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**STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL INSTITUTIONS**

June 30, 2015

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

June 30, 2015

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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).

Background – NMLS was initiated by state mortgage regulators in 2004 in response to the increased volume and variety of residential MLOs. SRR was formed in 2006 and is a non-profit corporation based in Washington, D.C.¹ SRR is a wholly owned subsidiary of the Conference of State Bank Supervisors (CSBS)², and it owns and operates NMLS. SRR is directed by a Board of Managers consisting of seven 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 state regulatory agencies, and allows federally regulated depository institutions and subsidiaries to manage their registered MLOs through one system. 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.³

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

¹ 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.

² 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.

³ SRR 2014 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.⁴ As of June 15, 2015, there were 11,445 MLOs approved and licensed in Virginia through NMLS, as well as 986 mortgage lenders and brokers approved and licensed in Virginia.⁵

Under the provisions of the SAFE Act, the U.S. Department of Housing and Urban Development (HUD) was given original 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).⁶ 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 2014 – At the end of 2014, NMLS contained active state licenses or federal registrations for 30,448 institutions and 758,484 individually licensed or registered MLOs.⁷ By year-end 2014, there were 19,882 state-licensed companies holding 44,020 active state licenses and 131,725 individual MLOs holding 359,992 active state licenses.⁸

⁴ 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.

⁵ NMLS Statistical Report June 15, 2015.

⁶ 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.

⁷ 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).

⁸ SRR 2014 Annual Report, Page 5.

The combination of the state licenses managed in NMLS and the NMLS Federal Registry makes the System a complete repository of companies, both depository and non-depository, and individuals authorized in the United States to originate mortgages.

Among the NMLS highlights in 2014, the National Test with Uniform State Content (USC) was adopted by an additional seven state agencies, bringing the total number of adopting state agencies to 46 (including Virginia). MLOs seeking licensure in those jurisdictions are no longer required to take a second, state-specific test.

Ten additional state agencies began using NMLS to license a wide range of non-depository financial services industries, resulting in 34 state agencies managing 143 non-mortgage license types in the money services business, as well as debt and consumer finance industries. Also by year-end, 20 states were using the Uniform Authorized Agent Reporting (UAAR) functionality to manage and report all money transmitter agents.⁹

Major functionality was added in NMLS, including company and individual dashboards for state licensees which provide a more efficient way to view and manage licensing issues and deadlines; a streamlined test enrollment process; improvements in renewal process and data download capability for state regulators; usability improvements to the Mortgage Call Report¹⁰ (MCR); an ability to report branch managers by state on the licensing forms; a data analysis platform for state regulators; and testing and education investigation tracking. Also during the year, major infrastructure was developed for upcoming new functionality including electronic surety bonds, individual document upload, and an examination management tool.

⁹ The UAAR functionality, piloted in early 2014, permits state-licensed money transmitters to upload lists of their authorized agents for reporting to their state regulators.

¹⁰ Under requirements of the SAFE Act, all state mortgage licensees are required to submit a report of condition through NMLS.

SRR entered into a Memorandum of Understanding with the Federal Housing Administration (FHA) governing the sharing of information in NMLS with FHA. The NMLS information shared with FHA is also publicly available to individual consumers through NMLS Consumer Access. FHA agreed to protect against the unauthorized access, use, or distribution of the information accessed by FHA and to notify SRR immediately if any such unauthorized activity occurs.

NMLS deployed three major enhancement releases (March, July, and October) in 2014. State-licensed companies and individuals can quickly view summary information related to their records and link to relevant NMLS pages through an industry dashboard. With respect to license renewals, state regulators can specify a period of 2, 5, or 15 days for automatic renewal consideration. In addition, regulators can terminate licenses in bulk if the state agency has no reinstatement period or has a shorter reinstatement period than NMLS. Now, Federal Registry renewals automatically transfer if an employee changes employers. Users also have a more seamless process to open a test enrollment window and schedule a test appointment.

As of July 28, 2014, SRR began disbursing all state agency funds collected through NMLS on the next business day instead of after five business days. This faster disbursement eliminates the potential impediment to a state agency processing an application or amendment until all fees have been received. In the event an entity's payment fails after funds have been disbursed, SRR nets the failed amount from a future disbursement to the state agency. In addition, entities that do not satisfy the failed payment within a reasonable amount of time are restricted from accessing NMLS.

Regulators can access the "Mortgage Call Report Analytics" application on the new data analysis platform created to allow regulators to more easily analyze NMLS data. This application presents an

analysis of MCR data to identify potential risks, display aggregated charts and graphs, and help regulators schedule exams.

An application launched on November 24, 2014 gives state agency managers a high level view of the license-renewal process in their agency. The dashboard compares the current year's renewal data to that of the prior year.

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 2014, the state and federal resource centers had over 2.3 million unique visitors who viewed over 13.6 million pages.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 540,000 calls in 2014, down 18% from 2013.¹²

The CRMS was fully operational in 2014 for Call Center and SRR staff to enter information into the CRMS. With this information, SRR is able to generate reports to understand user behavior, identify potential NMLS enhancements, improve call volume forecasting, gather feedback on new policy, identify adoption of new processes, and a wide variety of other key issues.

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

¹¹ SRR 2014 Annual Report, Page 11.

¹² SRR 2014 Annual Report, Page 13.

registered in NMLS. In addition to identifying information for each individual or entity, detailed information on all licenses or registrations held, as well as any applicable regulatory actions taken, is included. By year-end 2014, 2.1 million visitors had viewed almost 72 million pages on the NMLS Consumer Access website.¹³

Other notable events in 2014 are:

- More than 87,000 MLO test components were administered, and SRR supervised 127 approved course providers delivering almost 1.9 million hours of education through 1,300 NMLS-approved courses.¹⁴
- The Client Relationship Management System (CRMS) was implemented at the call center, resulting in a wide range of available metrics that can lead to early identification of emerging issues and needed functionality.
- Data Download for state agencies is now accessible via a Secure File Transfer Protocol, and contact information is stored in the base tables.
- SRR completed its biennial request for comments and response for the Uniform NMLS Licensing Forms and the MCR in late 2013 with enhancements implemented in 2014.

¹³ SRR 2014 Annual Report, Page 15.

¹⁴ SRR 2014 Annual Report, Page 4.

- New updates include identification of branch managers by state/industry type combinations, changes to Business Activities and Disclosure Questions, and minor text/display updates.
- Information on investigations of violations of the Testing and Education Rules of Conduct are now viewable in the System by regulators. Test results for individuals can be invalidated due to an administrative action or misconduct.

Audited Financial Statements and Budget - As of December 31, 2014, SRR reported audited total assets of \$87.6 million (compared to \$74.1 million at the end of 2013), owner's equity of \$82.1 million (compared to \$66.8 million at the end of 2013), and net income of \$15.3 million (compared to \$15.4 million for 2013). 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 accurate and reasonable, including the amounts, estimates, and assumptions used. The Opinion noted that Financial Industry Regulatory Authority (FINRA) is utilized to provide development and support services for NMLS. As such, a disruption in the capabilities provided by FINRA could negatively impact CSBS/SRR.

NMLS Fees - NMLS users pay 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 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. These fees are unchanged since the System launched in 2008.

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 SAFE Act national and state component 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 component¹⁵ are as follows:

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

¹⁵ SRR 2014 Annual Report, Page 33.

- Each USC - \$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. NMLS provides functionality within the System to process fingerprints for the purpose of obtaining a federal criminal background check through the Federal Bureau of Investigation (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. Fees associated with a criminal background check¹⁶ are as follows: Live Scan (electronic) \$36.25, and Paper Card Capture (if Live Scan is not selected) \$46.25. During 2014, over 109,000 authorizations for credit reports and over 229,000 requests for criminal background checks were submitted to NMLS.¹⁷

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 - The NMLS Federal Registry portion of NMLS (a) complies with Federal Information Security Management Act (FISMA) standards and guidelines set by National Institute of Standards and Technology (NIST); (b) meets the moderate baseline security controls contained in NIST Special Publication 800-53, Recommended Security Controls for Federal

¹⁶ SRR 2014 Annual Report, Page 34.

¹⁷ SRR 2014 Annual Report, Page 10.

Information Systems; and (c) has been fully accredited (certification and accreditation) by the CFPB. The most recent inspection was completed in December 2013.¹⁸ SRR was not the subject of any significant litigation in 2014.¹⁹

Testing and Education - The SAFE Act established a number of testing and education requirements to ensure that all state-licensed MLOs demonstrate a basic level of industry and regulatory knowledge. Under the SAFE Act, NMLS must develop and administer a qualified written test that all state-licensed MLOs must take and pass with a minimum passing score of 75 percent.

In addition, NMLS must approve all courses that state-licensed MLOs must take to satisfy their pre-licensure education and continuing education requirements. Almost 88,000 test components were administered in 2014 at more than 270 test centers throughout the United States.²⁰ The following data represents National/USC tests administered from April 1, 2013 (when the new UST became available) to December 31, 2014.²¹

National Test with Uniform State Content Pass Rates by Attempt April 1, 2013 through December 31, 2014			
	Tests Taken	Tests Passed	Pass Rate
1st Time	44,246	29,854	67.5%
Subsequent Attempts	10,603	5,158	48.6%
Overall	54,849	35,012	63.8%
	Candidates	Candidates Passed	Pass Rate by Individual
All Attempts	44,246	35,012	79.1%

¹⁸ SRR 2014 Annual Report, Page 24.

¹⁹ SRR 2014 Annual Report, Page 24.

²⁰ SRR 2014 Annual Report, Page 21.

²¹ SRR 2014 Annual Report, Page 21.

In 2014, over 135,000 state-licensed MLOs and MLO applicants completed almost 1.7 million hours of education (711,976 hours of Pre-Licensure Education (PE) and 1,052,278 hours of Continuing Education (CE). Two-thirds of MLOs completed CE education by taking an online self-study course. At the end of 2014, there were 115 active NMLS-approved course providers. For the first time since the education program began in 2009, SRR recorded an 18 percent decline in the amount of PE hours completed.²²

The total number of CE hours increased 3.8 percent, and the number of CE hours required by MLOs seeking to return to the industry increased 36 percent. This significant increase is attributed partly to System enhancements implemented in 2013 that require an MLO to satisfy any outstanding CE requirement as a condition for submitting a new license application. Overall, the increase in the number of CE hours helped to offset the decrease in PE, resulting in an overall 6.3 percent net decrease in the number of hours of education completed.²³ SRR/NMLS does not currently track or collect demographic test information.

Other – The guiding principles and policy decisions that drive the existence and continuing evolution of SRR’s operations are originated and developed through the involvement and leadership of state financial regulators. Agency personnel spend time leading and participating on boards, committees, and ad hoc working groups, contributing their expertise to make NMLS an effective regulatory tool. SRR also benefits from industry input and participation in various user groups.

Significant initiatives in 2015 include new and enhanced System functionality and the expanded use of NMLS by other state agencies with oversight of other financial services industries. SRR’s long-range plan forecasts that an appropriate financial reserve is essential in funding the ongoing

²² 2014 SRR Annual Report, Page 22.

²³ SRR 2014 Annual Report, Page 22.

development, operation, and maintenance of NMLS as mandated by the SAFE Act; and to ensure continued operations in the event of variations in revenue given the cyclical nature of entities in the financial services industries registered and licensed through NMLS.

In 2015, NMLS will have four major system enhancements along with monthly maintenance releases for smaller enhancements. NMLS is working on the following major enhancements for future implementation: individual document upload, electronic surety bond tracking, criminal background checks, consumer access, and an examination management tool.

Summary – NMLS launched on January 2, 2008, and the Bureau went live on NMLS on August 3, 2009. As of December 31, 2014, SRR reported audited total assets of \$87.6 million and net income of \$15.3 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. The financial statements and budgets appear to be accurate and reasonable.

SRR did not experience any material issues related to NMLS security, privacy, or information breach in 2014. Testing data for 2014 shows that some 88,000 test components were administered with a total pass rate of 79.1%. SRR/NMLS does not currently track or collect demographic test information.

Highlights in 2014 included the expansion of other non-depository regulated institutions in NMLS, various system enhancements, and adoption of the National Test with Uniform State Content. In 2015, four major System enhancements are planned.