DEPARTMENT OF
SAVINGS AND
MORTGAGE LENDING
HECTOR RETTA, COMMISSIONER

Common Mortgage Exam Violations

(updated October 20, 2026)

Findings	References
Unlicensed Processor • Independent contract processor (1099 or paid directly at closing) provides processing services and is not properly licensed in Texas. • Independent contractor (1099) is identified as a "Loan Officer Assistant" but performs duties requiring licensure and is not properly licensed in Texas. • An Independent Contractor Loan Processor and Underwriter Company employs unlicensed processors. ○ All loan processors and underwriters working for the Independent Contractor Loan Processor and Underwriter Company are required to obtain a Texas-SML Residential Mortgage Loan Originator license even if the employee is paid as a W2 employee. See 7 Texas Administrative Code § 55.100(6). • A properly licensed loan processor bills using an unlicensed company. • An independent contract processor is licensed in a different state but not in Texas. • A mortgage company or an originator hires an individual who is not properly licensed in Texas to perform administrative and processing functions.	Tex. Fin. Code, §180.051(b); §180.002(11); and §180.002(1).
Loan Originator Compensation • Loan originator compensation based on a percentage of the lender-paid compensation (origination fee). The loan origination fee is a transaction term. Compensation based on a transaction term is prohibited. • Loan originators received total compensation minus a flat company fee, while lender compensation varies across lenders. This creates compensation based on a transaction term and presents steering concerns. • Required written compensation agreements for loan originators were not in place, and/or supporting compensation documentation, including compensation records, was not maintained. • Loan originators receive compensation from both the consumer and another party (such as a lender), which is prohibited under dual compensation rules. • Splitting compensation with an unlicensed individual for marketing or referring business. This is a RESPA Section 8 violation.	TILA Regulation Z, 12 C.F.R. §1026.36(d)(1); §1026.36(e), §1026.25(c)(2); §1026.36(d)(2)(i); and RESPA Regulation X, 12 C.F.R §1024.14.

Conditional Letters • Missing required information: Pre-Qualification, Qualification, Pre-Approval, and Approval Letters must include all the information contained in either Form A (Conditional Pre-Qualification) or Form B (Conditional Approval). • Unsigned Letters: Letters must be signed by the issuing originator. Either a digital signature or a wet signature is acceptable. Pre-populating the originator's name does not meet the signature requirement. Digital signature authentication or tracking may be requested to verify signature validity. • Incomplete Forms: Form A or Form B was used; however, sections of the Form were incomplete or left blank. • Incomplete Customized Letters were created; however, the customized letter lacked the required information. Customized letters must contain the information contained in either Form A or Form B. • Outdated Letters - Form A or Form B was used; however, the Form was the outdated version. Effective May 1, 2020, the required elements to be included in Conditional Letters were changed. • Forms were issued in every loan file. Conditional Letters / Forms are not required to be issued; however, if a Conditional Letter or Form is issued, it must include the information contained in either Form A or Form B, and the Form must be fully completed.	Company - 7 TAC §56.201 Banker - 7 TAC §57.201
Incomplete Files (Record-keeping) • Missing signed initial and final loan applications (1003) • Missing final, executed Closing Disclosure • Insufficient loan file documentation – missing disclosures, supporting documentation, invoices, etc. (brokered files)	Company - 7 TAC §56.204 Banker - 7 TAC §57.204
Unlicensed Activity – Residential Mortgage Loan Originator (RMLO) • An individual originates mortgage loans without obtaining a license in Texas or before their originator license is approved. • An originator is licensed in a different state but is not licensed in Texas. • An originator begins accepting applications, offering or negotiating mortgage loans before receiving Temporary Authority from Texas (e.g., An individual assumes they have Temporary Authority, but they did not submit an application requesting Temporary Authority from Texas or did not meet the requirements). • An individual engages in mortgage loan activities—such as accepting applications, offering or negotiating loans—in Texas while their license is expired or was not renewed in a timely manner.	Tex. Fin. Code §157.012

Unlicensed Activity – Mortgage Company • A mortgage company originates mortgage loans without obtaining a license in Texas or before their company license is approved. • A mortgage company originates loans in Texas while their license is expired or was not renewed in a timely manner. • A mortgage company pays their sponsored originator through the originator's unlicensed business entity.	Tex. Fin. Code §156.201(a)

Information Security Program
• No Information Security Program developed.
• Program lacking the required criteria:
  ○ Designate an individual to coordinate the Program and include the designated individual's name and contact information;
  ○ Design and implement safeguards to control risks including:
  ▪ Access controls
  ▪ Data identification, classification, and asset management
  ▪ Encryption
  ▪ Secure development practices
  ▪ Multi-factor authentication
  ▪ Data disposal practices
  ▪ Change management procedures
  ▪ User activity logging and monitoring
  ○ Identify and assess internal and external risks to confidentiality and security of consumer information;
  ○ Test and monitor key controls identified through risk assessment;
  ○ Document the selection and oversight measures to ensure that service providers safeguard information;
  ○ Provide detailed policies and procedures for secure destruction and disposal of records;
  ○ Provide information security awareness training to all employees as part of initial training and annually, including specialized training to qualified individual and key personnel; and
  ○ Provide for periodic updating to reflect changes in risks.
	16 Code of Federal Regulations, Part 314

Remote Work Policy
• Staff allowed to work remotely, but no Remote Work Policy in place.
• Program lacking the required criteria:
  ○ Safeguards to protect consumer data, information, and records, including use of secure virtual private networks and data storage encryption where applicable;
  ○ Appropriate risk-based monitoring and oversight processes;
  ○ Monitor information systems for potential anomalies or security incidents;
  ○ Ensure electronic records are secured, and physical records are not maintained at a remote location; and
  ○ Provide information security awareness (remote work) training to all employees as part of initial training and annually.
	Company – 7 TAC §56.206(c)
	Banker – 7 TAC §57.206(c)

Advertisements
• Missing originator NMLS ID
• Missing company name and NMLS ID
• Missing web address
• Website missing the Texas Consumer Complaint Notice
  ◦ TX Notice – Company
  ◦ TX Notice - Banker
• A team name / team logo is used without including the company's name and NMLS ID in substantially equal prominence with explanatory word or phrase that clearly links the two (e.g., "(team name) of (mortgage company name and NMLS ID)" or "(team name) powered by (mortgage company name and NMLS ID")).
	Company - 7 TAC §56.203
	Banker - 7 TAC §57.203

Transaction Log • Inaccurate loan application dates • Inaccurate originator (must provide originator who took the initial application) • Inaccurate loan status • Does not include adverse loans (denied, withdrawn, canceled)	Company - 7 TAC §56.204 Banker - 7 TAC §57.204

Texas Mortgage Company Disclosure / Mortgage Banker Disclosure
• Incorrect Disclosure provided to the applicants:
  ◦ The Mortgage Company Disclosure is required to be issued by originators sponsored by a Mortgage Company Licensee.
  ◦ The Mortgage Banker Disclosure is required to be issued by originators sponsored by a Mortgage Banker Registrant.
• No Disclosure was provided to the applicants.
• Incomplete or no evidence of timely delivery
	Company - 7 TAC §56.200(a)
	Banker - 7 TAC §57.200(a)

Adverse Action Notice • No record of an Adverse Action Notice being sent to the applicant. • Incomplete Notice – missing required elements (e.g., the reason for denial, credit scores, range of possible credit scores, or the name, address, and telephone numbers of the consumer reporting agencies). • The Notice did not include the name and address of the Federal Agency that administers compliance with ECOA (Federal Trade Commission).	§615(a) of the Fair Credit Reporting Act [15 U.S.C. § 1681g] Regulation B, 12 C.F.R. §1002.9
Initial Privacy Notice • Incomplete Notices – insufficient information or blank sections • The Notice is missing entirely or is not provided to the applicants. (brokered files)	Regulation P, 12 C.F.R. §1016.4

Notice of Penalties for Making False or Misleading Statement Disclosure • The Notice is missing entirely or is not provided to the applicants. • The Notice is signed before closing (must be signed at closing).	Tex. Fin. Code, §343.105
Bank Secrecy Act – Anti-Money Laundering (AML) Program Program lacking the required criteria: • Identifies policies, procedures and internal controls; • Designates an AML compliance officer; • Provides for ongoing training; • Provides for independent testing; and • Details procedures for filing SARs.	§1029.210 and §1029.320 of Title 31, Code of Federal Regulations, Chapter X
Identity Theft Prevention Program / Red Flags Rule Program lacking the required criteria: • Tailored appropriately to size and complexity of company; • Identifies relevant patterns, practices, and forms of red flags; • Incorporates business practices to detect red flags; • Details responses to red flags to prevent and mitigate identify theft; and • Provides for periodic updating to reflect changes in risks.	Section 615 (e) of the Fair Credit Reporting Act and 16 Code of Federal Regulations, Part 681
Written Service Providers List • No provider listed for a service for which applicants were permitted to shop. The List must include service providers for fees disclosed in Section C of the Loan Estimate. • The List did not include providers offering services in Texas. • The contact information for the service provider is missing.	TILA Regulation Z, 12 C.F.R. § 1026.19(e)(1)(vi)(C)
Seller-finance / Wrap Loans • A residential real estate owner originates, funds, or makes the credit decision on more than three residential mortgage loans within a rolling 12-month period without obtaining the required Texas license. ○ Two or more owners are considered a single owner if any of the owners are an entity or an affiliate of an entity. • The Wrap Mortgage Disclosure was not provided to the borrower seven days before closing or was incomplete. • The Wrap Mortgage Disclosure or the Notice required by §5.016 of the Texas Property Code was not provided to the pre-existing lienholder seven days before the effective date of conveyance. • The wrap loan was not closed by an attorney or title company. • Servicing a wrap loan or a third-party loan without obtaining a Residential Mortgage Loan Servicer Registration. • An unauthorized fee was charged on a second lien subject to Chapter 342 of the Texas Finance Code.	Tex. Fin. Code §156.201(a); Tex. Fin. Code, §180.003; Tex. Fin. Code, §159.101(a); Tex. Prop. Code §5.016(a); 7 TAC §56.204(c)(2)(G)(ii); Tex. Fin. Code, §159.105; Tex. Fin. Code, §158.001; 7 TAC §58.100(b); and Tex. Fin. Code, §342.502