



NMLS Ombudsman Meeting
Pointe Hilton Tapatio Cliffs
Phoenix, AZ
Salon GHIJ

8:30 am – 11:30 am (MT)
February 19, 2016

Agenda:

1. Scott Corscadden, NMLS Ombudsman

Supervisor, Bureau of Loans, Alabama State Banking Department

Corscadden gave brief opening remarks, thanking Bob Niemi for his service as the Immediate Past NMLS Ombudsman. Niemi was presented with an engraved trophy to commemorate his term of service.

2. Mike Sacks, Senior Compliance Specialist, ADP Payroll Services, Inc.

Sacks addressed the NMLS amendments checklists, specifically that there is a lack of uniformity among the state checklists for detailed requirements for a change of control of executive officers and/or directors. A similar issue was raised by Cindy Corsaro in her submission for the Ombudsman meeting which focused on the need for consistency in the use of the word “control” in the checklists and also for the various checkboxes in the forms.

Sacks asked that the regulators provide better information on each of the requirements needed for approval of amendments which could avoid the need for numerous calls to each jurisdiction.

Sam Wolling from Prospect Mortgage and a member of the Checklist Working Group responded to the raised issues and updated the group on the progress being made as the checklists are reviewed and placed into a more uniform format. Wolling reviewed the joint regulator and industry working group efforts to improve the information contained in all of the checklists. New formats rolled with streamlined content have been adopted by new licensees brought on to

system. Contact information has been updated. Ongoing effort to get information and complete the transformation of checklists pursuant to best practices.

3. Josh Weinberg, First Choice Loan Services

Weinberg updated the group on an issue he had raised at the August 2015 Ombudsman meeting regarding a cross industry effort to consolidate and uniformly name mortgage loan fees. Differences in fee naming conventions cause problems with compliance platforms used to determine which fees may be included in APR calculations. The group, which is operating under the auspices of MISMO, identified over 19,000 fee types and have narrowed current efforts to the most commonly used 100, using agreed abbreviations and truncations of the various fee names. In order to gain overall adoption and acceptance of these fee categorizations, widespread feedback will be necessary. Weinberg asked that the state regulators participate in this review and also asked for any help in reaching out to the title insurance industry for needed input.

Corscadden stated that when the fee name document is received, state regulators will be encouraged to review and to send their comments to the industry group.

4. Haydn Richards on behalf of Amy Greenwood-Field, Senior Attorney, Bradley Arant Boult Cummings

Richards reported on a recent change of control transaction where the firm was working with the states to ensure all individual licenses were transferred in a timely manner. In this case, the mortgage company was acquiring the assets of a state-chartered bank so all of the MLOS had to prepare for and complete the steps to obtain a state license. There were divergent timeframes among the agencies for processing the applications and while early notice was provided, some of the sponsorship changes were not processed in time for the MLOs to begin business on the first day of the new ownership. Some states maintain their own state database and those were not updated until the next business day after the transfer date. The group was asked whether sponsorship changes could be provided via advance change notice to allow for advance review and approval.

Gus Avrakotos noted that he has been engaged in a number of transactions with similar issues and agreed that the ability to provide advance notice of sponsorship/sponsorship changes would be helpful.

Some of the regulators commented saying that while regulators want to look closely at the changes and make sure it's appropriate to approve the sponsorship, a request to utilize the advance change notice is a reasonable request and should be investigated. While sponsorship changes should not be made so complex, sponsorship is also tied to employment history. The lends to the complexity of the request (as it currently precludes a sponsorship approval before the MLO is actually employed by the new entity) but it is not impossible to automate as much as is

possible and the system needs to help develop tools to help keep MLO employment records up to date.

Sponsorship and methods to automate this process have been regularly discussed and will continue to be especially as the new NMLS 2.0 planning process begins in earnest.

5. Cindy Corsaro, Licensing Specialist, FirstKey Mortgage, LLC

Corsaro brought up suggestions regarding several procedural system issues including:

- Requesting regulators wait the allotted five days before setting deficiencies for external items after submission of an MU1. Often the documents are in route and once posted, deficiency items can take time to clear.
- Reiterated some of the comments made earlier in the meeting regarding state checklists and specifically noted issue on the state-specific renewal checklists which should include everything required for renewal.
- Requesting states to not issue compliance examination deadline during the two weeks immediately preceding MCR submission dates and perhaps also the week before the NMLS Conference as the individuals involved in both are normally the same persons. Josh Weinberg also requested a blackout week be instituted for the last week in December. Many shops are very short staffed during the holidays and he noted receiving on request for information on December 24th that was due on December 31st and related the resulting difficulties to fulfill those types of requests.

Corscadden indicated that all of these items will be communicated to the states.

6. Robert Niemi, Baker & Hostetler LLP

Niemi first thanked all involved for support received during his term as NMLS Ombudsman.

Niemi raised the issue of the pace of state coordination with multistate examinations, both among the states, such as through the MMC or MMET, or the coordinated exams held between the states and the CFPB. He noted that there were 15 coordinated exams in 2015 and compared that number to the thousands of exams conducted each year by the states and stated the need for more coordination and consistency between regulators to reduce the number and frequency of examinations.

Kirsten Anderson, state regulator from Oregon and chair of the MMC noted that the states do want to increase the number of joint and coordinated exams and that the number has increased each year as resources have allowed. Beyond the larger MMC/MMET examination, states are also looking at the ability to conduct regional examinations. The New England states have formed a regional group and have conducted on exam thus far. They are still working out the processes but once it is in place, it could be duplicated in other regions. When asked about the

criteria for choosing examinees for a regional examination, Rich Cortes, Connecticut, said that they originally focused on the top ten companies excluding those that had recently been examined but are still working on a data set that will be used to develop the criteria for a regional examination.

Niemi also discussed the Examination Management Tool Suite (EMTS) that is being planned for use by the states. The cost of such a product is a big consideration which includes elements beyond the monetary costs as the states work towards more uniform processes. He urged that while this may take time, the states should work in advance of EMTS delivery to Consistency in workflows and state coordination are the most important elements and will guide how the tool is used.

7. Jennifer Naudin, Chartwell Compliance

Notification of Record Deletions – Naudin cited examples where clients had begun a record in NMLS but had not completed it or made any filings within the 180 dormancy period. Those filings are then deleted and the company loses any information that had been entered. She requested that prior notice be given to system users of an impending dormancy and/or that the system dashboard could display a timer/clock that reflects the remaining time prior to dormancy.

New Individual User Request Form (without SSN) – Naudin also discussed an ongoing issue regarding the process for international companies submitting company filings with MU2 individuals without SSNs. The process to obtain approval to move forward without an SSN has been taking about two weeks. She cited situations where individuals had a SSN in the past and, as SSNs do not expire, the form should request this information and allow the ability for the filer to explain the circumstances surrounding the original issuance of the SSN.

8. Costas Avrakotos, K&L Gates

Avrakotos' principal concern regarding the current proposed changes to the attestation language in the company and branch office licensing forms was that although there was a public comment period, when the state regulators finalized the new language, changes were made that had not been part of the original proposal thus industry did not have an opportunity to give input. The concerns specifically revolved around the removal of language referencing that the attestation is being made "to the best of my knowledge, information and belief." The concern from the state regulators is that inclusion of that language may allow applicants to argue that the attesting individual did not have the requisite "knowledge, information, or belief" and therefore has not knowingly made a false statement of fact.

Other industry attendees agreed with Avrakotos' comments, especially because the person is signing these attestations under the penalty of perjury. It was stated that language regarding

“best of my knowledge” is appropriate, especially when a third party may be assisting with completion and submission of the application.

The request was made to re-issue the attestation language for an additional public comment period and that SRR develop a set of protocols for the issuance of requests for public comments. Sue Clark, Chair of the NMLS Policy Committee said that the Committee would take this request under advisement and that the SRR Industry Advisory Council had also requested that industry should have a larger role in the review of public comments received.

It was decided that the attestation language will be sent out for an additional 30-day comment period so that industry can have an opportunity to submit comments on the final proposal.

Avrakotos also raised a related issue regarding the practice of having a third party service provider assist complete the attestation. The issue of having a third party attest to MU2 and other forms has been an ongoing issue. The policy requires that the individual who is the subject of the form must personally attest. This policy has been reviewed numerous times by the SRR Lawyers Committee as well as the NMLS Policy Committee and has been confirmed each time. New functionality was added that set up a new user role for and Organization Users to all designated third party users to assist with completing company and branch filings without having the ability to attest and submit those filings.

Additional questions were raised regarding the use of agents and more clarification was requested. K.C. Schaler from Idaho commented that the origin of the concern stems from experience that when states review forms they have most often found that the person holding themselves out as an agent did not have authority to do so.

Other related issues brought up included attestation of documents with forward effective dates and a request that a review of all required times of attestation be reviewed to see if they are all necessary (for instance, when there is a change of location).

Avrakotos also brought up an issue related to disclosure questions where a question is answered yes due to an affiliate company having a sanction. After a change of control, the answer is no longer correct and the company changed the answer to a “no.” The initial thoughts among the regulators present was an agreement with that practice but suggested that it may be a case by case situation and specific state guidance should be sought.

Aaron Webb, North Dakota and member of the policy committee commented that he appreciated all and any input from industry and believes that bring a different viewpoint and are most often insightful and helpful. Pfaff then described the process that follows an Ombudsman meeting whereby all comments and requests are referred to the appropriate persons or committees for follow up.

**9. Ken Markison, Vice President & Regulatory Counsel, MBA
William Kooper, Associate Vice President, MBA**

Markison discussed the fact that roughly half of the states permit an MLO to maintain a license in an approved/inactive status in order to move more easily in and out of state-licensed mortgage activity. There seems to be some concern that the Approved-Inactive license status causes consumer confusion but instead of abandoning this ability perhaps the terminology should be changed to allow for wider adoption.

Rod Carnes noted that in Georgia, all MLOs must be employed by a sponsoring licensee at all times but that they have addressed the movement issue by having a system that moves quickly to approve licenses for individuals who are qualified to start working. The California DRE uses the inactive status quite broadly and has no issues with that use.

The MBA and others indicated that they would work with states to help remove any impediments to use of this status and requested information regarding the current state statutes and practices regarding the use of the Approved-Inactive status so industry can for use in state level discussions. Some states do allow it but only when a licensee loses a sponsor during the year and they allow the MLO to continue being inactive only up to the time of renewal if he or she has not found a new sponsor.

Don Frommeyer, NAMB, noted that as an active mortgage broker/loan originator, he worked hard to get those credentials thorough testing and education and that since his company was purchased by a bank, he has continued in Indiana to complete continuing education requirements and renew his license in an Approved-Inactive status. He noted that it would be a substantial burden to him if he was not given the opportunity to maintain his license in good standing during times he was not employed by a licensed entity rather than have to repeat the pre-licensure education and testing requirements.

10. Rich Cortes, Connecticut Department of Banking – MCR Update

Cortes, Chair of the MCR Working Group provided an overview of MCR changes in 2016. He reviewed Q1 2016 changes, such as the updated definition of application and changes deferred to NMLS 2.0. Tom Brennan from Massachusetts noted that he has received requests from industry to receive copies of the error reports (flagged filings) provided to regulators. Rich Cortes said he would support that suggestion providing the error reports to the industry don't contain information that shouldn't be disclosed. Several other regulators and industry members agreed and Cortes said he would follow up on that issue with the other states and the relevant working groups.

Derek Schultz gave a report on the status of the Money Services Businesses Call Report which is being developed by the states. A session was held during the conference on this issue and Schultz indicated that they had received a good deal of feedback. At this time the working group

had sent out the draft report for a 60 day comment period and staff is currently reviewing those comments. The received comments will be published on the NMLS Resource Center along with the response of the working group. The new report is targeted for system deployment in Q1 2017.

Michelle McEvoy from Green Dot indicated that industry appreciates the process and move towards uniformity but had some concerns that not all states will adopt the report in place of existing state-specific reports. While state adoption cannot be guaranteed, it is the stated goal of the MSB call report as well as the MCR. It was noted that not all states have replaced their own reports with the MCR and some discussion about legislative impediment to doing so.

Sue Clark from Vermont noted that her agency recently eliminated their external reporting requirements because of the availability of the MCR analytics. In Massachusetts, they were able to eliminate the state specific mortgage broker report. Cortes encouraged all the states to provide the information they require outside of the MCR to the MCR working group and also encouraged all report filers to address issues and questions directly with the regulators.

The question was raised as to whether there is a move towards development of a uniform debt or consumer finance call report. At this time there is probably not enough participation in NMLS for all of those license types to warrant development of a report that would supply state regulators with relevant market information.

11. Haydn Richards, Bradley Arant Boult Cummings

Richards brought up foreign entity and foreign branch licensing which causes a number of challenges and is increasingly being discussed. These requires often involves jobs that are moving off-shore such as a national bank having off-shore operations to improve cost structures for their customers. Some states will not allow (by state law, regulation, or policy) licensing of a foreign entity or branch. Richards suggested that there is a need for a dialogue about finding a path forward in helping these entities get properly licensed provided they meet certain requirements.

Scott Corscadden noted that there are often issues related to foreign individuals seeking licensure such as finding reputable substitutes for credit reports and criminal background checks. Richards offered to spearhead a working group and several state regulators including Rich Cortes from Connecticut indicated that they would like to be part of those discussions. Other issues that were brought up included the inability to verify licensing standards and increased bonding requirements were suggested as one means towards moving forward.

12. Carolyn Goldman, Goldman & Zwillinger

Ms. Goldman brought up issues with the NMLS Call Center not answering specific questions when a company wants the communication to be anonymous and requested that the policy be reconsidered. Dave Dwyer, SRR, said that he would review that policy and look at being more flexible to answer general questions without requiring identifying information. Kirsten Anderson, OR, stated that while the call center is the best place to navigate the System, specific question should be directed to the appropriate state regulator.

Corscadden thanked all participants and staff and adjourned the meeting at 10:50 a.m. CT.