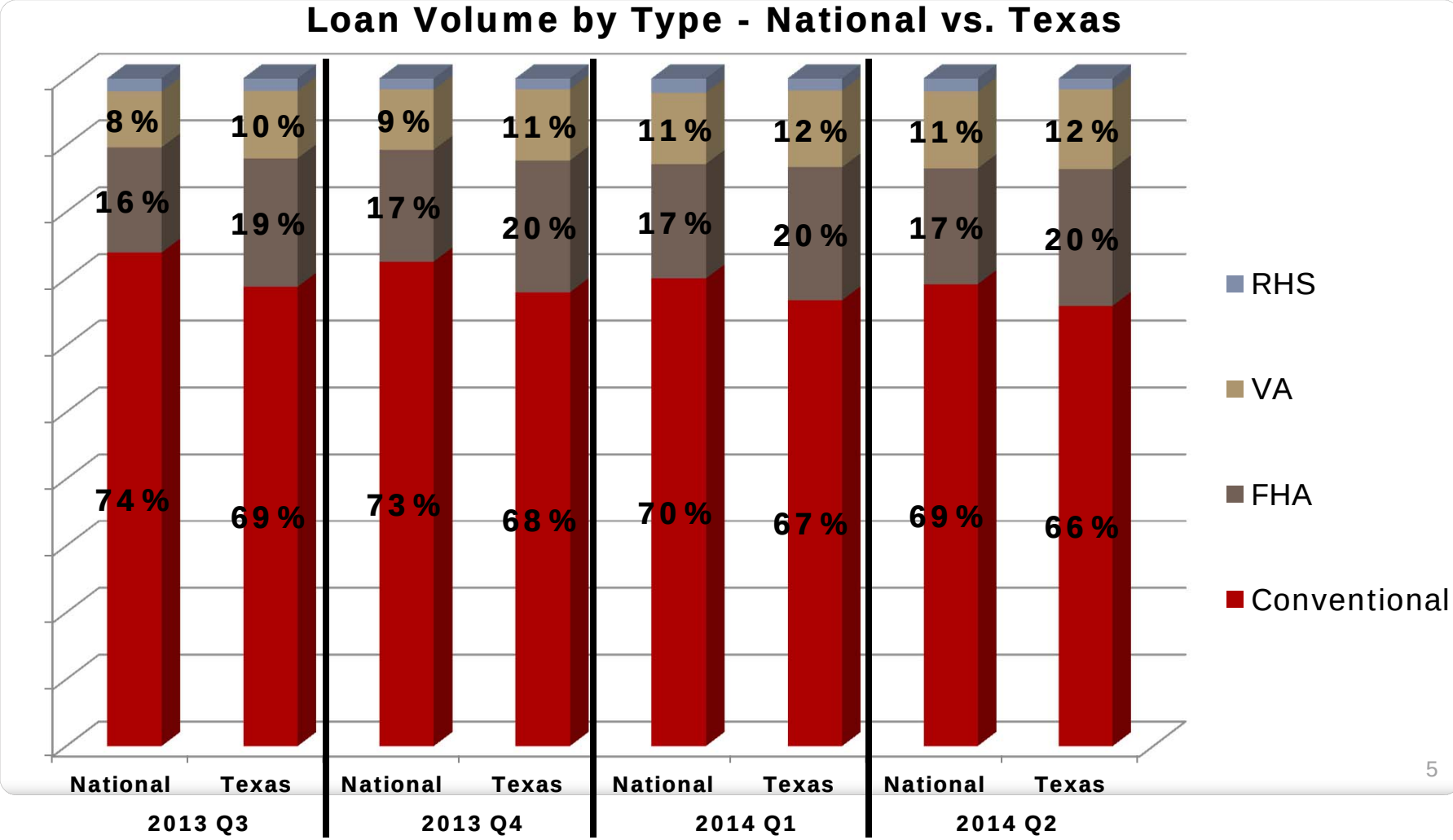
NMLS Texas Mortgage Data

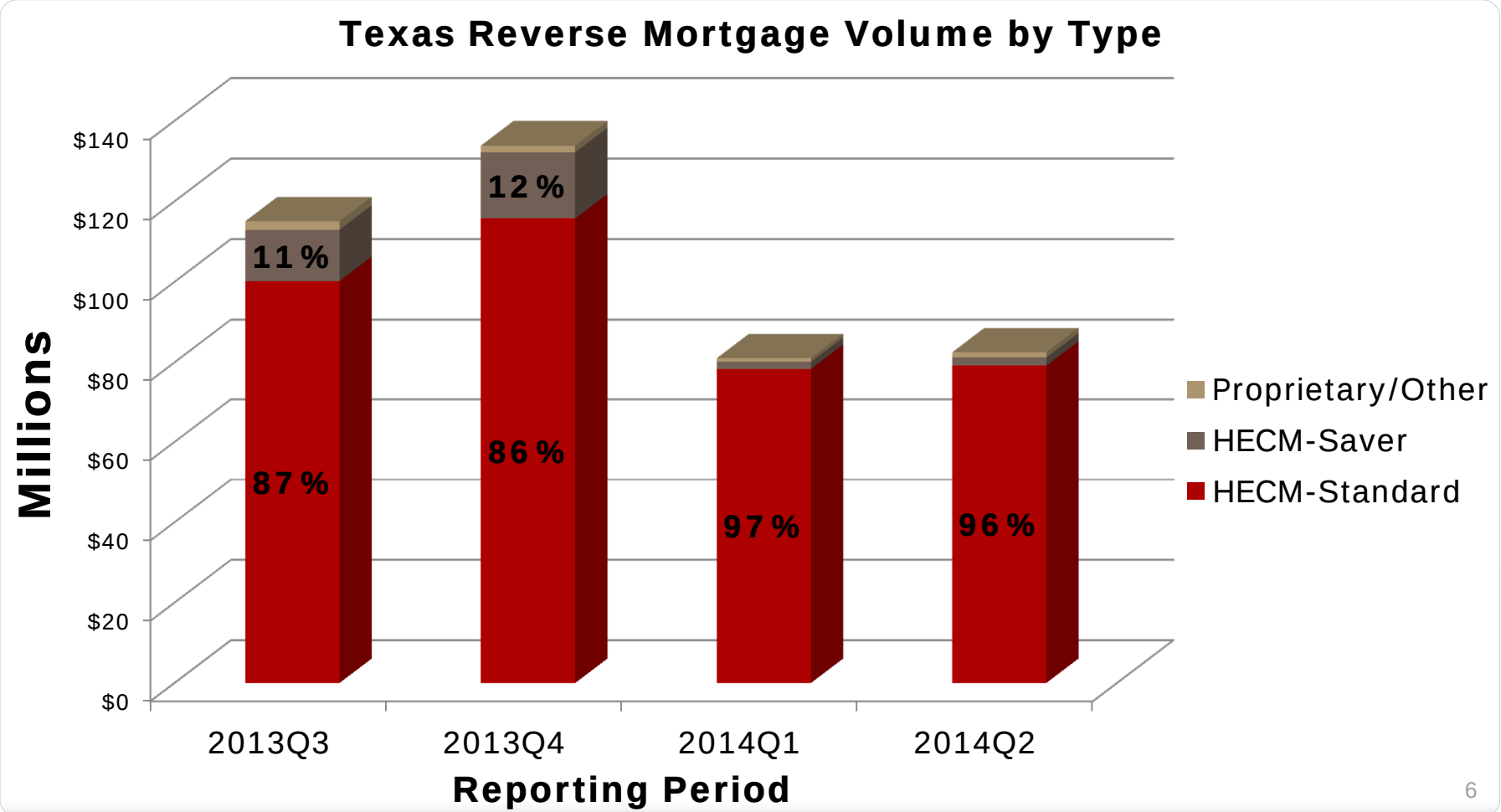
Terry McFarland
Financial Examiner


Texas Loan Volume by Purpose
$14
$12
$10
$8
$6
$4
$2
$0
Billions
31%
69%
26%
73%
27%
72%
22%
77%
2013Q3
2013Q4
2014Q1
2014Q2
Reporting Period
Home Improvement
Refinance
Purchase

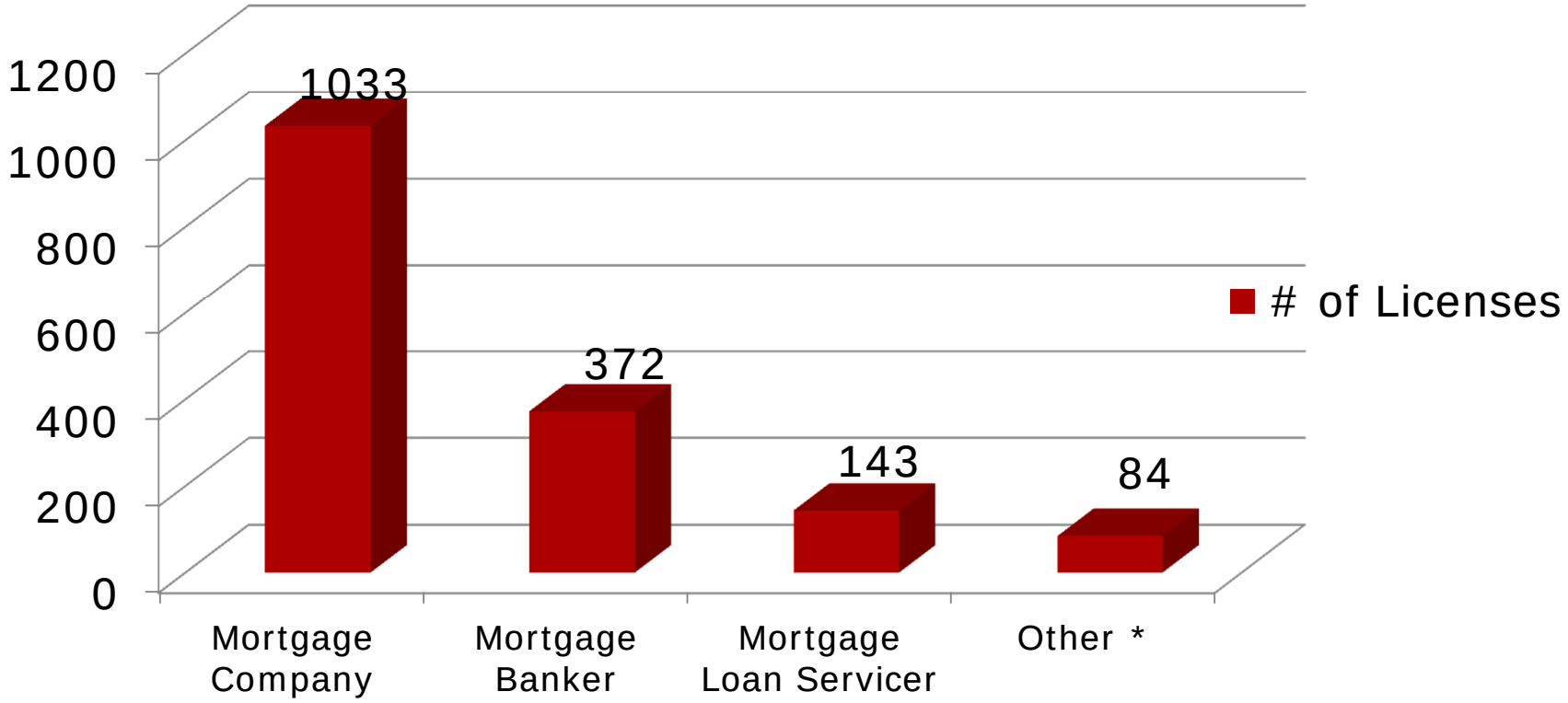

Loan Volume by Purpose - National vs. Texas
44%
31%
42%
26%
42%
27%
35%
22%
55%
69%
57%
73%
57%
72%
64%
77%
National
Texas
National
Texas
National
Texas
National
Texas
2013 Q3
2013 Q4
2014 Q1
2014 Q2
Home Improvement
Refinance
Purchase


Texas Loan Volume by Type
Billions
$14
$12
$10
$8
$6
$4
$2
$0
10 %
19 %
69 %
11 %
20 %
68 %
12 %
20 %
67 %
12 %
20 %
66 %
2013Q3
2013Q4
2014Q1
2014Q2
Reporting Period
FSA/RHS-guaranteed
VA-guaranteed
FHA-Insured
Conventional


Loan Volume by Type - National vs. Texas
8 %
10 %
9 %
11 %
11 %
12 %
11 %
12 %
16 %
19 %
17 %
20 %
17 %
20 %
17 %
20 %
74 %
69 %
73 %
68 %
70 %
67 %
69 %
66 %
RHS
VA
FHA
Conventional
National
Texas
National
Texas
National
Texas
National
Texas
2013 Q3
2013 Q4
2014 Q1
2014 Q2

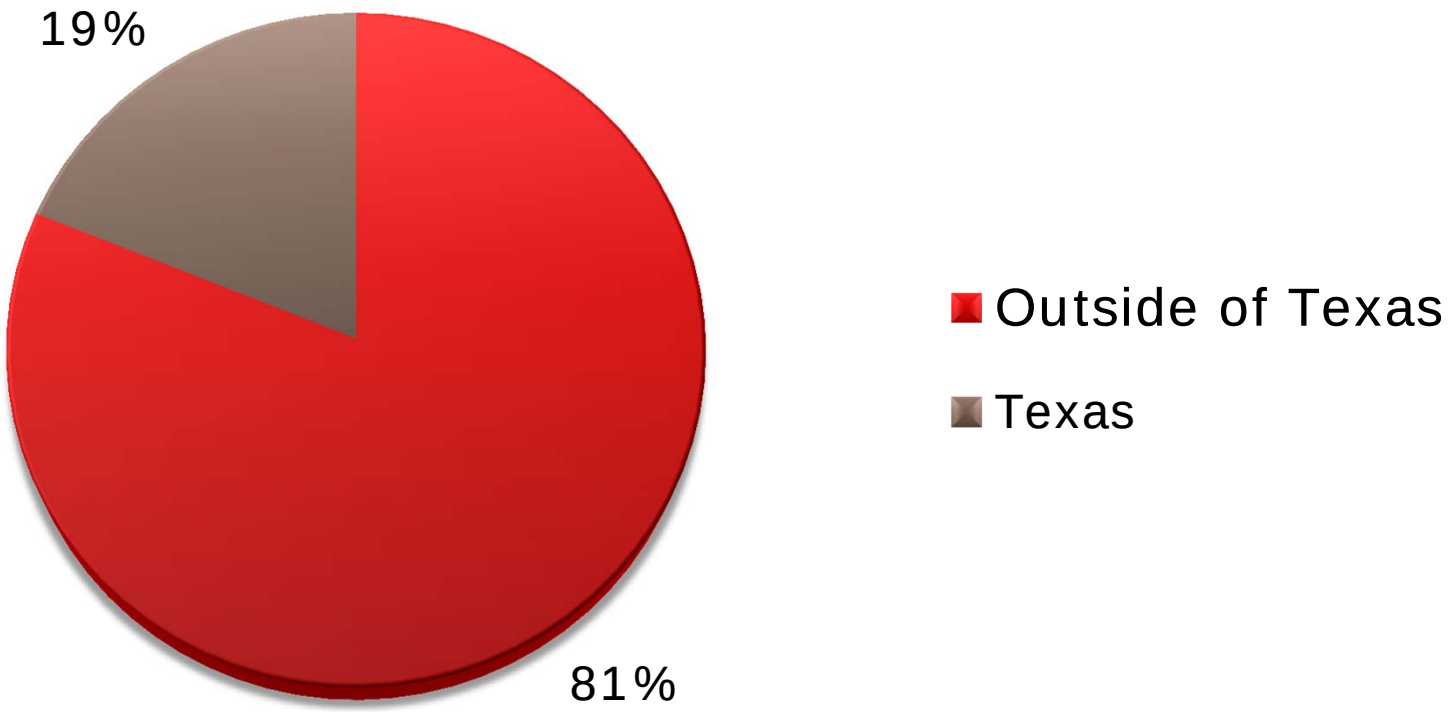

Texas Reverse Mortgage Volume by Type
Millions
$140
$120
$100
$80
$60
$40
$20
$0
11 %
87 %
12 %
86 %
97 %
96 %
2013Q3
2013Q4
2014Q1
2014Q2
Reporting Period
Proprietary/Other
HECM-Saver
HECM-Standard

Entities by License Type as of 8/31/2014

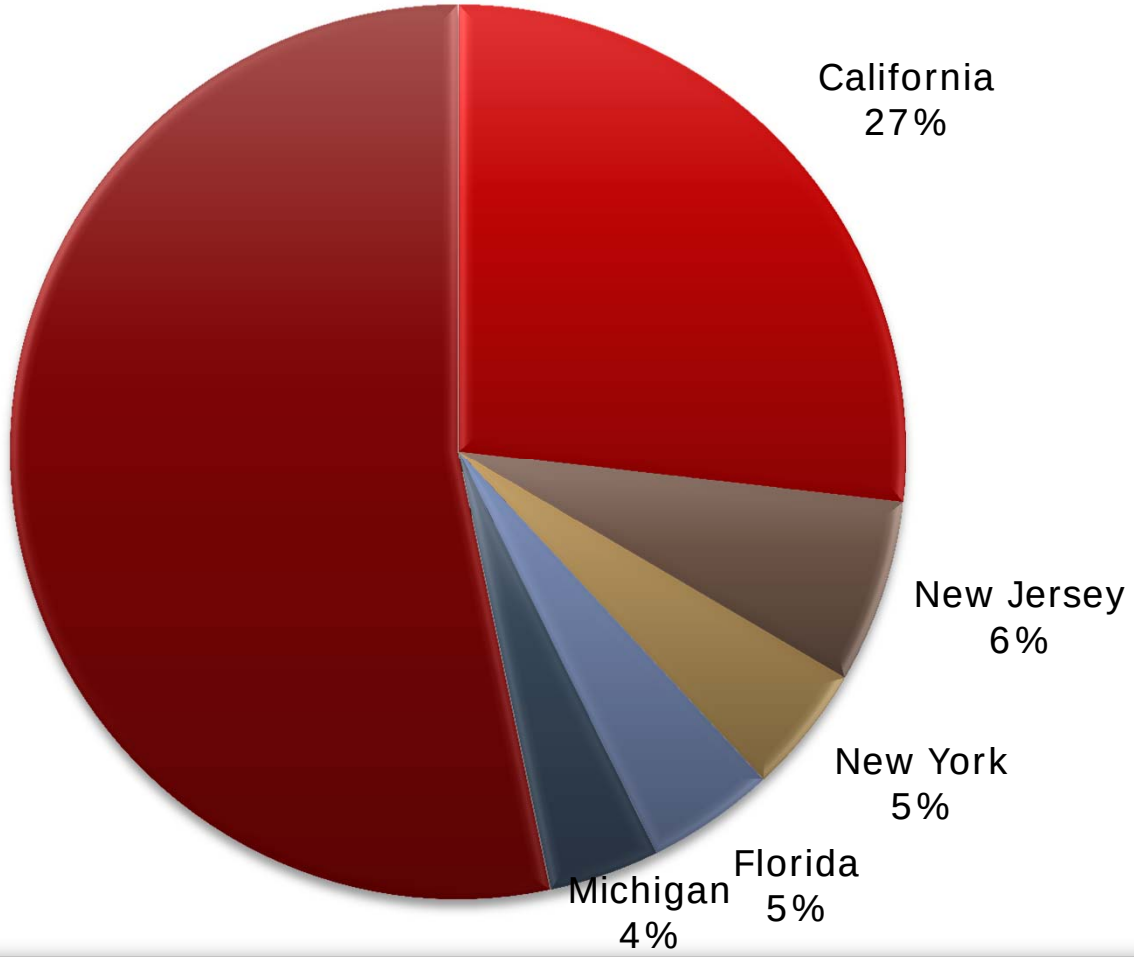


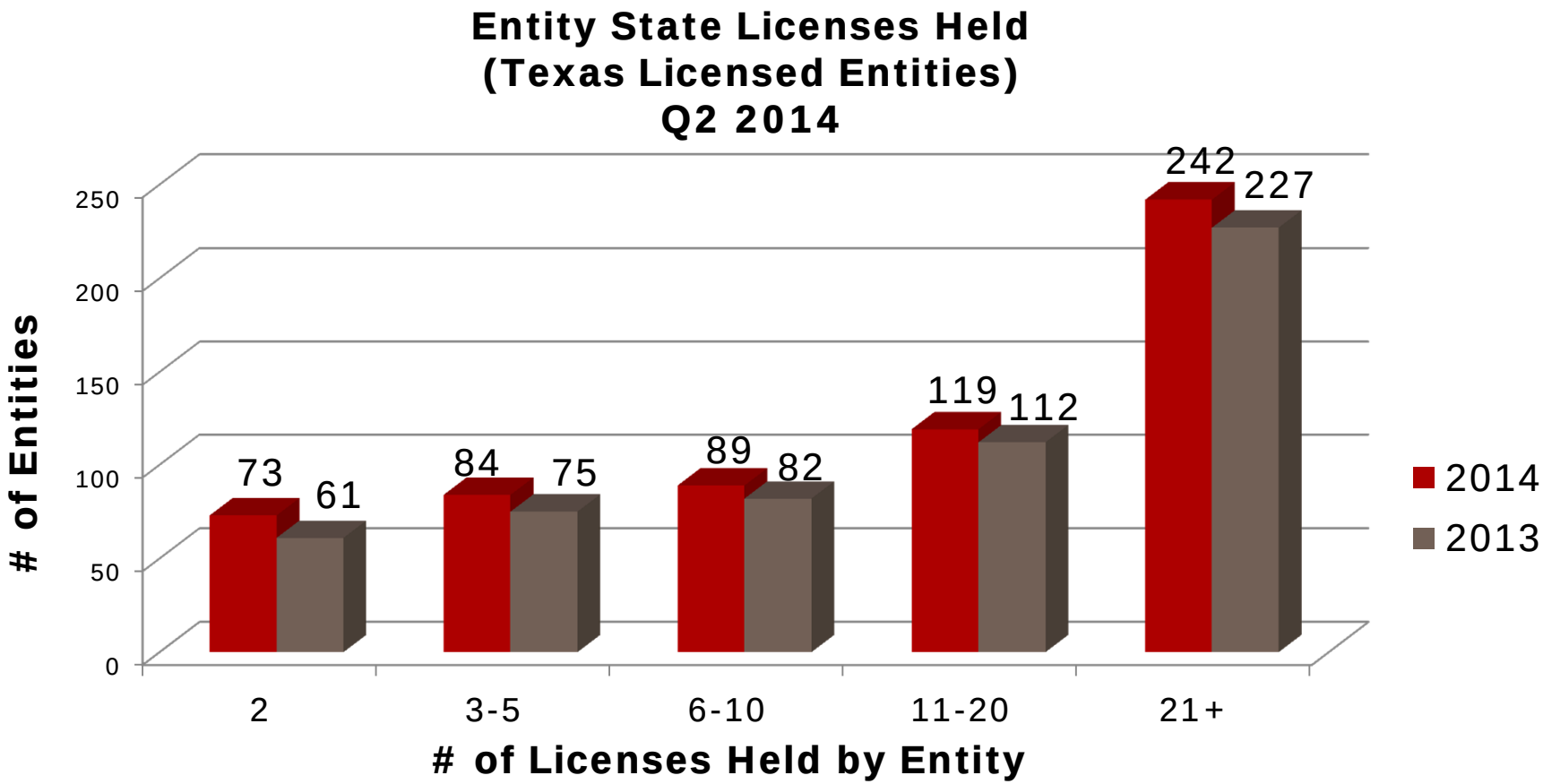
* The "Other" category includes: Independent Contractor Processor/Underwriter Company (70), Auxiliary Mortgage Loan Activity Company (9), Credit Union Subsidiary Organization (4), and Financial Services

Registered Mortgage Banker Domicile

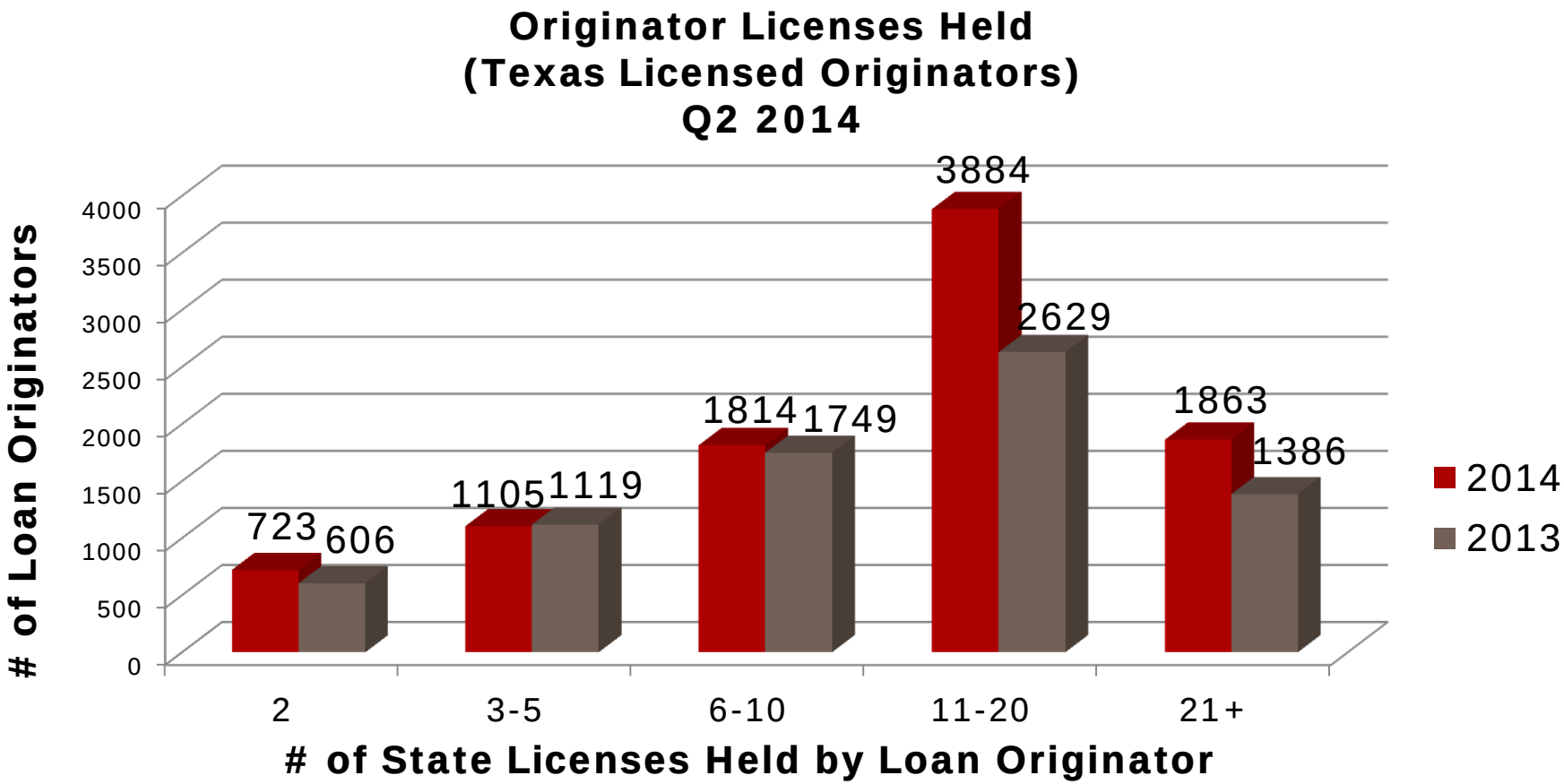


Registered Mortgage Banker Headquarters Outside of Texas





* Out of 1,515 Texas-licensed entities, 908 were licensed only in Texas (60%)



* Out of 16,780 Texas-licensed originators, 7,391 were only licensed in Texas (44%)

Historical Individual Licensee Population

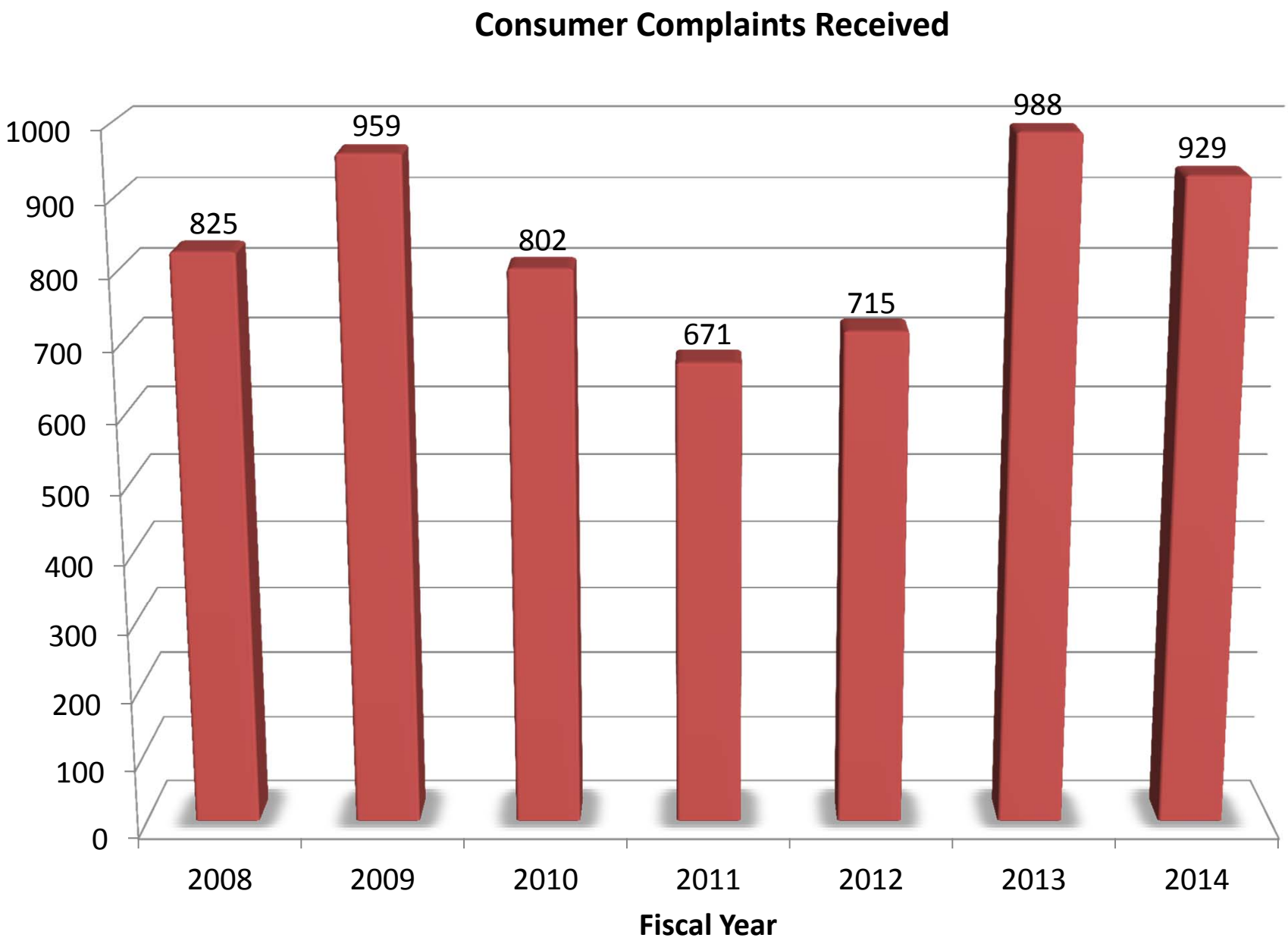
September 2014	**17,617**
September 2013	15,739
September 2012	13,677
September 2011	13,086
September 2010	8,690
September 2009	12,193

Peak in 2005 at over 30,000

Questions?

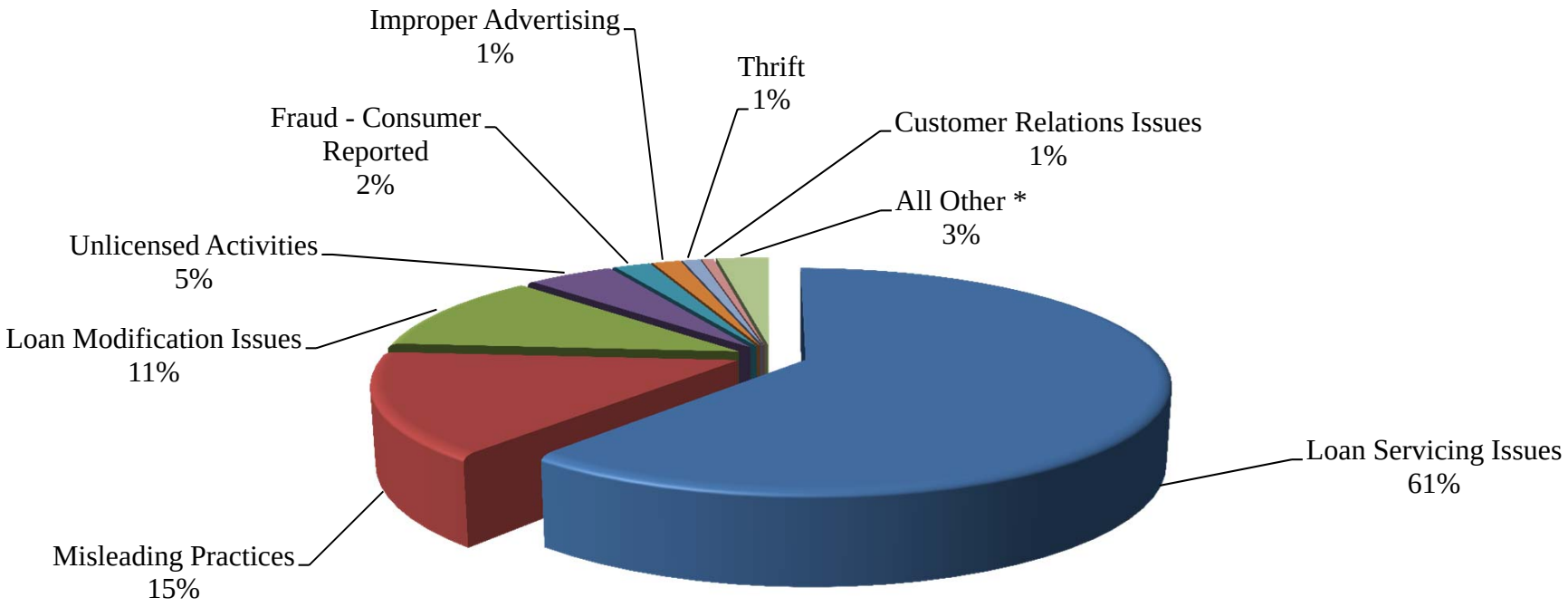
Consumer Complaints & Investigations

TONY FLORENCE
DIRECTOR OF MORTGAGE EXAMINATION


Consumer Complaints Received
1000
900
800
700
600
500
400
300
200
100
0
825
959
802
671
715
988
929
2008
2009
2010
2011
2012
2013
2014
Fiscal Year

Nature of Complaints Received - Fiscal Year 2014

(Complaints Received 09-01-2013 to 08-31-2014)

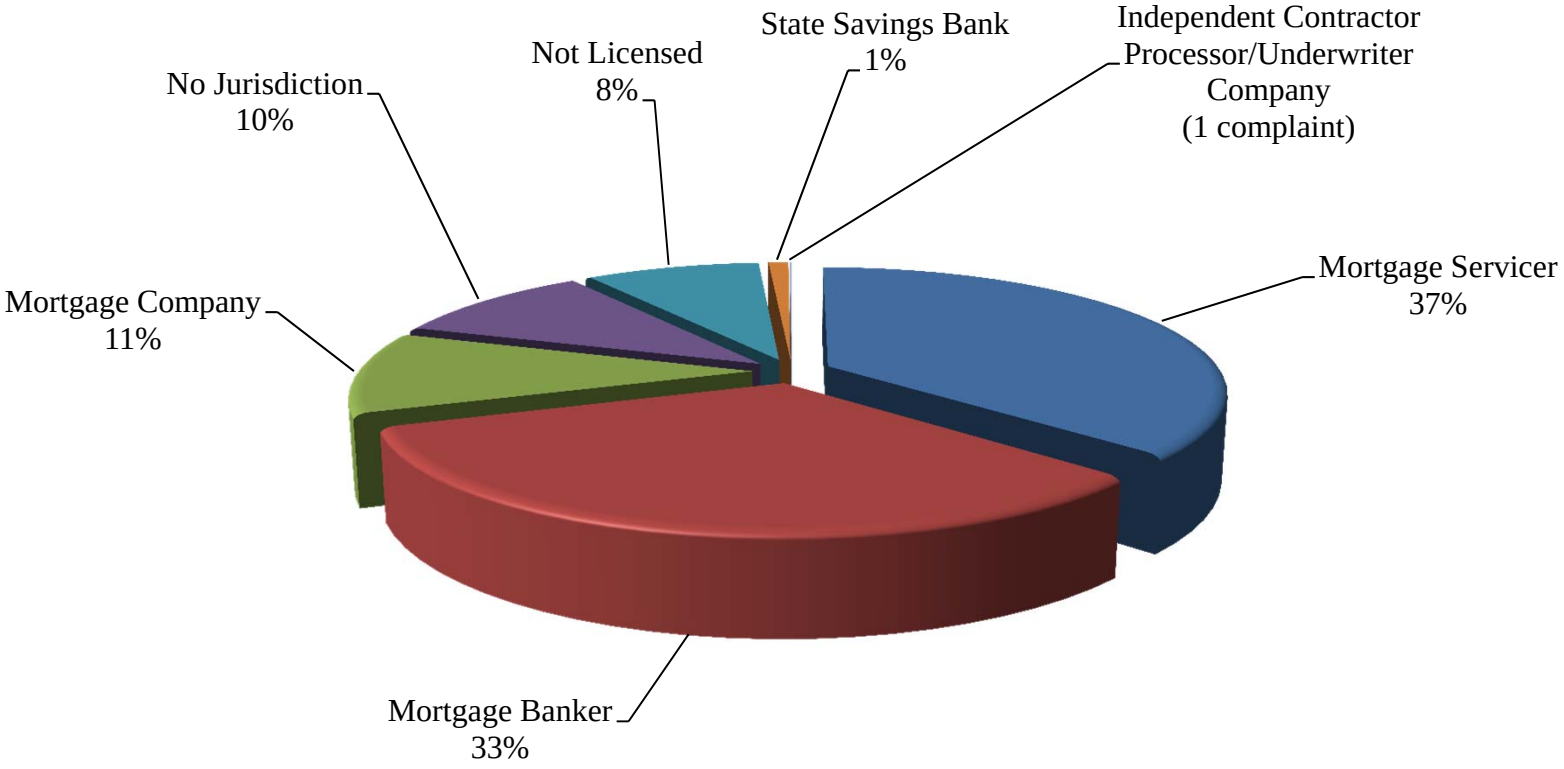


Total Complaints Received in Fiscal Year 2014 = 929

* The "All Other" Category includes: Refunds and File Transfers, Fraud-Industry Referral, Bait and Switch, Failure to Pay Appraisers/Vendors, Permissible Charges/Fees, Inadequate Disclosures, and Identity Theft.

Respondent License Types - Complaints Received in Fiscal Year 2014

(Complaints Received 09-01-2013 to 08-31-2014)



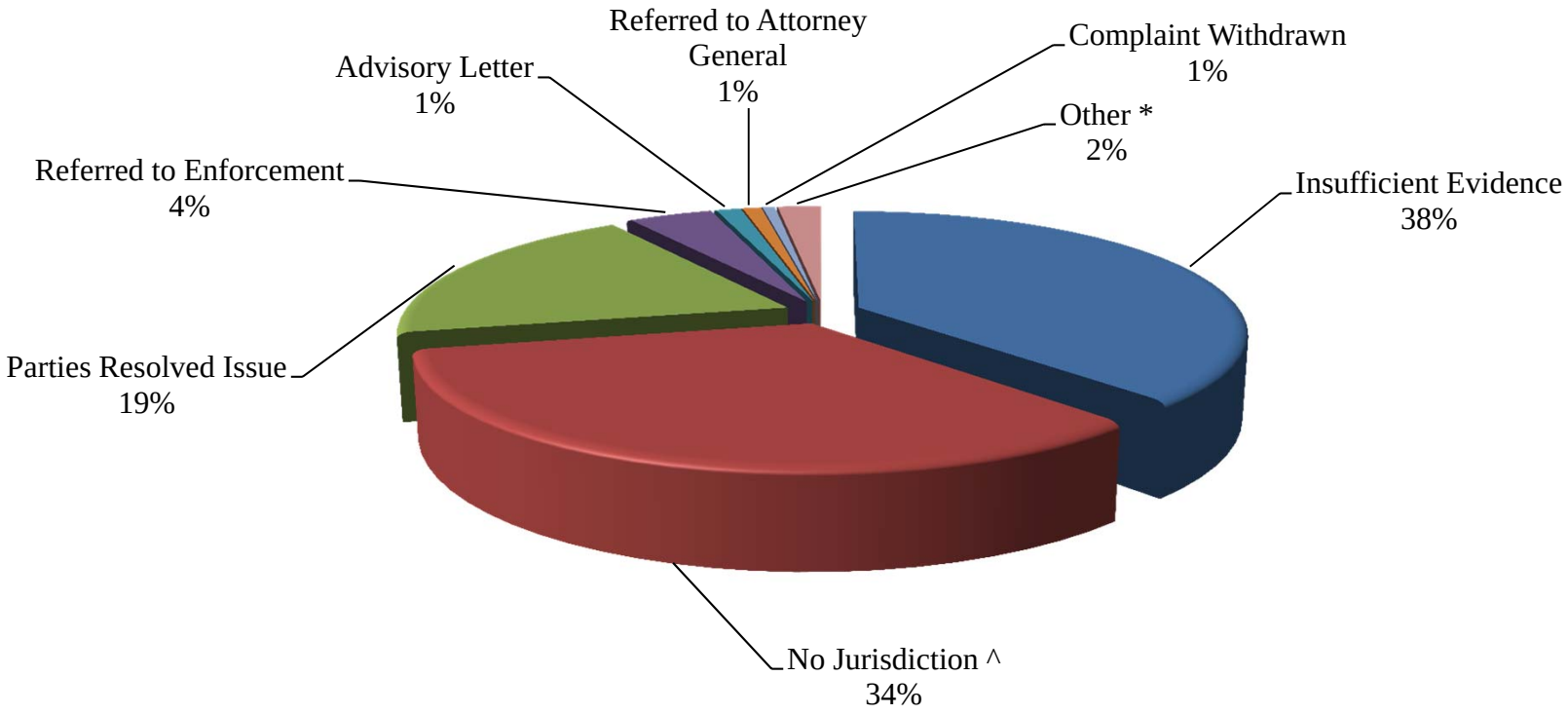
Total Complaints Received in Fiscal Year 2014 = 929

Consumer Complaint Process

- INTAKE
- PROCESSING
- INVESTIGATION
- RESOLUTION

Disposition of Resolved Complaints - Fiscal Year 2014

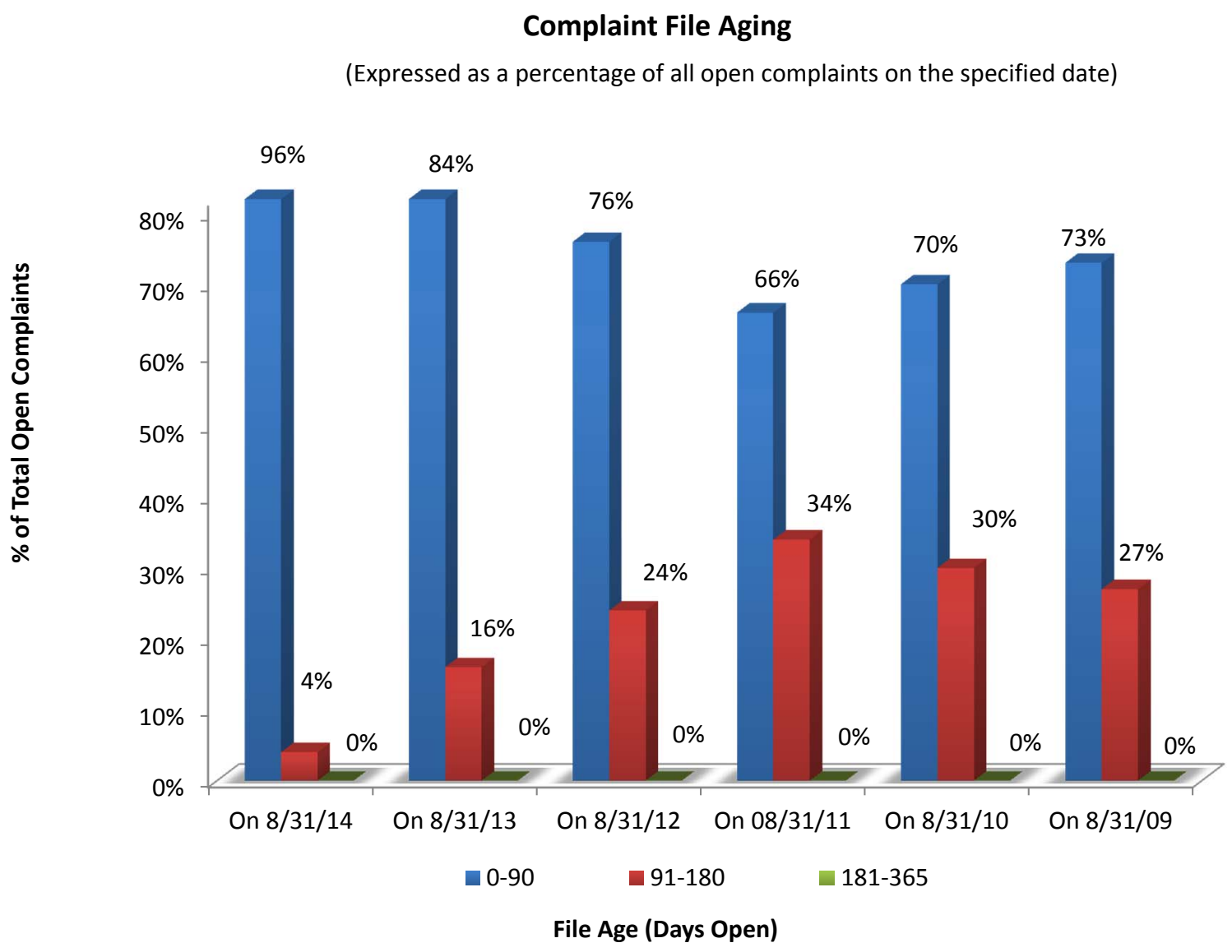
(Complaints Resolved Between 09-01-2013 and 08-31-2014)



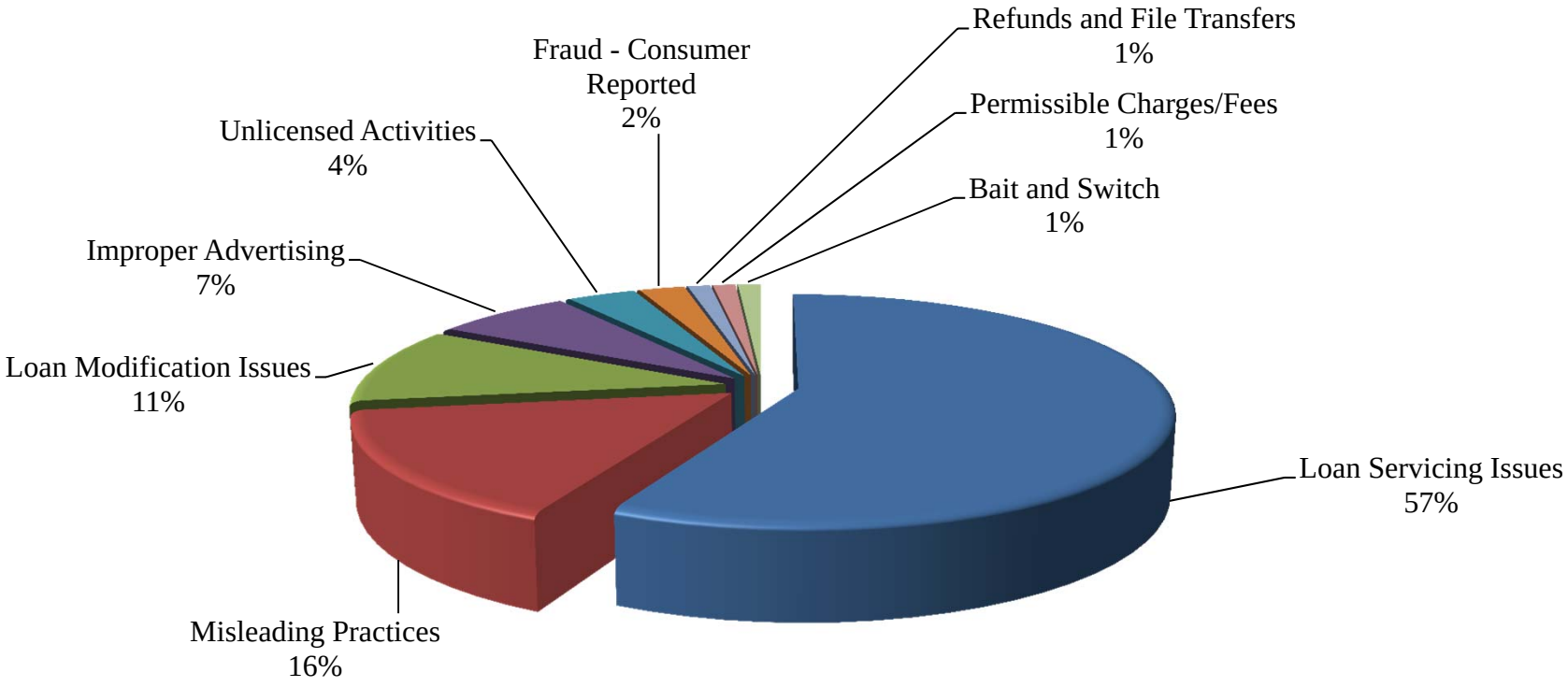
Total complaints resolved in Fiscal Year 2014 = 973

^ The "No Jurisdiction" category includes: complaint against exempt entities/individuals (No Jurisdiction-Exempt), complaints regarding issues outside the Department's authority (No Jurisdiction Over Issue), and complaints against entities/individuals with expired licenses (No Jurisdiction-License Expired).

* The "Other" category includes: Consolidated with Another File, Opened in Error, Information Only, No Investigation, and Failure to go Forward


Complaint File Aging
(Expressed as a percentage of all open complaints on the specified date)
% of Total Open Complaints
80%
70%
60%
50%
40%
30%
20%
10%
0%
96%
4%
0%
84%
16%
0%
76%
24%
0%
66%
34%
0%
70%
30%
0%
73%
27%
0%
On 8/31/14
On 8/31/13
On 8/31/12
On 08/31/11
On 8/31/10
On 8/31/09
0-90
91-180
181-365
File Age (Days Open)

Nature of Open Complaints as of 08/31/2014



Total Open Complaints as of 08-31-2014 = 84

CFPB Complaint Portal (Continued)

TDSML signed the data sharing agreement on April 2, 2013. The agreement allows authorized Department employees to view mortgage related complaints filed with the CFPB by Texas consumers.

TDSML is continuing to participated in a working group comprised of state regulators to improve the sharing of consumer complaint data received by the CFPB.

Questions?