
COMPLIANCE EXAMINATION RATING SYSTEM

SML has adopted, with slight modifications, the regulatory compliance rating system established and implemented by the Federal Financial Institution Regulatory Agencies.

The Federal Financial Institutions Examination Council (FFIEC) developed and recommended to the member agencies for adoption a uniform consumer compliance rating system. The purpose of the rating system is to reflect in a comprehensive and uniform fashion the nature and extent of a company's compliance with consumer protection and civil rights laws and regulations.

The primary purpose of the rating system is a guide to help identify companies whose compliance with state and federal laws and rules displays weaknesses requiring special supervisory attention and which are cause for more than a normal degree of supervisory concern. In addition to the compliance ratings, greater supervisory concern and enforcement actions may result from consumer complaints and/or unlicensed activity disclosed either during or independent of the examination process.

At the conclusion of an examination, an exit meeting will be held, if possible, to communicate preliminary findings and the examiner's recommended compliance rating. Following the exit meeting, the examiner will submit the Report of Examination (ROE), including the proposed rating, to SML management for review. SML management may adjust the rating based on additional supervisory considerations, including the presence of consumer harm, systemic compliance failures, or other significant regulatory deficiencies. Upon completion of this review, the ROE and final rating will be issued to the company. Both the ROE and the compliance rating are classified as confidential supervisory information.

COMPOSITE RATINGS

One

A mortgage company/banker and sponsored residential mortgage loan originators in this category are in a strong compliance position. The mortgage company maintains strong operational controls and takes action to prevent violations of law and consumer harm. Findings identified during the examination are relatively minor, have a minimal impact on consumers, and can be remedied quickly. The examination revealed no evidence of violations requiring restitution to consumers or practices resulting in repeat violations.

Commentary - This rating would include companies exhibiting an equal emphasis on compliance with their focus on origination. This emphasis is evidenced by a proactive compliance program and limited violations. There is either an independent review process or sufficient controls and confirmations to provide ongoing assurance of quality.

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Two

A mortgage company/banker and sponsored residential mortgage loan originators in this category are in a satisfactory compliance position. The mortgage company maintains operational controls that are satisfactory at managing consumer compliance risk and at limiting violations of law and consumer harm. Findings identified during the examination are the result of modest weaknesses in these operational controls and have a limited impact on consumers. The examination revealed little to no evidence of violations requiring restitution to consumers or practices resulting in repeat violations.

Commentary - This rating is representative of companies who have a program of compliance, formal or informal, that is sufficient to prevent systemic violations on a given issue. An individual loan file may have multiple problems where checks and balances failed, but those problems are isolated and are not found repeatedly in other files. Despite the number of violations, there are no significant fee issues, and the examiner would not recommend a formal response delineating a requirement for corrective action to SML.

Three

A mortgage company/banker and sponsored residential mortgage loan originators in this category are in a deficient compliance position. The mortgage company's operational controls are insufficient to manage consumer compliance risk and limit violations of law and consumer harm. Findings identified during the examination are numerous and/or have a considerable impact on consumers.

Commentary - This rating is indicative of an operation with systemic compliance and/or documentation problems. Some fee issues may be present, including underestimation of fees or rates, although these violations will not be egregious or widespread.

Four

A mortgage company/banker and sponsored residential mortgage loan originators in this category are in a seriously deficient compliance position. The mortgage company exhibits fundamental and persistent weaknesses in its operational controls and severe inadequacies in core compliance areas necessary to operate within the scope of statutory and regulatory consumer protection requirements and to prevent consumer harm. Findings identified during the examination are numerous, widespread, and/or have a serious impact on consumers.

Commentary - This rating is reflective of widespread documentation problems as well as numerous fee-related issues. Findings may include unlicensed activity, numerous and substantive repeat violations, and/or violations requiring substantial restitution to consumers. Formal enforcement action may be necessary.

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Five

A mortgage company/banker and sponsored residential mortgage loan originators in this category are in a critically deficient compliance position. The mortgage company's operational controls are non-existent or critically deficient at managing consumer compliance risk and/or at preventing violations of law and consumer harm. Findings identified during the examination are numerous, widespread, and/or have a serious impact on consumers. "Critically deficient" indicates an absence of crucial operational controls and a demonstrated lack of willingness or capability to take the appropriate steps necessary to operate within the scope of statutory and regulatory consumer protection requirements and to prevent consumer harm.

Commentary - This rating is reflective of widespread documentation problems, numerous fee-related issues, and/or severe failure to maintain adequate records. Lack of critical loan file documentation or entire loan files impedes the examiner's ability to effectively examine the company. The Department will take formal enforcement action, possibly including revocation, for failure to take prompt corrective action.