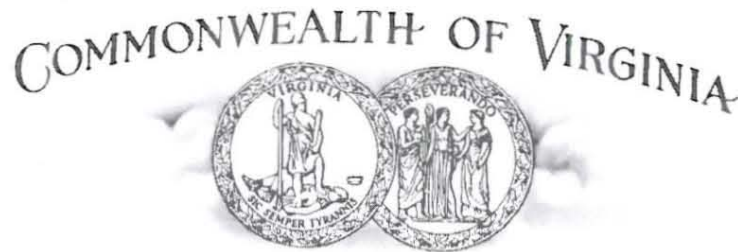


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**STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL INSTITUTIONS**

July 1, 2013

TO: The Honorable Senator John C. Watkins
The Honorable Delegate Terry G. Kilgore

As required by Title 6.2, Chapter 17, Section 6.2-1720 D of the Code of Virginia, the Bureau of Financial Institutions of the State Corporation Commission respectfully submits the attached report on the operations of the State Regulatory Registry LLC and the Nationwide Mortgage Licensing System.

Sincerely,

A handwritten signature in black ink, appearing to be 'E. J. Face, Jr.', is written over a faint, larger version of the same signature.

E. J. Face, Jr.

Cc: Members Senate Commerce and Labor Committee
Members House of Delegates Commerce and Labor Committee
Angela Bowser, State Corporation Commission



Report on the Operations
of the
State Regulatory Registry LLC

Prepared by the Bureau of Financial Institutions
State Corporation Commission

July 1, 2013

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This Report was prepared pursuant to Title 6.2, Chapter 17, Section 6.2-1720 D of the Code of Virginia, which directs the Bureau of Financial Institutions of the State Corporation Commission to:

1. Annually review the proposed budget, fees, and audited financial statements of the State Regulatory Registry LLC (SRR).
2. Annually, to the extent practicable, report to the House and Senate Committees on Commerce and Labor on the operations of the SRR, including compliance with its established protocols for securing and safeguarding personal information in the SRR.
3. The extent practicable, prepare, publicly announce, and publish a report, by no later than July 1 of each year, that summarizes statistical test results and demographic information to be prepared by the SRR or its test administrator.
4. Report violations of this chapter, any enforcement actions thereunder, and other relevant information to the SRR on a regular basis.

Introduction - In accordance with the Code of Virginia, the Bureau of Financial Institutions (Bureau) offers the following report of its review of the SRR and the Nationwide Mortgage Licensing System (NMLS).¹

Background – NMLS was initiated by state mortgage regulators in 2004 in response to the increased volume and variety of residential mortgage loan originators. SRR was formed in 2006 and is a nonprofit corporation based in Washington, D.C.² SRR is a wholly owned subsidiary of the Conference of State Bank Supervisors (CSBS)³, and it owns and operates NMLS. SRR is directed by a Board of Managers consisting of eight state regulators. NMLS was developed by the Financial Industry Regulatory Authority (FINRA)⁴.

NMLS is a Web-based application which enables mortgage lenders, mortgage brokers, mortgage loan originators (MLOs), and other various non-depository lenders to apply for, amend, update, and renew state licenses online with participating regulatory agencies using a single set of uniform applications. NMLS also offers consumers an on-line public access/inquiry, which discloses licensing information and regulatory enforcement history.

NMLS launched with seven states on January 2, 2008, and this Bureau went live on NMLS (with MLOs only) on August 3, 2009. Title V of the *Housing and Economic Recovery Act of 2008*, entitled The Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act), mandated that all

¹ The 2012 SRR Annual Report is dated May 1, 2013 and was publically released June 18, 2013. The 2012 audited financial statements for SRR and Conference of State Bank Supervisors (CSBS) were publically released June 12, 2013 and June 18, 2013, respectively.

² SRR has been ruled by the Internal Revenue Service to be a single member domestic limited liability company and is therefore disregarded as a separate entity for tax purposes.

³ CSBS is the nationwide, non-profit organization for state bank regulators, representing state regulators of the 50 states, the District of Columbia, and U.S. Territories which supervise state-chartered financial institutions. The majority of state banking departments also oversee mortgage providers and other financial service providers.

⁴ FINRA is the largest independent regulator for all securities firms conducting business in the United States.

MLOs be either federally registered or state-licensed through NMLS⁵. As of June 17, 2013, there were 8,350 MLOs approved and licensed in Virginia through NMLS, as well as 979 mortgage lenders and brokers approved and licensed in Virginia.⁶

Notable Activity in 2012 and 2013 – In its fifth year of operations, 2012 was the first year of steady state operations in NMLS for the mortgage industry. Nearly 520,000 active licensed or registered MLOs were on the System, and their records were made available at no charge to consumers on NMLS Consumer Access.⁷

One of the more significant events in 2012 was the enhancement of NMLS functionality to allow for the licensing of existing or new state-licensed entities through NMLS for the money services, debt collection, and consumer lending industries. This new functionality and accompanying form changes went live on April 16, 2012 and, by the end of the year, 13 state agencies were using NMLS to license 37 license types in these industries. Virginia has not committed to transition non-depository institutions onto NMLS. SRR anticipates that at least 33 state agencies will be managing non-mortgage license entities on the System by the end of 2013.⁸

In 2012, SRR introduced both new and enhanced functionality for NMLS users, such as the inclusion of state regulatory actions in NMLS and NMLS Consumer Access. NMLS also saw the full implementation of the NMLS quarterly mortgage call report for all state-licensed mortgage companies. Each of these events was required under the SAFE Act.⁹

⁵ Title V of The Housing and Economic Recovery Act of 2008 (H.E.R.A.), “the SAFE Act”, became effective July 30, 2009 and mandated that state-licensed MLOs meet certain minimum requirements for licensure or lose state oversight of MLOs to the federal government.

⁶ This data taken from the NMLS Statistical Report June 17, 2013.

⁷ SRR 2012 Annual Report, Page 2.

⁸ SRR 2012 Annual Report, Page 2.

⁹ SRR 2012 Annual Report, Page 2.

Also, the new national SAFE MLO Test with uniform state content was completed and presented to the states for adoption in early 2013.¹⁰ The Bureau has adopted this new test, and it is now being used by Virginia MLO license applicants. Refer to Page 9 on this Report for more information on the Uniform State Test (UST).

At the end of 2012, NMLS contained active state licenses or federal registrations on approximately 30,000 unique companies and, as noted earlier, 520,000 individual licensed or registered MLOs. In addition, the 2013 renewal season was the first time all 11,052 federally regulated institutions and 399,286 registered MLOs renewed through NMLS along with the 36,148 state-licensed companies and 258,948 licensed MLOs that were eligible for license renewal.¹¹

The NMLS Call Center was established in January 2008 to provide regulatory and industry users with a live support system to answer questions, as well as provide real-time help in navigating the System. The call center received a total of 761,681 calls in 2012 compared to 936,028 calls in 2011.¹²

Launched in 2010, the NMLS Consumer Access is a free, fully searchable website that allows consumers to view information concerning companies, branches, and individuals state-licensed or federally registered in NMLS. In 2012, the information on this site was upgraded to include public state regulatory actions for state licensees. The website was also enhanced to more clearly display pertinent information for consumers and to directly connect the public to state agencies for the purpose of submitting a consumer complaint against a state-licensed company or MLO. By year-end 2012, 1,632,479 visitors had viewed almost 60 million pages on the NMLS Consumer Access website.¹³

¹⁰ SRR 2012 Annual Report, Page 4.

¹¹ SRR 2012 Annual Report, Page 8.

¹² SRR 2012 Annual Report, Page 13.

¹³ SRR 2012 Annual Report, Page 13.

The fifth NMLS Annual Conference and Training was held in February 2013 and had an attendance of over 575, including regulators from 58 state agencies, licensees, education providers, law firms, and consultants. The 2013 NMLS Annual Conference was particularly noteworthy because for the first time the agenda was expanded beyond mortgage industry issues to include sessions relevant to money services businesses and debt collection and debt settlement industries.¹⁴

In addition to requiring state laws and regulations to meet certain minimum requirements, the SAFE Act contained specific mandates for NMLS. The last NMLS mandate is to facilitate the collection and disbursement of consumer complaints on behalf of regulators. Throughout 2012, the CSBS-Consumer Financial Protection Bureau (CFPB) Complaint Information Sharing Work Group, a working group of the CSBS Regulatory Committee, pursued efforts to foster effective complaint information sharing between the CFPB and state regulators.¹⁵ As part of this process, the working group developed the State Complaint Processing Blueprint, which establishes the principles and vision of the work group and participating regulators in forging a standardized process for complaint processing and an information sharing alliance with the CFPB.¹⁶

Audited Financial Statements, Budget, Fees - As of December 31, 2012, SRR reported audited total assets of \$59.7 million (compared to \$48.5 million at the end of 2011), owner's equity of \$51.4 million (compared to \$40.0 million at the end of 2011), and net income of \$11.4 million (compared to \$20.7 million for 2011). The certified public accounting firm of Tate & Tyron, Washington, D.C., issued a "Clean" or Unqualified Opinion of CSBS and its affiliates, including SRR. The Bureau's review and examination of the financial statements did not reveal any significant concerns. The

¹⁴ SRR 2012 Annual Report, Page 13-14.

¹⁵ The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 established the CFPB. The CFPB's charge is to protect consumers in the market for consumer financial products and services.

¹⁶ SRR 2012 Annual Report, Page 21.

financial statements and budgets appear to be reasonable, including the amounts, estimates, and assumptions used.

With respect to fees, NMLS charges three basic fees to fund development, functionality, and operations. Section 1510 of the SAFE Act authorizes NMLS to “charge reasonable fees to cover the costs of maintaining and providing access to information from the Nationwide Mortgage Licensing System and Registry.”

The basic fees are for initial license set-up; processing fees charged annually at the time of renewal when a company, branch, or MLO renews a license in a participating state; and a transfer fee each time NMLS processes a company’s request to have a MLO’s license affiliated with that company.

NMLS test fees are charged to an individual who enrolls to take the MLO national and state tests, or charged to a company which may enroll its MLOs for the national and state tests. NMLS education fees are charged for the approval and renewal of education courses and course providers. The NMLS also charges a criminal background check fee and fingerprint fee, and credit report fee.¹⁷

During 2012, new functionality was developed to allow state agencies to invoice licensees for various fees through NMLS. Bureau staff worked with NMLS in the design and testing stages of development; and on April 25, 2013, the Bureau successfully assessed Virginia mortgage broker and lenders licensees the required annual fee under Virginia Code.

Securing and Safeguarding Information - Established protocols for securing and safeguarding information in NMLS can be found on the NMLS Resource Center website.¹⁸ NMLS complies with the

¹⁷ For more detailed information on all fees, refer to <http://mortgage.nationwidelicencingsystem.org/about/Pages/SystemFees.aspx>.

¹⁸ <http://mortgage.nationwidelicencingsystem.org/about/policies/Pages/SystemPrivacyPolicy.aspx>

Federal Information Security Management Act (FISMA) standards and guidelines set by the National Institute of Standards and Technology (NIST). NMLS also meets the moderate baseline security controls contained in the NIST Special Publication 800-53, *Recommended Security Controls for Federal Information Systems*, and NMLS has been fully accredited by the CFPB. The most recent inspection was completed in December 2012.¹⁹

SRR reports it did not experience any material issues related to security, privacy, or information breach in 2012. In 2008 through 2012, SRR also reported no material issues related to security, privacy, or information breach.

Testing and Education - SRR periodically will release and post on the NMLS Website certain statistics regarding the development, delivery, and performance of the MLO national and state tests. The SAFE Act requires MLOs to pass written qualified national and state tests. The following data represents tests administered in 2011 and 2012. The chart below compares the total number of individuals who have taken the test component to the number of individuals who have passed the test component, regardless of whether they passed it on the first attempt or a subsequent attempt.

2011 - 2012 Pass Rates by Individual²⁰

	National Test	Aggregate State Tests
Total Candidates	51,591	156,584
Candidates Passed	39,312	145,235
Pass Rate	73%	93%

During 2012, the Virginia test was taken 4,179 times with an overall pass rate of 71%. NMLS does not currently track or collect demographic test information.

¹⁹ SRR 2012 Annual Report, Page 28.

²⁰ SRR 2012 Annual Report, Page 23.

In 2012, NMLS testing and educational operations transitioned into a more traditional operation mode as most of the SAFE Act requirements had been met. The major test development activity in 2012 was the creation and development of the UST.²¹ Responding to industry regulatory concerns associated with individual state test components and reviewing the magnitude of resources associated with state test maintenance, the SRR Board of Managers requested a feasibility study in 2011 on the development of a uniform state test component.

The test development of the UST was completed in 2012 and was implemented in early 2013. The UST is designed to become a part of the national test component; and each state can chose to adopt the UST, at which time it will replace that state's state-specific test. Virginia was one of twenty states to adopt the UST on April 1, 2013. Nine other state agencies are scheduled to adopt the UST on July 1, 2013.

In 2012, 104,184 state-licensed MLOs completed almost 1.7 million hours of education courses, 753,981 hours of Pre-Licensing Education and 922,280 hours of Continuing Education (CE). The majority (75 percent) of MLOs completed CE by taking an online self-study course, while 23 percent completed CE education in the classroom.²²

Other – It should be noted that FINRA is utilized to provide significant development and support services for NMLS. As such, a disruption in the capabilities provided by FINRA could have a negative impact on CSBS/SRR.

In 2012, SRR reported a contingent liability involving Taylor Bean & Whitaker Plan Trust (TBW), which filed a complaint against NMLS seeking to recover a payment received by SRR and

²¹ SRR 2012 Annual Report, Page 22.

²² SRR 2012 Annual Report, Page 23-24.

transferred to CSBS in the amount of \$4.5 million as a result of a settlement between Taylor Bean & Whitaker Mortgage Company and certain state mortgage regulators. Neither SRR nor CSBS was a signatory to the settlement agreement. While other defendants had begun a mediation process in 2012, SRR filed a motion for summary judgment with the Bankruptcy Court. The claim was settled in 2012.²³

Regulatory actions taken in 2012 by the State Corporation Commission (Commission) pursuant to Chapters 16 and 17 of the Code of Virginia were reported to the NMLS after Orders were entered by the Commission. Reporting included uploading the Commission Order to the NMLS. These regulatory actions included settlement orders, revocation of licenses, and barring individuals from any position of employment, management or control of any mortgage lender or mortgage broker licensed under Chapter 16. Once the Orders are uploaded, each is available to the public through the NMLS Consumer Access website at www.nmlsconsumeraccess.org.

Summary – NMLS launched on January 2, 2008, and the Bureau went live on NMLS August 3, 2009. As of December 31, 2012, SRR reported audited total assets of \$59.7 million and net income of \$11.4 million. The certified public accounting firm of Tate & Tyron issued a “Clean” or Unqualified Opinion of SRR. The Bureau’s review of the financial statements did not reveal any significant concerns.

SRR reports it did not experience any material issues related to NMLS security, privacy, or information breach in 2011. Testing data for 2011 and 2012 combined show that 51,591 national test components were administered with a total pass rate of 73% and 156,584 aggregate state test components were administered with a total pass rate of 93% (the Virginia state test was administered

²³ SRR 2012 Annual Report, Page 28.

11,010 times from 2009 to 2012 with a total pass rate of 87%). SRR/NMLS does not currently track or collect demographic test information.

Looking ahead, 2013 includes significant items, including continued NMLS expansion of other non-depository financial services industries and the UST. The level of adoption by state agencies and financial impact of these two items are unknown. SRR's long-range plan has forecast that an appropriate financial reserve is essential in funding the ongoing development, operation, and maintenance of NMLS as mandated by the SAFE Act, as well as to prudently position the organization to ensure continued operations in the event of variations in revenue given the cyclical nature of entities in the financial services industries that are registered and licensed through NMLS.²⁴

²⁴ SRR 2012 Annual Report, Page 29.