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**STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL INSTITUTIONS**

July 11, 2014

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.', written in a cursive style.

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 11, 2014

CONTENTS

Introduction	Page 3
Background	Page 3
Notable Activity in 2013	Page 4
Audited Financial Statements, Budget, Fees	Page 8
Securing and Safeguarding Information	Page 10
Testing and Education	Page 11
Other	Page 12
Summary	Page 13

Attachments	2013 Annual Report – State Regulatory Registry LLC 2013 Audited Financial Statements
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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. To 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 non-profit 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 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.

The most common transactions performed through NMLS are new license applications, amendments, and license renewals. An amendment occurs each time a licensee or registrant's record is updated, whereas renewals are submitted annually.⁴

NMLS launched with seven states on January 2, 2008, and this Bureau went live on NMLS on

¹ The 2013 SRR Annual Report was publically released June 16, 2014.

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 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 SRR 2013 Annual Report, Page 10.

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 MLOs be either federally registered or state-licensed through NMLS.⁵ As of June 30, 2014, there were 9,838 MLOs approved and licensed in Virginia through NMLS, as well as 964 mortgage lenders and brokers approved and licensed in Virginia.⁶

Under the provisions of the SAFE Act, the U. S. Department of Housing and Urban Development (HUD) was given oversight authority to determine that each state’s MLO licensing standards met federally mandated minimums. Effective July 21, 2011, the Dodd-Frank Act transferred HUD’s SAFE Act oversight authority to the Consumer Financial Protection Bureau (CFPB).⁷ If CFPB determines that a state’s MLO licensing standards are not in compliance with federally mandated minimums, then CFPB must implement a system to license MLOs in that state in accordance with the SAFE Act. Additionally, CFPB took over responsibility for the NMLS development contract between SRR and the federal agencies for use of the NMLS to register depository MLOs.

Notable Activity in 2013 – At the end of 2013, NMLS contained active state licenses or federal registrations for approximately 30,000 unique companies and 535,000 individually licensed or registered MLOs.⁸ By year-end 2013, there were almost 19,000 state-licensed companies holding approximately 40,000 active state licenses, and over 130,000 individual MLOs holding more than 331,000 active state licenses.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 30, 2014.

⁷ 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.

⁸ Federally regulated depository institutions and subsidiaries are required by federal rule to register both the institution and its MLOs in NMLS. These institutions and individuals, however, are not required to separately register in each state (as are state-licensed companies and MLOs).

⁹ SRR 2013 Annual Report, Page 8.

In 2013 SRR's main focus for NMLS was fourfold – (1) enhancing System operations; (2) expanding the use of the System by other state agencies with oversight of the debt, consumer finance, and money services business industries; (3) adding new functionality; and (4) implementing the Uniform State Test (UST).¹⁰

Since the launch of NMLS in 2008, SRR has worked to add or enhance existing functionality as requested by states and the CFPB, along with input from industry users. In 2013, some major System enhancements and new functionality included: advance change notice which provides the ability for state-licensed companies and branches to submit advance notice to state regulators on certain amendments to their record; education management system tools giving users the capability to post or retract courses in order to simplify record maintenance; uniform authorized agent reporting for money transmitters which gives money transmitters the ability to submit periodic reports regarding authorized agents to regulators; agency fee invoicing which enables state agencies to invoice licensees for various fees through NMLS; and a regulator log providing state regulators a centralized place to enter and maintain log entries (notes).¹¹

All remaining functionality necessary to meet requirements in the SAFE Act for MLOs was completed in 2013. NMLS also piloted a new analytics platform for state agencies with data from the NMLS Mortgage Call Report. This platform went live to all state mortgage regulators on March 31, 2014. The purpose of the platform is to provide better tools to state and federal regulators for supervisory and policy purposes.¹²

In 2013, all states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands participated

¹⁰ SRR 2013 Annual Report, Page 2.

¹¹ SRR 2013 Annual Report, Page 18.

¹² SRR 2013 Annual Report, Page 2.

in NMLS to license mortgage companies, branches and MLOs. Twenty-two states (Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Hampshire, North Dakota, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Utah, Vermont, Washington, Wisconsin, and Wyoming) were managing 68 non-mortgage license authorities in NMLS in 2013. In 2014, at least 14 additional state agencies are scheduled to expand the use of NMLS, resulting in 38 state agencies managing more than 100 non-mortgage license types in NMLS.¹³ No policy has been enacted as to whether Virginia will expand its use of the NMLS for non-mortgage license types.

In addition to states meeting 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. In 2013, the CSBS-CFPB Complaint Information Sharing work group continued to pursue efforts to foster effective complaint information sharing between the CFPB and state regulators. The work group developed a user agreement with the CFPB to allow a pilot group of states access to the CFPB's Government Portal, which is a gateway to the CFPB's consumer complaint data base. Eleven state agencies participated in this pilot, which allowed authorized users to search, filter and extract CFPB consumer complaint information related to the state agency's jurisdiction.¹⁴

The major test development activity in 2013 was the launch of the UST. On April 1, 2013, 20 state agencies adopted the new National Test with Uniform State Content and retired the state specific tests. Virginia adopted the UST on April 1, 2013. As of July 1, 2014, 41 state mortgage agencies have

¹³ SRR 2013 Annual Report, Page 10.

¹⁴ SRR 2013 Annual Report, Page 20.

adopted the UST. The UST content tests applicants on their knowledge of high-level state-related content based on the SAFE Act and the CSBS Model State Law.¹⁵

The NMLS Resource Center provides NMLS users with resources and materials to assist in the navigation of NMLS. State regulators also post their license descriptions and requirements checklists on the site to allow applicants to research and understand all prerequisites for licensure before applying through NMLS. In 2013, the resource center had over 2.5 million unique visitors who viewed over 14 million pages.¹⁶

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 683,353 calls in 2013 compared to 761,681 calls in 2012. Call volume declined significantly after functionality was added in October 2013 to allow users to reset their passwords on-line. The call center transitioned to a new service provider in 2013, which provided opportunities for expanded service to System users, such as expanded hours and better management of call volumes and wait times, especially during license renewal season.¹⁷

Launched in 2010, the NMLS Consumer Access is a free, fully searchable website that allows consumers to view information about companies, branches, and individuals state-licensed or federally registered in NMLS. This free consumer service contains information on virtually all MLOs operating in the United States as well as any state-licensed or federally registered companies in NMLS. Consumers can consult the website to ensure that the company or MLO they are working with is authorized to conduct business in a particular jurisdiction, and consumers can also use the service to

¹⁵ SRR 2013 Annual Report, Page 21.

¹⁶ SRR 2013 Annual Report, Page 12.

¹⁷ SRR 2013 Annual Report, Page 12.

directly contact a state agency with a complaint against a state-licensed entity. By year-end 2013, 1,858,202 visitors had viewed almost 62 million pages on the NMLS Consumer Access website.¹⁸

SRR now offers a subscription service that provides a subset of NMLS Consumer Access data in a business-to-business (B2B) format that is updated daily. This service gives compliance firms, government agencies, lenders, investors, and other eligible parties the ability to check a license or registration status in an automated manner. NMLS B2B Access allows industry to integrate license and registration compliance checks into the origination and quality-control systems.¹⁹

Audited Financial Statements, Budget, Fees - As of December 31, 2013, SRR reported audited total assets of \$74.1 million (compared to \$59.7 million at the end of 2012), owner's equity of \$66.8 million (compared to \$51.4 million at the end of 2012), and net income of \$15.4 million (compared to \$11.4 million for 2012). The certified public accounting firm of Tate & Tryon, 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 financial statements and budgets appear to be reasonable, including the amounts, estimates, and assumptions used. The Opinion noted that FINRA²⁰ is utilized to provide development and support services for NMLS. As such, a disruption in the capabilities provided by FINRA could have a negative impact on CSBS/SRR.

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."

¹⁸ SRR 2013 Annual Report, Page 12.

¹⁹ SRR 2013 Annual Report, Page 13.

The basic fees for state licensure are for (1) initial license set-up; (2) annual renewal of licenses; (3) a company's request to have a MLO's license affiliated with company; (4) a MLO's request to change employment to another company; and (5) a federal MLO registration status change from inactive to active.

Entity	Initial Set-up Fee	Annual Processing Fee	MLO Change of Sponsorship
Company	\$100	\$100	\$30
Branch	\$20	\$20	n/a
Individual MLO	\$30	\$30	n/a

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 test fees are payable by an individual who is enrolling to take the MLO SAFE Act national test and state components or by the company which may be enrolling its MLOs for the test components. The test fees by component²¹ are as follows:

- National component - \$92 (contains 100 questions with an appointment time of three hours).
- UST - \$110 (contains 125 questions with an appointment time of three hours and 45 minutes).
- Stand-alone UST - \$33 (contains 25 questions with an appointment time of one hour and 15 minutes).

²⁰ Financial Industry Regulatory Authority.

²¹ SRR 2013 Annual Report, Page 25.

- Each unique state component - \$69 (contains 55-65 questions with an appointment time of two hours).

The NMLS also charges a criminal background check fee, fingerprint fee, and credit report fee.²² NMLS provides functionality within the System to process fingerprints for the purpose of obtaining a federal criminal background check through the FBI. The criminal history record information check response from the FBI will be attached to the MLO's NMLS record and is viewable by the state regulator issuing the MLO license or by the employing institution for registered MLOs. In 2013, these fees were reduced to mirror a reduction made by the FBI for such services. Fees associated with a criminal background check²³ are as follows: Live Scan (electronic) \$36.25, Paper Card Capture (if Live Scan is not selected) \$46.25. During 2013, over 65,000 authorizations for credit reports and over 227,000 requests for criminal background checks were submitted to NMLS.²⁴

NMLS provides state-licensed MLOs or qualifying individuals the ability to provide a single repository credit report and score to the state(s) where the individual is filing a license application. The credit report and score are attached to the individual's NMLS record, and the single credit report and score may be viewed by state regulators where the individual is licensed or seeking licensure without the need for multiple credit reports and charges. The fee associated with a credit report and credit score is \$15.

Securing and Safeguarding Information - Established protocols for securing and safeguarding information in NMLS can be found on the NMLS Resource Center website.²⁵ NMLS complies with the Federal Information Security Management Act (FISMA) standards and guidelines set by the National

²² For more detailed information on all fees, refer to <http://mortgage.nationwidelicencingsystem.org/about/Pages/SystemFees.aspx>

²³ SRR 2013 Annual Report, Page 26.

²⁴ SRR 2013 Annual Report, Page 10.

²⁵ <http://mortgage.nationwidelicencingsystem.org/about/policies/Pages/SystemPrivacyPolicy.aspx>

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 2013.²⁶ SRR did not experience any material issues related to security, privacy, or information breach in 2013. From 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. Approximately 127,000 test components were administered in 2013. MLOs were able to take any of the test components at more than 270 test centers throughout the United States.²⁷ The following data represents national/UST administered from April 1, 2013 (when the new UST became available) to December 31, 2013:²⁸

	TESTS TAKEN	TESTS PASSED	PASS RATE
1st Time	21,770	14,451	66.4%
Subsequent Attempts	4,144	2,170	52.3%
Overall	25,914	16,621	64.1%
	CANDIDATES	CANDIDATES PASSED	PASS RATE BY INDIVIDUAL
All Attempts	21,770	16,621	76.4%

In 2013, 141,717 state-licensed MLOs and MLO applicants completed almost 1.9 million hours of education (869,353 hours of Pre-Licensure Education (PE) and 1,013,717 hours of Continuing Education (CE). As has been the case in previous years, 75 % of MLOs completed CE education by taking an online self-study course. Of the 115,920 MLOs who were required to complete CE in 2013,

²⁶ SRR 2013 Annual Report, Page 27.

²⁷ SRR 2013 Annual Report, Page 23.

²⁸ SRR 2013 Annual Report, Page 23.

86% did so by December 31, 2013. At the end of 2013, there were 127 NMLS approved course providers. Throughout the year, MLOs had a choice of approximately 1,300 NMLS approved PE and CE courses (nearly 100 more courses than were available the previous year).²⁹ SRR/NMLS does not currently track or collect demographic test information.

Other – Regulatory actions taken in 2013 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 <http://www.nmlsconsumeraccess.org/>

Each quarter, SRR publishes the Nationwide View of State-Licensed Mortgage Entities Report which compiles NMLS data on state-licensed companies, branches, and MLOs. The report includes numerous charts and graphs detailing information about the business activities of licensed companies; locations and numbers of licenses obtained; and a state-by-state breakdown of license application activity, including the number of new license applications, approvals, denials, revocations, and suspensions. SRR also publishes the NMLS Federal Registry Quarterly Report. This report provides state-by-state data on the number of federally registered MLOs and depository institutions. The reports are published quarterly and are posted on the NMLS Resource Center.³⁰

²⁹ SRR 2013 Annual Report, Page 23-24.

³⁰ Reports can be found here <http://mortgage.nationwidelicingsystem.org/about/Pages/Reports.aspx>

In 2014, SRR will focus on coordinating with state and federal regulators as well as industry to enhance NMLS functionality, increase efficiency of operations and services, continue expanding of NMLS into other non-depository industries, and maintain compliance with the SAFE Act.³¹

Summary – NMLS launched on January 2, 2008, and the Bureau went live on NMLS on August 3, 2009. As of December 31, 2013, SRR reported audited total assets of \$74.1 million and net income of \$15.4 million. The certified public accounting firm of Tate & Tryon issued a “Clean” or Unqualified Opinion of SRR. The Bureau’s review of the financial statements did not reveal any significant concerns.

SRR did not experience any material issues related to NMLS security, privacy, or information breach in 2011. Testing data for 2013 shows that 21,770 national test components were administered with a total pass rate of 76.4%. SRR/NMLS does not currently track or collect demographic test information.

Looking ahead, 2014 includes significant items, including new and enhanced System functionality, and the expanded use of NMLS by other state agencies with oversight of other financial services industries. The level of adoption by state agencies and financial impact of the expansion is unknown. SRR’s long-range plan forecasts 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 SRR 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 or licensed through NMLS.³²

³¹ SRR 2013 Annual Report, Page 2.

³² SRR 2013 Annual Report, Page 28.