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INDUSTRY BULLETIN

Conference of State Bank Supervisors

1129 20th Street, NW, Ninth Floor, Washington, DC, 20036

American Association of Residential Mortgage Regulators

1025 Thomas Jefferson Street, NW, Suite 500 East, Washington, DC, 20007

Supervisory Expectations Regarding the Use of Electronic Examinations Tools

The Multi-state Mortgage Committee (MMC) is issuing an industry bulletin to mortgage lenders to make their supervisory expectations regarding the use of electronic examination tools clear.

The MMC relies heavily upon technology that provides for a complete loan review. The use of this technology allows regulators to more efficiently and effectively evaluate risk and minimizes costs associated with examinations. State regulators expect mortgage lenders and brokers to provide data that completely and accurately reflects the status of their loan portfolios in a timely manner and in an acceptable format.

During some recent examinations, the MMC has observed that certain companies were unable to provide comprehensive and accurate data in an acceptable format. These exams are more costly and disruptive to companies as the exam team typically spends additional time attempting to resolve the data issues including, at times, manually entering data into the system. Moving forward, the MMC will consider companies that provide incomplete and inaccurate data to be non-compliant with state requirements regarding records production, including the adequacy and accuracy of those records. As a result, the MMC will cite in multi-state examination reports any problems obtaining useable electronic data during the exam and will recommend state regulators take enforcement action as necessary.

Background Information:

The MMC began an initiative in 2008 to modernize the examination platform used by state regulators. The MMC achieved this goal by utilizing technology that assists examiners in reviewing loan transaction data. An automated compliance review system allows for computational and transactional review of a larger statistical sample. This review includes an analysis of virtually every loan originated or funded by the institution. This automated approach

provides pre-screening for file review and assists in determining the ultimate scope of the examination, thereby allowing for a more targeted and risk-based approach to the examination.

State regulators issued letters to the industry in October 2009 setting expectations with regard to the use of this new technology, while acknowledging that a certain passage of time would be necessary for licensees to meet expected data integrity levels. The regulators set an expectation that full participation in this electronic examination process be in place by early 2011.

To date, despite years of preparation and anticipated compliance, the mortgage industry has regularly failed to provide clean data in a format acceptable to the regulators' technology platform. A common problem with data uploads revolves around the way the loan fields are arranged, and a lack of data reconciliation by the institutions with regard to post close files. Adjustments to the transaction that occur at, or after the time of closing are part of the transaction record and must be included within the data uploaded in order for the records to be complete and accurate.

The mortgage crisis made clear that a sampling of a *de minimis* segment of a company's loan portfolio is inadequate for identifying pervasive systemic risk. The use of technology to scan a loan portfolio for violations has been in existence for many years, and will increasingly be an approach used by regulators in assessing a company's level of compliance.

The MMC will continue to rely heavily upon this technology, and will consider companies that cannot provide data that is complete, accurate and properly formatted to be non-compliant with respect to records production. In an effort to move those in the industry that remain unable or unwilling to provide the data as requested, the MMC has elected to recommend to state regulators to take an enforcement action should a company be unable to timely provide data that accurately reflects the status of its loan portfolio. The states may take action for the non-compliance. The issues that have impeded the regulators' ability to conduct electronic examinations must be rectified, and when resolved, will enable a more efficient and timely regulatory process.

Please contact Karyn Tierney, Chair of the MMC with any questions you may have.

Sincerely,
Karyn Tierney

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Contacts:

Karyn Tierney, Chair of the MMC, Deputy Commissioner of the Arkansas Securities Department, [ktierney@securities.arkansas.gov or (501) 324-8671];

Kirsten Anderson, Vice-Chair of the MMC, Mortgage Lending Program Manager for the Oregon Division of Finance and Corporate Securities [Kirsten.L.Anderson@oregon.gov or (503) 947-7478];

John Prendergast, CSBS Vice President of Supervision, [jprendergast@csbs.org or (202) 728-5756].

About CSBS:

The Conference of State Bank Supervisors (CSBS) is the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. State banking regulators supervise nearly 5,000 state-chartered financial institutions. Further, most state banking departments also regulate a variety of non-bank financial services providers, including mortgage lenders. For more than a century, CSBS has given state supervisors a national forum to coordinate supervision of their regulated entities and to develop regulatory policy. CSBS also provides training to state banking and financial regulators and represents its members before Congress and the federal financial regulatory agencies.

About AARMR:

The American Association of Residential Mortgage Regulators (AARMR) is the national organization representing state residential mortgage regulators. AARMR's mission is to promote the exchange of information and education concerning the licensing, supervision and regulation of the residential mortgage industry, to ensure the ability of state mortgage regulators to provide effective mortgage supervision for a safe and sound industry meeting the needs of the local financial markets and to protect the rights of consumers.

About the MMC:

The Multi-State Mortgage Committee (MMC) was created by state financial regulators—through the Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR)—to coordinate examination and supervision of those mortgage lenders and brokers operating in more than one state. The MMC was formed in 2008 as a result of the states' desire to improve the coordination, sophistication and efficiency of state regulatory mortgage examinations. The committee is made up of 10 members elected by the Boards of CSBS and AARMR. The MMC reports to both Boards.