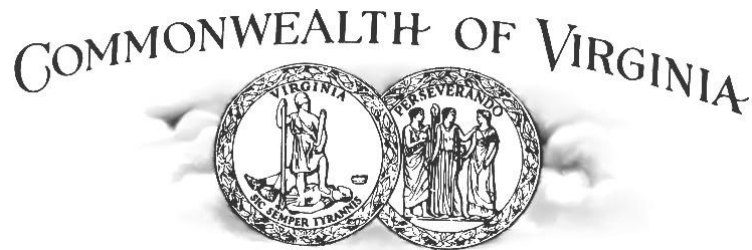


E. J. FACE, JR.  
COMMISSIONER OF  
FINANCIAL INSTITUTIONS



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**STATE CORPORATION COMMISSION  
BUREAU OF FINANCIAL INSTITUTIONS**

June 30, 2017

TO: The Honorable Senator Frank W. Wagner  
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  
State Regulatory Registry LLC

Prepared by the Bureau of Financial Institutions  
State Corporation Commission

June 30, 2017

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2016 Annual Report—State Regulatory Registry LLC  
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## **EXECUTIVE SUMMARY**

This Report was prepared pursuant to Title 6.2, Chapter 17, § 6.2-1720 D of the Code of Virginia, which directs the State Corporation Commission ("Commission") to:

- annually review the proposed budget, fees, and audited financial statements of the State Regulatory Registry LLC ("SRR");
- annually, to the extent practicable, report to the House and Senate Committees on Commerce and Labor on the operations of SRR, including compliance with its established protocols for securing and safeguarding personal information in SRR;
- 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 SRR or its test administrator; and
- report violations of this chapter, any enforcement actions thereunder, and other relevant information to the SRR on a regular basis.

On behalf of the Commission, its Bureau of Financial Institutions ("Bureau") is pleased to submit this report on the 2016 operations of SRR and the Nationwide Mortgage Licensing System and Registry ("NMLS").

As of December 31, 2016, SRR reported audited total assets of \$119 million and net income of \$18.4 million. The CPA firm of Tate & Tryon issued a "Clean" or Unqualified Opinion of SRR, and the Bureau does not take issue with the disclosures therein. The financial statements and budgets appear to be accurate and reasonable.

Approximately 61,000 mortgage loan originators ("MLO") test components were administered in 2016. At the end of 2016, NMLS was the system of record for 62 state agencies, managing a total of 601 different license authorities covering a broad range of non-depository financial services. This is up from 585 at the end of 2015.

SRR did not experience any material issues related to NMLS security, privacy, or information breach in 2016. In addition, SRR was not subject to any significant litigation in 2016.



## INTRODUCTION

In accordance with the Code of Virginia, the Bureau offers the following report of its review of SRR and NMLS.

## BACKGROUND

NMLS was initiated by state mortgage regulators in 2008 in response to the increased volume and variety of residential mortgage loan originators ("MLO"). SRR was formed in 2006 and is a non-profit corporation based in Washington, D.C. SRR is a wholly owned subsidiary of the Conference of State Bank Supervisors ("CSBS"),<sup>1</sup> and it owns and operates NMLS. SRR is directed by a board of managers consisting of state regulators.

NMLS is a Web-based application which enables mortgage lenders, mortgage brokers, MLOs, and other various non-depository entities to apply for, amend, update and renew state licenses online with participating state regulatory agencies, and it 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 via NMLS Consumer Access, which discloses licensing information and regulatory enforcement history.

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

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. NMLS serves as the vehicle for

---

<sup>1</sup> 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 and provide training to state banking and financial regulators.

scheduling testing and education and maintaining all state-licensed MLO test and course completion records.

NMLS launched with seven states on January 2, 2008, and the Bureau went live on NMLS 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"), mandates that all MLOs either be federally registered or state-licensed through NMLS. As of December 31, 2016, Virginia had 15,194 MLOs in the approved status and 2,608 MLOs in the approved-inactive status through NMLS, as well as 175 mortgage lenders, 378 mortgage brokers and 239 companies with both lender and broker authority approved and licensed in Virginia.

Under the provisions of the SAFE Act, the U.S. Department of Housing and Urban Development ("HUD") was given original oversight authority to determine whether or not each state's MLO licensing standards meet 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"). 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 2016

At the end of 2016, NMLS contained active state licenses or federal registrations for 60,938 institutions and 910,552 individually licensed or registered MLOs. By year-end 2016, there were 20,785 state-licensed companies holding 51,107 active state licenses and 145,253 individual MLOs holding 487,973 active state licenses.

Among the NMLS highlights in 2016, the National Test with Uniform State Content was adopted by an additional four state agencies, bringing the total number of adopting state agencies to 54. MLOs seeking licensure in those jurisdictions are no longer required to take a second state-specific test.

The NMLS Resource Center website serves as the gateway to NMLS. It provides NMLS users with state licensing and registration information, deadlines, training materials, tools, and tips to assist companies and individuals with their use of NMLS. In 2016, the state and federal resource centers had over 2.4 million unique visitors who viewed over 5.4 million pages.

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 NMLS. The call center received a total of 464,020 calls in 2016, down 2% from 2015, and responded to an average of 1,806 calls per day.

NMLS Consumer Access was launched in 2010 and is a free, fully searchable website that allows consumers to view information about companies, branches, and individuals that are state licensed or federally registered in NMLS. The website includes identifying information for each individual or entity, detailed information on all licenses or registrations held, as well as any applicable regulatory actions taken. By year-end 2016, 104 million visitors had viewed almost 3.7 million pages on the NMLS Consumer Access website.

Other notable events in 2016 are:

- A reconfigured Learning Management System nearly doubled its number of regulator and industry users, growing from 5,700 users in 2015 to 11,100 in 2016, hosting over 400 live, recorded, and eLearning courses.
- Approximately 61,000 MLO test components were administered in 2016. In addition, SRR supervised 111 approved course providers who delivered over 2.3 million hours of education through more than 1,600 NMLS-approved courses.



- The Eighth Annual NMLS Conference and Training was held in Phoenix and had over 640 attendees, including 170 regulators from 48 state agencies. The agenda included sessions relevant to all NMLS users, as well as special sessions relevant to mortgage, money services business, debt and consumer finance industries.
- In 2016, SRR launched the Stakeholder Engagement and Governance Process for NMLS 2.0 and created the NMLS 2.0 Steering Committee. In October, the SRR Board of Managers approved a new approach for the modernization process of NMLS 2.0 to begin the requirements gathering in a more rapid and agile approach. That process began in December.
- SRR entered into a memorandum of understanding to share NMLS data with the Office of Financial Research under the Financial Stability Oversight Council ("FSOC") for research and analysis in performing their duties for the FSOC.

Additional NMLS highlights in 2016 included improvements in form updates, criminal background checks, electronic surety bonds, system usability and security.

#### AUDITED FINANCIAL STATEMENTS AND BUDGET

As of December 31, 2016, SRR reported audited total assets of \$119 million (compared to \$101.3 million at the end of 2015), owner's equity of \$113.5 million (compared to \$95.1 million at the end of 2015), and net income of \$18.4 million (compared to \$13 million for 2015). The CPA firm of Tate & Tryon, Washington, D.C., prepared the Audited Consolidated Financial Statements for the Conference of State Bank Supervisors, Inc. and Affiliates, including SRR. Tate & Tryon also prepared the Audited Financial Statements for SRR. The financial statements and budgets appear to be accurate and reasonable, including the amounts, estimates and assumptions used, and the Bureau does not take issue with the disclosures set forth in the financial statements. In the notes to the Audited Financial Statements for SRR, it is noted that the development of NMLS and its update releases is performed by the Financial Industry Regulatory Authority, Inc. ("FINRA"). FINRA also is contracted to provide development support for NMLS education and testing components. Given the size of the FINRA services

contract, a disruption in the capabilities provided by FINRA could have a detrimental impact on SRR.

### NMLS FEES

In order to fulfill SAFE Act obligations, NMLS charges various fees for the services provided. NMLS fees are typically paid for by the licensed entity or, in some cases, by the state. The SRR Board of Managers annually reviews NMLS fees to determine the appropriateness of each fee. SRR solicits public comment on any fees that SRR Board of Managers has under consideration for change.

The basic fees for state licensure are for (1) initial license set-up; (2) annual processing fee; (3) MLO change of sponsorship fee; (4) an 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 NMLS launched in 2008.

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

NMLS test fees are charged to an individual who enrolls to take the SAFE MLO National Test with Uniform State Content and State Test Components or by the company that may be enrolling its MLOs for the test components. The test fees, by component, are as follows:

- National component with Uniform State Content - \$110 (contains 125 questions with an appointment time of 225 minutes).
- Each Unique State Component - \$69 (contains 55-65 questions with an appointment time of two hours).

The NMLS also charges criminal background check fees, credit report fees, and NMLS two-factor authentication fees. 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 check are as follows: Live Scan (electronic), \$36.25; and Paper Card Capture (if Live Scan is not selected), \$46.25. During 2016, over 125,000 authorizations for credit reports and over 260,000 requests for criminal background checks were submitted to NMLS.

NMLS provides state-licensed MLOs, qualifying individuals, branch managers, or control persons the ability to provide a single credit report and score to the state(s) where the individual is filing a license application. The functionality provided in the system enables an individual to use that same credit report for subsequent licensure requests for up to 30 days and does not negatively impact his or her credit score. The fee associated with a credit report and credit score is \$15.

NMLS uses a two-factor authentication system (Verisign security token) for all NMLS Federal Registry institution users and state agency users who have access to criminal background checks, credit reports, federal registry information, or account administrator rights. The fee associated with the two-factor authentication is a \$55 "per user/per year" fee.

#### SECURING AND SAFEGUARDING INFORMATION

According to the SRR 2016 Annual Report, the NMLS complies with the Federal Information Security Management Act of 2002, National Institute of Standards and Technology

("NIST") best practices, Office of Management and Budget Circular A-130 and all applicable laws, directives, policies and directed actions per SRR's contract with CFPB. The Federal Registry meets the moderate baseline security controls contained within NIST Special Publication 800-53, is in compliance with continuous monitoring requirements per NIST 800-137, and has a valid and current Authorization to Operate approved by the CFPB.

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%. SRR regularly monitors the performance of the SAFE Act MLO tests and posts quarterly test administration and performance information on the NMLS Resource Center.

In addition, NMLS must approve all courses that state-licensed MLOs must take to satisfy pre-licensure education and continuing education requirements. Almost 61,000 test components were administered in 2016 at more than 270 test centers throughout the United States. The following chart provides National Test with Uniform State Content data from January 1, 2015 through December 31, 2016.

<b>National Test with Uniform State Content Pass Rates by Attempt January 1, 2015 through December 31, 2016</b>			
	Tests Taken	Tests Passed	Pass Rate %
First Time	59,512	36,488	61
Subsequent Attempts	22,178	9,840	44
Overall	81,690	46,328	57

In 2016, over 130,000 state-licensed MLOs and MLO applicants completed more than 2.3 million hours of education (over 1 million hours of both Pre-Licensure Education and Continuing Education). Sixty-five percent of MLOs completed their annual continuing education online, an increase of 2% from 2015. At the end of 2016, there were 111 active NMLS-approved course providers, one fewer than at the end of 2015.

### LOOKING AHEAD

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 services 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.

In 2016, NMLS continued to deploy improved software development processes to increase responsiveness and deliver value faster for NMLS users. Work continued in the NMLS modernization process and on the Examination Management Tool Suite. NMLS is working on the following major enhancements for future implementation: electronic surety bond enhancements, next generation identification program (RAP Back Service) and pre-licensing education expiration improvement.

Looking ahead, 2017 includes the modernization of NMLS, new and enhanced system functionality and the expanded use of NMLS by additional state agencies with oversight of financial services industries. SRR's long-range plan indicates 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 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 and licensed through NMLS.

#### SUMMARY

NMLS launched on January 2, 2008, and the Bureau began utilizing NMLS on August 3, 2009. As of December 31, 2016, SRR reported audited total assets of \$119 million and net income of \$18.4 million. The CPA firm of Tate & Tryon issued a “Clean” or Unqualified Opinion of SRR, and the Bureau does not take issue with the disclosures therein. 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 2016. Approximately 61,000 MLO test components were administered in 2016. At the end of 2016, NMLS was the system of record for 62 state agencies, managing a total of 601 different license authorities covering a broad range of non-depository financial services. This is up from 585 at the end of 2015.

# 2016 SRR Annual Report



STATE REGULATORY REGISTRY LLC

**ENHANCING CONSUMER PROTECTION**  
through partnership with regulators, industry, and technology





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# LETTER FROM THE SRR BOARD OF MANAGERS

The Board of Managers is pleased to present the ninth annual report of the State Regulatory Registry LLC (SRR<sup>1</sup>) and the Nationwide Multistate Licensing System and Registry's (NMLS<sup>®</sup> or the System) operations and performance in 2016.

The theme of this year's report, "Enhancing Consumer Protection through Partnership with Regulators, Industry, and Technology," is reflected throughout. A primary goal of the Board is to leverage NMLS to improve consumer protection and enhance state supervision. To accomplish this, the board has focused on three areas: technology, information and services. The information in the report reflects the accomplishments of 2016, much of which sets the stage for "NMLS 2.0."

NMLS initially began in January 2008 as a voluntary state licensing system, but in July of that year was codified into federal law under the SAFE Act. The SAFE Act expanded NMLS to include registration, licensure and professional standards for all mortgage loan originators (MLOs). In 2012, NMLS expanded to include state licensing of non-depository financial services industries in the money services businesses, consumer finance and debt arenas.

In 2016, and beyond, SRR will continue to work on modernizing NMLS by re-visioning and adding new functionality, as well as leveraging current technology and development methods. A major focus of the modernization, or "NMLS 2.0", will be to provide individualized personas or workflows in NMLS to create an easier, more intuitive system for each user. We are involving industry and state agency personnel in developing these individual NMLS personas and to gain insight and feedback on unique NMLS processes.

NMLS data, including quarterly reports on mortgage, money services businesses, debt collection, and payday, are published in various forms on the NMLS Resource Center and available on NMLS Consumer Access<sup>SM</sup>. SRR has also entered into Memoranda of Understanding with several federal agencies to share NMLS data and enforcement actions.

For state regulatory agencies, SRR provides a number of tools that analyze NMLS data for workflow and risk-management purposes. The tools include work item analytics, manager's performance metrics by agency, mortgage call report analytics, renewal analytics, and the mortgage examiners report.

State agency usage of NMLS for licensing non-depository entities (other than mortgage) in the financial services industries continue to increase. By the end of 2016, 49 state agencies in 39 jurisdictions were managing over 200 non-depository financial services licenses in the money services businesses, consumer finance and debt industries.

The adoption and use of the Uniform State Test continues as four additional state agencies adopted the test in 2016; bringing the total number of agencies using the test to 54.

SRR Board members were pleased with the opportunity to meet with industry and agency users at the NMLS Annual Conference and Training in Phoenix and at annual meetings of AARMR, MTRA, NACARA, and NACCA<sup>2</sup>. The NMLS Ombudsman held two public meetings with industry at the NMLS and AARMR conferences, and spoke on panels at the NACARA and NACCA conferences.

We greatly appreciate the time, energy, and other resources provided by regulators and industry that made new NMLS functionality and enhancements possible, as well as the overall operation of the System. We would like to thank the numerous working groups and committees that made this possible, including the NMLS Ombudsman, NMLS Policy Committee, Mortgage Testing and Education Board, SRR Lawyers Committee, and the SRR Industry Advisory Council.

We look forward to making 2017 even better!

Sincerely,

The Board of Managers  
State Regulatory Registry LLC

<sup>1</sup>SRR is a wholly owned subsidiary of the Conference of State Bank Supervisors (CSBS). Through NMLS, SRR supports the strategic goals of CSBS's members by assisting state agencies in consumer protections and supervision of the non-depository financial services industries by providing technology resources and information on a nationwide basis.

<sup>2</sup>American Association of Residential Mortgage Regulators, Money Transmitters Regulatory Association, North American Collection Agency Regulatory Association, National Association of Consumer Credit Administrators

## SRR BOARD OF MANAGERS

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Commissioner  
Maryland Office of Financial Regulation

### Vice Chairman

John Ducrest  
Commissioner  
Louisiana Office of Financial Institutions

### Treasurer

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David Tatman  
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Charles Cooper\*  
CSBS Chairman & Commissioner  
Texas Department of Banking

John Ryan, Secretary\*  
President and CEO  
Conference of State Bank Supervisors

William Matthews\*  
President and CEO  
State Regulatory Registry LLC

\* Non-voting ex-officio members of the Board.

# 2016 HIGHLIGHTS

- **ELECTRONIC SURETY BONDS**

A fully electronic method for submitting and maintaining surety bonds was implemented with nine state agencies adopting this functionality for 33 license types.

- **CRIMINAL BACKGROUND CHECKS (CBC) FOR CONTROL PERSONS**

A streamlined and expedited CBC process for fulfilling state requirements for CBC for control persons was launched, saving time and money for licensees since a single CBC submission can be shared with all relevant states an entity is licensed with.

- **NMLS 2.0**

In 2016, SRR launched the Stakeholder Engagement and Governance Process for NMLS 2.0 and created the NMLS 2.0 Steering Committee. In October, the SRR Board of Managers approved a new approach for the modernization process to begin the requirements gathering in a more rapid agile approach. That process began in December.

- **REGULATOR AND INDUSTRY TRAINING**

A reconfigured Learning Management System (LMS) nearly doubled its number of regulator and industry users, growing from 5,700 users in 2015 to 11,100 in 2016, hosting over 400 live, recorded, and eLearning courses.

- **NMLS ANNUAL CONFERENCE AND TRAINING**

The eighth NMLS Conference and Training was held in Phoenix, Arizona and had an attendance of over 640, including 170 regulators from 48 state agencies. The agenda included sessions relevant to all users in NMLS, as well as special sessions relevant to the mortgage, money services businesses, debt, and consumer finance industries.

- **INFORMATION SHARING**

SRR entered into a memorandum of understanding to share NMLS data with the Office of Financial Research (OFR) under the Financial Stability Oversight Council (FSOC) for research and analysis in performing their duties for the FSOC.

- **UNIFORM STATE TEST**

The National Test with Uniform State Content was adopted by four additional state agencies during 2016, bringing the total number of adopting agencies to 54. MLOs seeking licensure in those jurisdictions are no longer required to take a second, state-specific test.

- **TESTING AND EDUCATION**

Approximately 61,000 MLO test components were administered in 2016. SRR also supervised 111 course providers that delivered over 2.3 million hours of education through more than 1,600 NMLS-approved courses.

# OVERVIEW OF NMLS

At the end of 2016, NMLS was the licensing system of record for 62 state agencies, managing a total of 601 different license authorities covering a broad range of non-depository financial services. This is up from 585 at the end of 2015. NMLS manages 327 company, 193 branch, and 81 individual license types.

As the system of record for state financial services regulatory agencies, NMLS is able to track the number of unique companies and individuals operating in the state system, as well as the number of licenses those companies and individuals hold in each state. For example, a company licensed in three states would count as one unique entity holding three licenses (Figures 2 and 3).

State licensed	2014		2015		2016	
	Entities	Licenses	Entities	Licenses	Entities	Licenses
Companies	19,882	44,020	20,440	47,688	20,785	51,107
Branches	25,583	49,904	26,655	56,402	28,362	64,078
MLOs	131,725	359,992	135,016	408,542	145,253	487,973

FIGURE 2. COUNT OF STATE ENTITIES AND LICENSES IN NMLS

Federally Registered	2014	2015	2016
Institutions	10,566	10,220	9,831
MLOs	398,492	407,529	422,579

FIGURE 3. COUNT OF FEDERAL ENTITIES IN NMLS

During 2016, 13 agencies added an additional 28 license types to the System (California Department of Business Oversight, Connecticut Department of Banking, Hawaii Division of Financial Institutions, Illinois Department of Financial Professional Regulation, Minnesota Department of Commerce, Mississippi Department of Banking and Consumer Finance, North Carolina Office of Commissioner of Banks, New Mexico Financial Institutions Division, Nevada Division of Mortgage Lending, New York State Department of Financial Services, Vermont Department of Financial Regulation, and Wisconsin Department of Financial Institutions).

In addition to being a system of state licensing of financial services businesses, NMLS operates a registry (known as “NMLS Federal Registry” or “Registry”) of federally regulated depository institutions and subsidiaries and mortgage loan originators who are required by federal

rule to register in NMLS prior to originating mortgages. Over the course of 2016, the number of institutions and mortgage loan originators registered in NMLS essentially remained flat.

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<sup>3</sup>. Since state agencies began expanding their use of NMLS to additional financial services industries, the System has been moving towards the ability to provide a national perspective on these other industries. The following sections highlight all the financial industry-specific information available in NMLS.

## STATE MORTGAGE LICENSING

In 2016, all states, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands participated in NMLS to license mortgage companies, branches, and MLOs. This full representation of the state-regulated mortgage industry in a single system makes it possible for state regulators and industry to have the information needed to identify business and licensing activities and trends. As noted in the NMLS Resources section, SRR publishes quarterly reports that compile data on state-licensed companies, branches, and MLOs.

Figure 4 compares the growth in entities to the number of licenses issued throughout the year. While the total number of companies with mortgage licenses decreased by 2.2 percent during 2016, the number of state mortgage licenses held by all companies went up 6.2 percent. With regard to MLOs in the System, the number of individuals increased 8 percent, while the number of licenses held by MLOs grew 19 percent. The average number of licenses held per MLO is now 3.36, compared to 3.02 at the end of 2015 (Figure 5).

The fastest growing segment in NMLS is the population of companies and individuals licensed in over 20 states (Figures 6 and 7). In 2016, the number of companies operating in more than 20 states grew 10 percent, and MLOs licensed in more than 20 states grew 43 percent. MLOs holding only one state license declined 4.1 percent.

<sup>3</sup>One state agency currently does not manage mortgage company licenses in NMLS: Texas Office of Consumer Credit Commissioner.



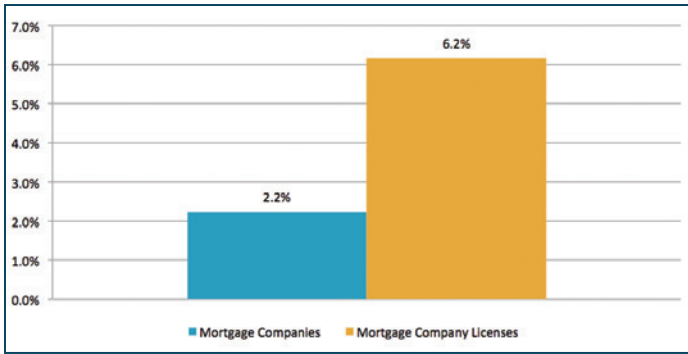


FIGURE 4. ANNUAL GROWTH - MORTGAGE COMPANIES VS. LICENSES

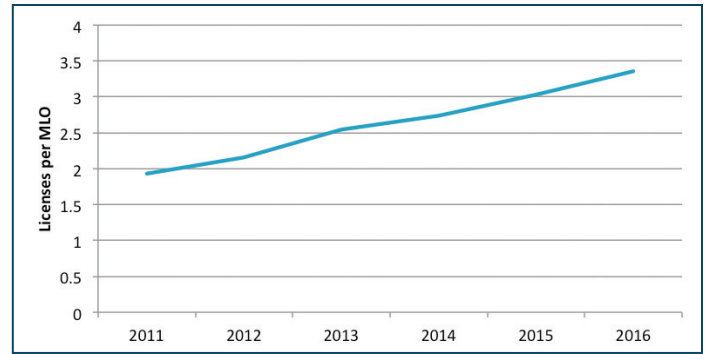


FIGURE 5. ANNUAL GROWTH - AVERAGE NUMBER OF LICENSES PER MLO

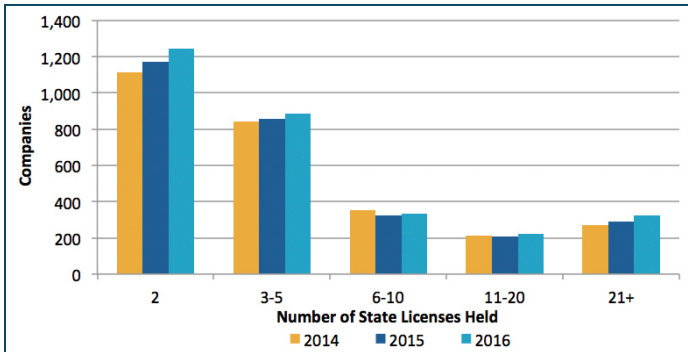


FIGURE 6. ANNUAL GROWTH - COMPANIES BY LICENSES HELD

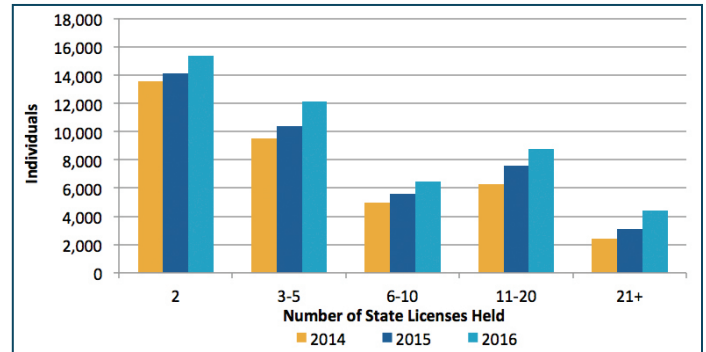


FIGURE 7. ANNUAL GROWTH - STATE INDIVIDUALS BY LICENSES HELD

Figure 8 depicts the percentage of net growth in MLO licenses around the country. Missouri, Maine, Arizona,

Iowa, and Colorado saw the greatest increase in MLO growth.

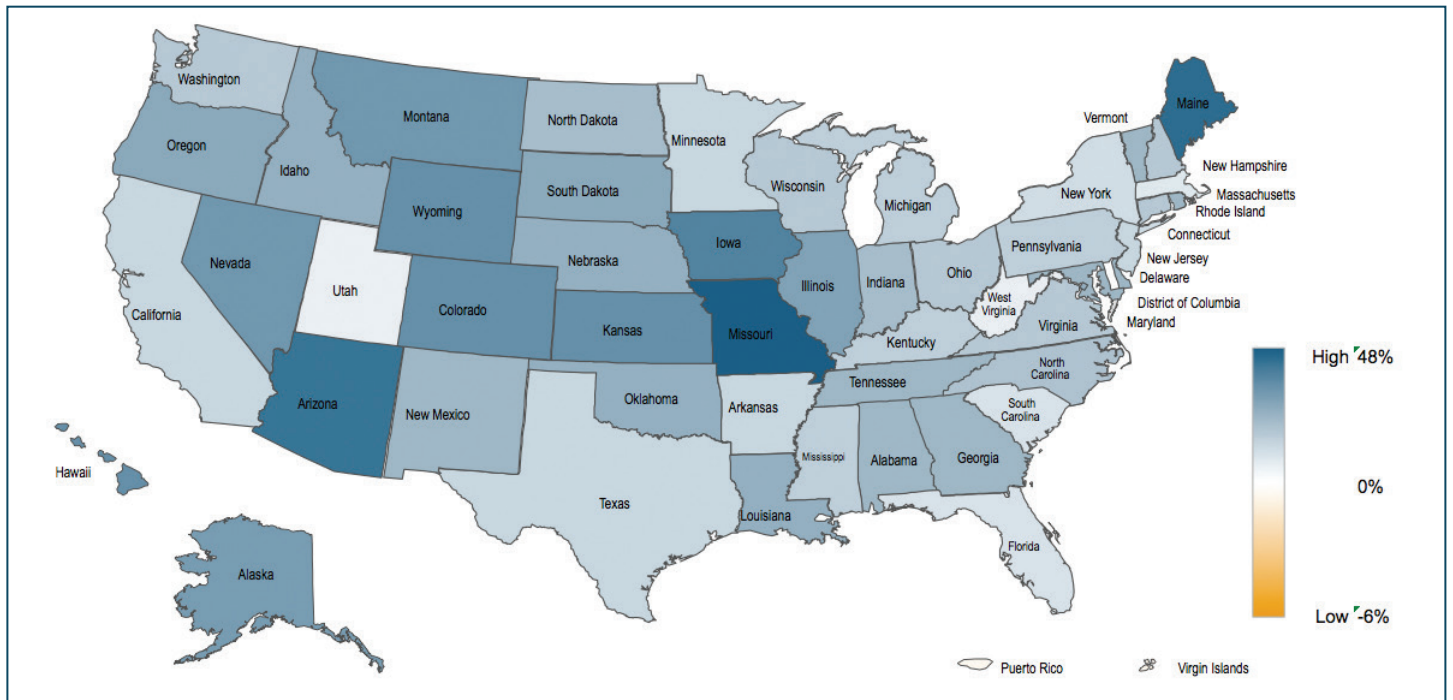


FIGURE 8. ANNUAL GROWTH - MLO LICENSES PER STATE

## FEDERAL MORTGAGE REGISTRATION

Over the course of 2016, the number of actively registered MLOs increased 4 percent to 422,579 individuals employed by 9,831 institutions. Although the number of actively registered MLOs slightly increased, figures 9 and 10 illustrate that the number of registered MLOs and institutions remains relatively constant.

NMLS also publishes quarterly reports that detail the number of federal registrants, MLO locations, and a breakdown of NMLS-registered institutions by specific federal regulator (see NMLS Resources section).

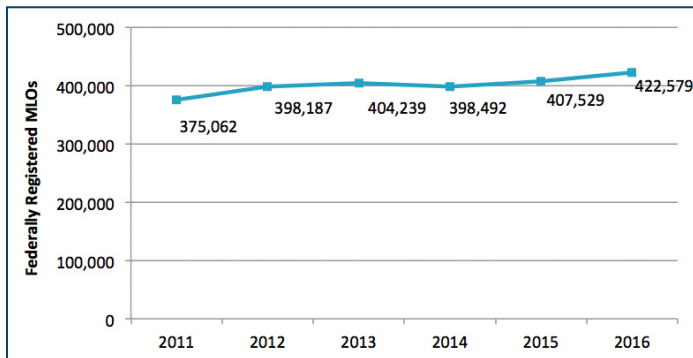


FIGURE 9. ACTIVELY REGISTERED FEDERAL MLOs BY YEAR

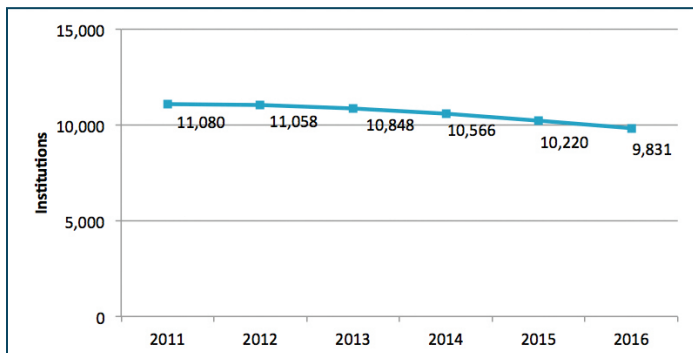


FIGURE 10. ACTIVELY REGISTERED INSTITUTIONS BY YEAR

## MONEY SERVICES BUSINESSES (MSB)

2016 saw the continued adoption of NMLS for MSB licensing. As of year-end 2016, 36 agencies manage MSB licenses in NMLS (Figure 11). In NMLS, over 2,000 companies hold over 4,800 approved MSB licenses. Financial services categorized as MSB activities in NMLS include: money transmission, check cashing, issuing or selling travelers checks, issuing or selling drafts, foreign currency dealing and exchange, issuing or selling money orders, bill paying, transporting currency, and issuing or selling prepaid access/stored value products.

Figure 12 provides a detailed breakdown of money transmitters in NMLS and their agents reported through the NMLS Uniform Authorized Agent Reporting (UAAR) functionality. During 2016, the NMLS UAAR, was adopted by five additional state agencies. The functionality permits money transmitter MSBs to complete authorized agent reporting directly in the System.

### MONEY TRANSMITTERS AND UNIFORM AUTHORIZED AGENT REPORTING

While Money Services Businesses include several activities as identified above, of particular interest to state regulators using NMLS are money transmitters. By the end of 2016, 36 agencies managed their money transmitter licenses in NMLS. The NMLS Uniform Authorized Agent Reporting (UAAR) functionality, deployed in 2014, permits state-licensed money transmitters to upload their authorized agents for reporting to state regulators. At year-end 2016, 31 agencies were using the UAAR functionality.

- 346 companies hold a total of 3,806 state money transmitter licenses in NMLS
- 58 percent of the companies are licensed in more than one state
- 99 companies are licensed in more than 10 states
- 178 companies report 233,145 Active Authorized Agent relationships in NMLS, and 98 report no agents used\*
- NMLS contains 157,839 Active Agent Locations, with 43,032 used by multiple principals\*
- Ten companies have uploaded over 5,000 agents\*

\*As of 9/30/2016

“NMLS gives us the opportunity to receive a more legible and complete application along with the ability to communicate statuses and requirements to applicants and licensees in real time. Additionally, we are able to offer a variety of payment options not available in the “paper” world.”

- K.C. Schaler, Supervising Examiner, Idaho Department of Finance





## OTHER INDUSTRIES IN NMLS

State agencies regulate a wide range of financial services and this diversity is reflected in NMLS. As of year-end 2016, 27 state agencies were managing one or more license authorities that could be generally categorized under “consumer finance” or others that regulate some

aspect of consumer debt, such as debt collection, debt management, and counselling. This additional license management led to an increase in the number of companies participating in NMLS conducting a variety of financial services activities (Figure 13). During 2016, five state agencies began managing nine additional consumer finance or debt license types in NMLS.

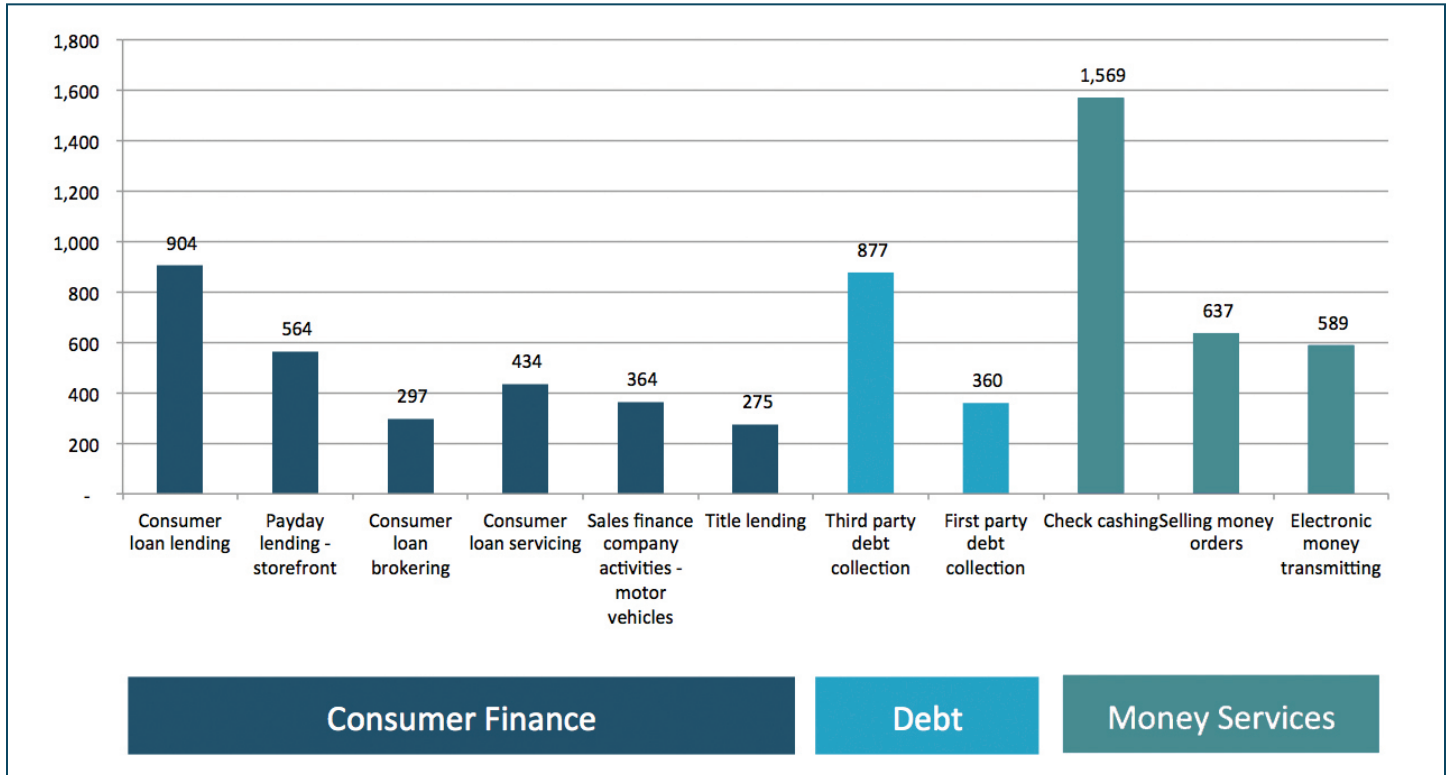


FIGURE 13. EXPANSION INDUSTRIES IN NMLS

## NMLS ACTIVITIES

NMLS processes a variety of transactions for system users. NMLS assists state regulators in supervising their licensed entities, enables licensees to apply for and maintain a license, and allows federally regulated depository institutions and subsidiaries to manage their registered MLOs through a single system. The most common transactions performed through NMLS are new applications, amendments, and renewals. NMLS serves as the vehicle for scheduling testing and education and maintaining all state-licensed MLO test and course completion records. The System receives and processes requests for criminal background checks for state-licensed and federally registered individuals and credit reports for state licensees. Additionally, NMLS collects state fees from licensed entities and

disburses such funds to the regulatory agencies. Figure 14 highlights the registration, licensing, and professional standards activity that took place in the System in 2015 and 2016 for licensed or registered companies, institutions, branches, and MLOs.

State Licensing Activities	2014	2015	2016
New Application Request	133,765	157,798	181,220
Renewal Request	365,998	431,681	492,593
Change of Sponsorship Request	57,003	57,532	62,746
Federal Registration Activities	2014	2015	2016
New Registration Request	78,707	80,300	80,432
Renewal Request	374,512	386,635	385,109
Change of Employment Request	38,158	37,431	39,919
Professional Standards	2014	2015	2016
Credit Report	110,006	110,533	125,368
Background Check	230,685	236,452	261,066
Test	102,861	83,228	70,226
Education Hours	1,764,436	1,803,299	2,229,330

FIGURE 14. LICENSING, REGISTRATION, AND PROFESSIONAL STANDARDS ACTIVITY

# NMLS MODERNIZATION (“NMLS 2.0”)

Three years ago, SRR began researching wholesale improvements to NMLS and options available for rebuilding it. It had become clear that the underlying technology upon which NMLS was built was outdated, making the System cumbersome and limiting its ability to meet future needs of supervision effectively.

In December 2014, the SRR Board of Managers authorized SRR to issue a Request for Proposal (RFP) for the overall modernization of NMLS, its current functionality, as well as new functionality (“NMLS 2.0”). SRR staff worked with consultants to outline high-level requirements and system operating requirements for NMLS 2.0 throughout the Spring and Summer of 2015.

On September 15, 2015, SRR issued an RFP, with responses due by January 2016, for the revisioning development on a new platform and operations for NMLS 2.0. The

RFP received several responses which began an internal evaluation process that included technical reviews, oral presentations and sandbox demonstrations of products.

SRR launched the Stakeholder Engagement and Governance Process for NMLS 2.0 in July 2016. The goal was to create a process that received broad input from regulatory and industry stakeholders while at the same time challenging them to rethink their processes. A seven-member NMLS 2.0 Steering Committee (**Appendix F**) was appointed to guide the requirements development process and make recommendations on system functionality to the NMLS Policy Committee. Existing and proposed functionality was categorized into 26 Feature Areas and five state regulator working groups (Figure 15) were created to address detailed development decisions within each Feature Area.

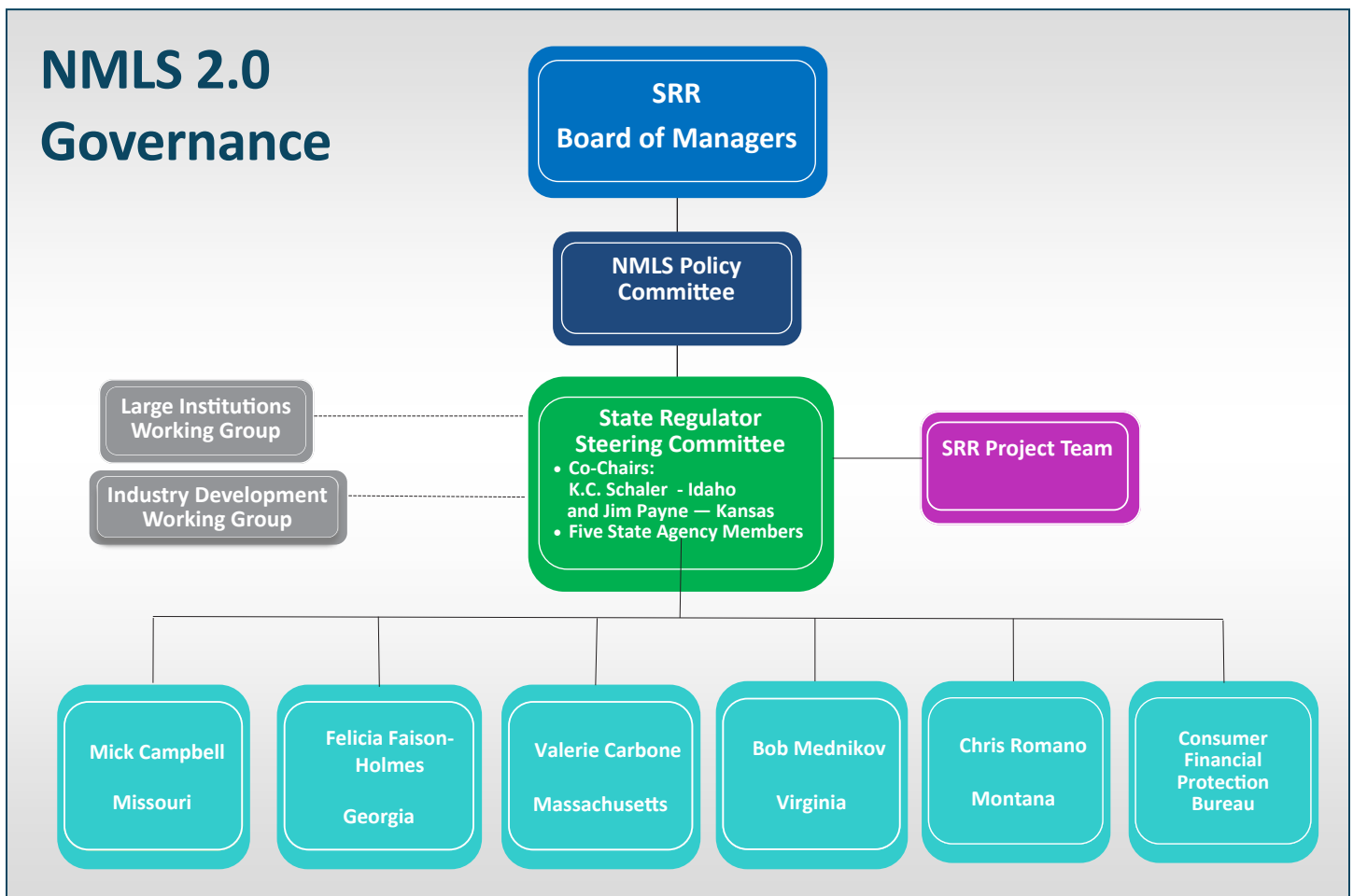


FIGURE 15. NMLS 2.0 GOVERNANCE

The NMLS 2.0 Steering Committee created (and the NMLS Policy Committee approved) the NMLS 2.0 Guiding Principles (Figure 16). These principles delineate the core concepts, many established and some new, that will guide detailed development decisions.

In October 2016, SRR engaged a vendor to assist with requirements gathering in an intensive, agile approach, prior to selecting the final NMLS 2.0. The NMLS 2.0 requirements vendor began work in December 2016.

<b>NMLS 2.0 GUIDING PRINCIPLES</b>	
<b>PRINCIPLE</b>	<b>TOPIC/GUIDING PRINCIPLE</b>
<b>REAL TIME SYSTEM</b>	NMLS 2.0 is a real time system that will show the current state of an entity's record.
<b>UNIFORM DATA</b>	NMLS 2.0 will provide an application/licensing platform containing uniform data, terms, and definitions.
<b>DYNAMIC DISPLAY</b>	NMLS 2.0 will present users with only information that is relevant to them based on their role (i.e. regulator, industry type, etc.).
<b>ONE RECORD</b>	Each distinct legal entity, branch, and natural person will have a single, unique record in NMLS. The entity's One Record in NMLS can be used to apply for, maintain, or surrender licenses in multiple states and will capture all data required in the supervision process.
<b>COMMON FRAMEWORK</b>	The System will enable uniform core policies/processes based on Common Framework best practices identified through the established governance process.
<b>DATA VALIDITY</b>	NMLS 2.0 will be built to promote data quality through accurate data input and will validate data where possible.
<b>RECORD INFORMATION</b>	The ability to create or modify record information will be limited to the entity with the right to control it.
<b>LEGAL SYSTEM OF RECORD</b>	NMLS is a legal system of record for agencies participating in NMLS.
<b>NMLS UNIQUE ID</b>	The NMLS Unique ID will be applied to only unique legal entities or a natural person.
<b>AUTOMATE WHAT IS MANUAL AND ROUTINE</b>	Manual and routine processes will be automated to the greatest manual and routine extent possible.
<b>LEVERAGING DATA</b>	NMLS 2.0 will leverage external data sources rather than recreating data when applicable.
<b>DATA SECURITY</b>	NMLS 2.0 will be built to best practices in data security and privacy protections.

FIGURE 16. NMLS 2.0 GUIDING PRINCIPLES

## NMLS 2.0 STEERING COMMITTEE

### CO-CHAIR

**Mr. Jim Payne**

Director of Licensing  
Kansas Office of the State Bank  
Commissioner

### CO-CHAIR

**Ms. KC Schaler**

Supervising Examiner, Licensing  
Idaho Department of Finance

### MEMBERS

**Ms. Felicia Faison-Holmes Esq.**

Director for Non-Depository  
Financial Institutions  
Georgia Department of Banking  
& Finance

**Ms. Valerie Carbone**

Counsel  
Massachusetts Division of Banks

**Mr. Mick Campbell**

Supervisor of Mortgage Lending  
Missouri Division of Finance

**Mr. Christopher Romano**

Non-Depository Bureau Chief  
Montana Division of Banking  
and Financial Institutions

**Mr. Robert Mednikov**

Assistant Deputy Commissioner  
Virginia Bureau of Financial  
Institutions

## NMLS RESOURCE CENTER



The NMLS Resource Center website serves as the gateway to NMLS. It provides NMLS users with state licensing and registration information, deadlines, training materials, tools, and tips to assist companies and individuals with their use of NMLS. In addition to being the best initial source for finding state licensing and registration information, the NMLS Resource Center is continually updated with system news and event items, as well as state agency news that affects licensees. SRR also maintains the Federal Registry Resource Center to serve a similar purpose for federally regulated depository institutions and federally registered individuals by providing updated information regarding the federally registered individuals by providing updated information regarding the federal registration process and System news.

In 2016, the two resource centers had over 2.4 million unique visitors who viewed over 5.4 million pages.

## LIVE USER SUPPORT

Live user support provided by the NMLS Call Center and the Regulatory User Group is designed resolve immediate user needs and identify and participate in the development of system and process improvements. The timely and complete resolution of immediate user needs is the priority for every interaction with industry or regulatory users. These interactions also provide a chance for support agents to identify user pain points, document

those opportunities, and participate in the development of solutions.

User interaction is documented within a client management database which allows better understanding of user needs through data analysis, and also allows the escalation and analysis of specific user pain points. Analysis of these interactions allows NMLS to better understand and act upon the following:

- User satisfaction with the call center's courtesy, knowledge, and overall performance
- Usability of NMLS and the Resource Center
- Response timelines to user requests
- Training needs
- User acceptance of system enhancements, security upgrades, and process changes

Call center representatives are trained in System use and policy. Also, teams are assigned to provide more specialized support in specific areas such as questions on the Mortgage Call Report or Federal Registry issues. The call center responds directly to queries regarding System issues, and directs all specific regulatory, registration, or licensing questions to the appropriate state or federal agency. The call center staff is available to NMLS users Monday through Friday from 9:00 a.m. to 9:00 p.m. ET (Figures 17 and 18 and 19). The call center is funded through NMLS processing fees and operates at no additional charge to System users.

## NMLS CALL CENTER 2016 ACTIVITY AT A GLANCE

Overall call volume at the NMLS Call Center decreased two percent from 2015 to 2016 with a total of 464,020 calls. The call center responded to an average of 1,806 calls per day.

- 57 percent of calls were related to state licensing issues
- 20 percent of calls were related to federal registry topics
- 23 percent were related to entitlement issues, such as password reset and account unlock requests.



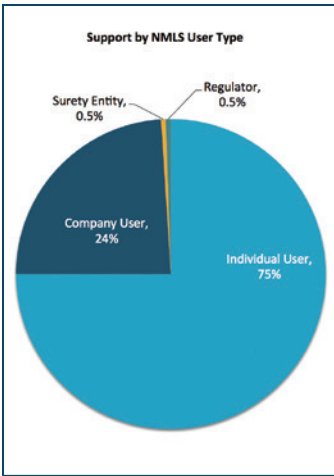


FIGURE 17. CALL VOLUME BY NMLS USER TYPE

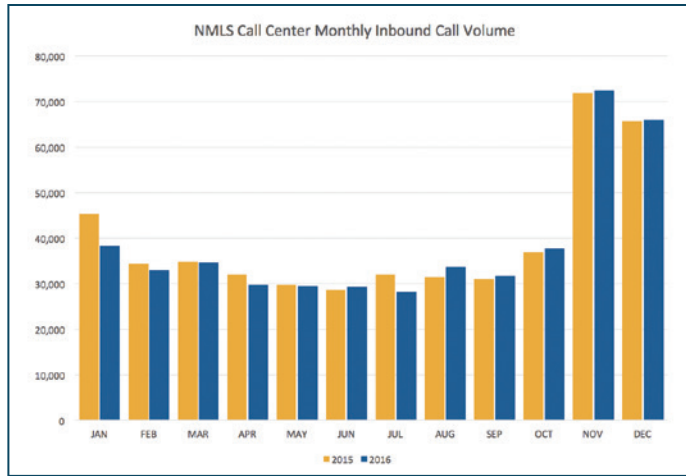


FIGURE 18. NMLS CALL CENTER MONTHLY INBOUND CALL VOLUME BY YEAR

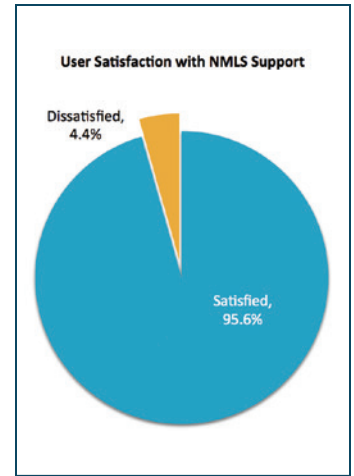


FIGURE 19. USER SATISFACTION

## NMLS TRAINING

In 2016, the NMLS Training Team continued to focus on offering off-the-shelf recorded and self-paced eLearning training opportunities for a variety of audiences to supplement live instruction. In-person sessions, live webinars, recorded webinar training, eLearning courses, user guides, and demonstration videos were made available to state regulators, state-licensees, federal registrants, and vendors.

The NMLS Training Team worked to better configure and manage the CSBS Learning Management System (LMS), which is used to store, deliver, and track the history of training sessions for individual users. The LMS nearly doubled its number of users, growing from 5,700 users in 2015 to 11,100 in 2016. The LMS currently hosts over 400 live, recorded, and eLearning courses, and includes on-demand learning opportunities such as new user training for all NMLS audiences and other specialized content recordings.

In 2016, there was an increased focus on expanding both the NMLS Resource Center and the LMS to accommodate the surety industry as the System added functionality to process electronic surety bonds. Several live trainings were provided for members of the surety industry and existing licensees. The NMLS Resource Center was expanded to include web pages specific to the surety industry, housing a library of support documentation, recorded trainings, frequently asked questions, and System process workflow diagrams.

2016 also marked the first full year that the Mortgage Licensing School, designed to provide best practices in license application review and NMLS functionality, was available to our members. The program provides focused, relevant education by allowing state regulators to enroll in a learning plan that is specific to their role within an agency. Since the program’s launch, there are 136 learners enrolled across 39 state agencies, and 29 learning plans have been completed.

In 2017, the NMLS Training Team will streamline and improve our live webinar delivery, removing barriers to entry and ensuring ease-of-access for attendees. Another focus will be to expand our video training offerings for members of industry, reducing calls to the call center and improving compliance. In addition, we will begin to pursue the development of a licensing school for regulators of the money services business, debt, and consumer finance industries (Figure 20 and 21).

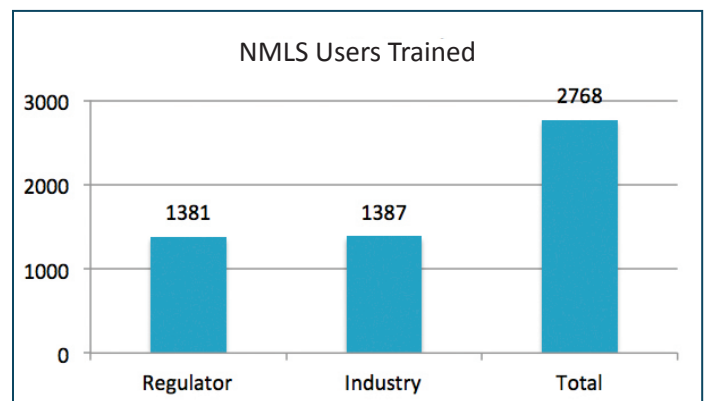


FIGURE 20. NUMBER OF USERS TRAINED

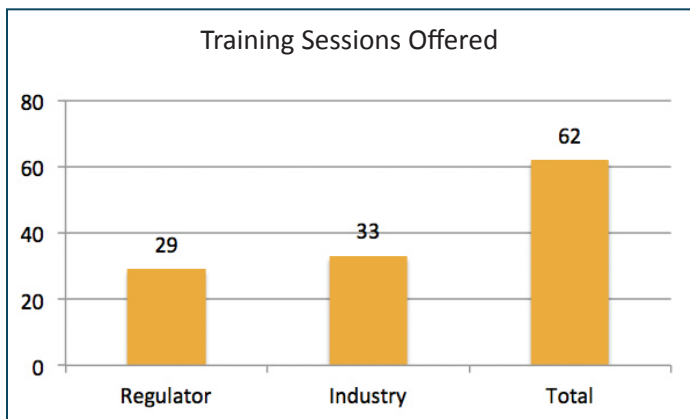


FIGURE 21. NUMBER OF SESSIONS OFFERED

## INFORMATION SHARING

To improve regulatory oversight capabilities, state and federal agencies agreed to provide increased access to individual state licensee and federal registrant data across all agencies. In support of this, the Consumer Financial Protection Bureau (CFPB) was given the capability to upload regulatory actions against companies or individual in NMLS. In addition, state regulators can now view information regarding license items placed by other state agencies with restrictions on viewing related notes with confidential information.

In 2016, the SRR Board of Managers issued a protocol regarding the creation and implementation of information sharing Memoranda of Understanding (MOUs) between SRR (on behalf of the NMLS participating state agencies) and federal agencies. The protocol contains the governing process for the approval of such MOUs by SRR, which includes: a determination that the request is consistent with mandates of the SAFE Act; review by the NMLS Policy Committee, and SRR Lawyers Committee; and approval by the SRR Board of Managers and the CSBS Executive Committee. A new Information Sharing through NMLS page was created on the NMLS Resource Center in November 2016, in order to provide increased transparency regarding NMLS data sharing. The page provides information regarding all existing information sharing agreements for NMLS data.

## NMLS CONSUMER ACCESS

NMLS Consumer Access is a fully-searchable website that allows consumers to view information concerning companies, branches, and individuals that are state-licensed or federally registered in NMLS. This free service is an invaluable consumer resource containing information on virtually all MLOs operating in the United States as well as any state-licensed or federally registered companies

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. In 2016, 104 million visitors viewed almost 3.7 million pages on the NMLS Consumer Access website. SRR launched NMLS Consumer Access in 2010.

In 2016, the redesign of Consumer Access was added to the NMLS 2.0 RFP. Besides a new look and feel, SRR plans to enhance the search functionality and add content that would support consumer financial education and protection.

## NMLS B2B ACCESS

SRR offers a subset of the public data available in NMLS Consumer Access in a business-to-business (B2B) data format through a subscription service known as NMLS B2B Access. Making the data available in a full dataset format expands the reach of the SAFE Act to further meet compliance and fraud prevention goals by supporting companies who service the mortgage industry with data and loan origination products.

In 2016, SRR added six new B2B subscribers who are using the NMLS data.

## NMLS ANNUAL CONFERENCE AND TRAINING

The eighth NMLS Annual Conference and Training was held February 16 – 19, 2016, in Phoenix, Arizona, with over 640 registrants in attendance. State regulators from 48 state agencies joined licensees from a range of financial industries, education providers, law firms, and consultants to engage in a variety of topics concerning NMLS and state and federal regulation. The 2016 NMLS Annual Conference expanded beyond state and federal mortgage industry issues to include sessions relevant to the money services business, debt collection, and consumer finance. In addition, sessions included presentations on the Mortgage Call report (MCRs), testing and education for mortgage licensees, Federal Registry System use, numerous new and upcoming System enhancements, and many more topics. The 2016 NMLS Conference provided an opportunity for regulators, licensees, and registrants to learn from industry experts and peers to solve business and industry challenges.

The ninth NMLS Annual Conference and Training is scheduled for February 13 – 16, 2017 in Austin, Texas (Figure 24).



**2016 NMLS ANNUAL CONFERENCE AND TRAINING**  
PHOENIX, ARIZONA | FEBRUARY 16 - 19



FIGURE 24. NMLS ANNUAL CONFERENCE AND TRAINING

# DATA ANALYTICS

Two regulator working groups worked through 2016 to deliver new data analytics products to their colleagues. The Risk Profile Working group developed a new report, the Mortgage Examiners Report, that organizes and presents key data from the Mortgage Call Report (MCR) in support of mortgage company examinations. The Manager Analytics Working Group developed a new data analytics application, Work Item Analytics, to help regulators manage and analyze their work items. The group also developed a quarterly report of various agency statistics called the Managers Packet to help managers gauge overall agency performance.

The Mortgage Examiners Report, released in February 2016, allows a mortgage examiner export a standardized printable report about a company based on data from NMLS and the MCR. The tool supports mortgage examiners in exam preparation and scoping by quickly retrieving information about a company that would have taken a few hours to compile manually from NMLS. In 2016, more than 280 users in 51 state agencies accessed the Mortgage Examiners Report.

Work Item Analytics, released in June, gives state agency managers an interactive dashboard showing summary information about their agency's work list in NMLS. At a glance, managers can see whether their staff can complete work items as fast as they are generated by the System, look at average completion times by work item category, and see aging reports for incomplete work items. Agency managers can use data from Work Item Analytics to report on efficiency improvements, note where additional staff may be needed, and analyze other similar workflow-related questions. In 2016, 38 state agencies accessed Work Item Analytics, and more users are anticipated as additional state agencies increase their use of the work list.

The Managers Packet, released in September 2016, is an Excel workbook distributed to each state agency that contains several tabs of performance metrics about the specific agency. Agency managers can see summary data about their licensees, license application turn times, renewal data, summary MCR data, and license application and renewal totals by fiscal year.

MCR Analytics, which provides mortgage examiners with self-serve access to customizable aggregations of Mortgage Call Report data, continued to be the most popular tool in the NMLS Analytics suite, with 325 unique users in 52 state agencies. Renewal Analytics was heavily used again during the 2017 renewal period to track the renewal progress of state licenses, with 94 users in 42 state agencies.

In addition to reports on the mortgage industry, SRR also publishes quarterly fact sheets on money services businesses, payday lenders and debt collectors licensed in NMLS. All reports and several additional data sets are available on the NMLS Resource Center Reports page.

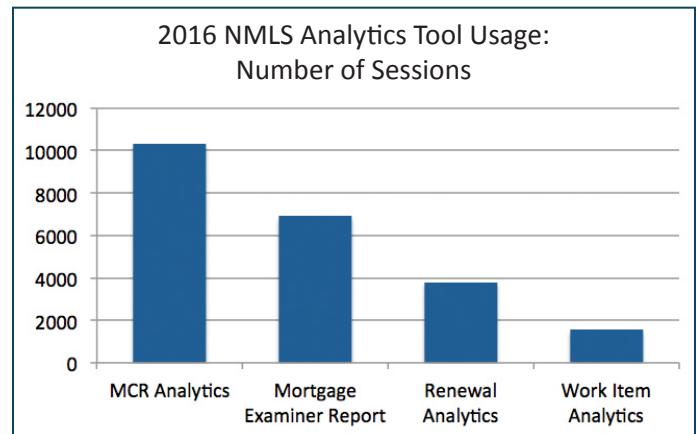


FIGURE 22. NMLS ANALYTICS TOOL USAGE, NUMBER OF SESSIONS

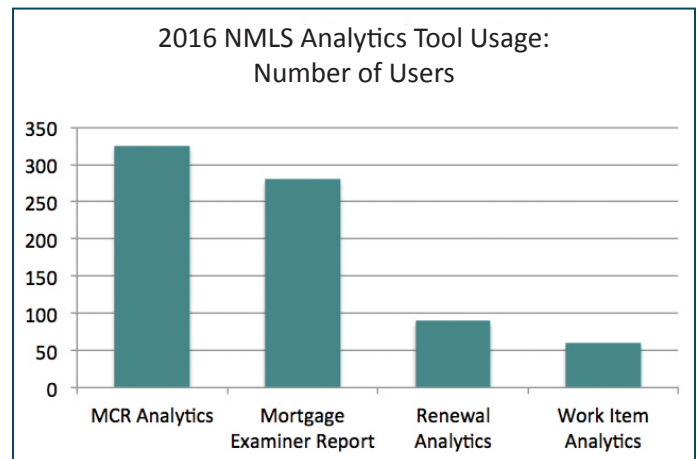


FIGURE 23. NMLS ANALYTICS TOOL USAGE, NUMBER OF USERS



## NMLS POLICY COMMITTEE (NMLSPC)

At the center of the NMLS policy making process is the NMLS Policy Committee. This 11-person committee of state financial services regulator users of NMLS was created by the SRR Board of Managers to make policy decisions for NMLS functionality and operations. Decisions are made after considering input from NMLS participating state agencies, licensees and industry.

In 2016, the NMLSPC reviewed a variety of issues affecting NMLS policies and the operations of the System. Highlights of their work include: setting NMLS 2.0 priorities and approving the approach to gathering NMLS 2.0 business requirements, a review and evaluation of public comments on the mortgage call report (MCR), discussions on pre-licensure education expiration policy implementation, MU2 criminal background check approach; Two-Factor Authentication, review of NMLS Consumer Access suppression requests, approval of B2B applications and changes, foreign print submission processes, and various discussions with state regulators and industry related to issues raised to the NMLS Ombudsman.

A roster of NMLSPC members can be found in **Appendix F**.

## NMLS OMBUDSMAN

The NMLS Ombudsman provides a resource for System users with the goal of assisting in the resolution of NMLS policy and operational issues. The objective is to foster constructive dialogue between industry users of NMLS and state regulators to work mutually toward the goal of modern and efficient financial services regulation. The NMLS Ombudsman is available to discuss matters publicly or in a confidential manner and assists with these matters by identifying options for resolving issues and by directing issues to the appropriate SRR personnel or state agency.

The NMLS Ombudsman held two public meetings in 2016 in conjunction with the NMLS Annual Conference and Training in February in Phoenix, Arizona and the AARMR Annual Regulatory Conference in August in Tampa, Florida. During 2016, the Ombudsman also spoke at the NACARA and NACCA annual conferences. A variety of issues were raised during these meetings, including:

- Foreign Entity Licensing
- Licensing Requirements for Account Executives
- Stakeholder Engagement with NMLS
- Attestation Language
- Backdating of License Approval Dates
- Examination Preparation Materials
- Uniformity Proposal for State Advertisement Disclosures
- Examination Trends
- Issues with Notice and Timely Processing with Respect to Individual License Applications
- State Specific Renewal Checklists
- Sponsored Entity Name on MLO Invoice Receipts
- Pace of State Coordination with Multistate exams
- Examination Management Tool Suite
- Notifications of Record Deletions
- Expanding Approved Inactive License Status through NMLS to Serve Consumers

Additionally, the NMLS Ombudsman received roughly 100 unique emails from individuals and companies around the country seeking assistance. A summary of all public meetings is posted on the NMLS Ombudsman page on the NMLS Resource Center.



## NMLS PARTICIPATING STATES REGULATOR OPEN FORUM

Regulator Open Forum calls are regularly conducted with all state regulators using NMLS. The calls are designed to provide regulators with an opportunity to present and discuss system-related topics with other regulators to obtain feedback on work processes, supervisory policies and best practices. The Regulator Open Forum calls allow for participating state agencies to develop more uniform practices and policies related to NMLS and also serve as a spring board to identify and prioritize proposed system enhancements and development.

Examples of major topics discussed during 2016 include:

- Business Activity Definition for Student Loan Servicing
- Fingerprint Archiving Policy Adjustment
- Money Services Businesses Call Report Agency Adoption
- Outdated Browser Restriction Initiative
- Roll-out of Two-Factor Authentication for Additional User Roles
- The 2016 License Renewal Plan and Strategy

## INDUSTRY DEVELOPMENT WORKING GROUP (IDWG)

NMLS consulted with the IDWG to gather input from industry users. This group provides input into the technical and functional development of NMLS. During 2016, some topics reviewed by the IDWG include:

- User Acceptance Testing (UAT)
- MSB Call Report Demo
- Electronic Surety Bond Adoption
- Company and Branch Filings Attestation
- Backdating Original License Date
- Pre-Licensure Education Expiration Policy

A roster of the members of the IDWG can be found in **Appendix F**.

## PUBLIC COMMENT REQUESTS

As determined by the SRR Board of Managers or the NMLSPC, public comments are requested for significant policy issues or System functionalities. In 2016, two requests for comment were issued:

Proposed Adoption of a Policy Governing the Procedures and Processes for Requesting Public Comments on Issues Related to NMLS.

Date: August 30, 2016

Number of Commenters: 8

Proposed Changes to Company and Branch Filing Attestations

Date: March 29, 2016

Number of Commenters: 14

Active and archived proposals issued for public comment, comments received, and SRR's response to comments are available on the NMLS Resource Center. Rosters of these three regulator working groups can be found in **Appendix F**.

# NMLS DEVELOPMENT AND ENHANCEMENTS

## HIGHLIGHTS OF 2016

All aspects of NMLS development and enhancements are accomplished through the efforts of various working groups, task forces, and committees made up of state regulator and industry experts. A successful release implementation for NMLS depends upon the continued involvement and valuable feedback from these experts. NMLS deployed three major releases (January, September, and October) and four maintenance releases in 2016. Below are highlights of the enhancements delivered during 2016 as well as some of the major ongoing Development work efforts during 2016:

### FORM UPDATES

On May 1, 2015, SRR solicited public comments on the Uniform NMLS Licensing Forms and Mortgage Call Report. The comment period ended on June 1, 2015; all public comments and SRR's response are posted on the NMLS Resource Center. The changes approved by the NMLSPC were implemented in 2016. More extensive updates to the Forms and MCR are expected to be realized in the NMLS Modernization initiative.

- **Individual Document Upload.** Document Upload Functionality was expanded to allow individuals to upload licensing related documents directly into NMLS.
- **Mortgage Call Report.** New Standard and Expanded form versions with additional Qualified and Non-Qualified Mortgage reporting fields and updated completeness checks and formulas were implemented.
- **MU Forms.** The NMLSPC approved changes were implemented related to business activities, contact employee responsibilities, legal statuses, enhanced advance change notice functionality, and attestation language changes.

### CRIMINAL BACKGROUND CHECK (CBC) FOR CONTROL PERSONS

As part of a 2015 SAFE Act amendment, NMLS is now able to process CBCs for all individuals required by state law to obtain a fingerprint-based background check. Prior to the amendment, NMLS was only able to process CBCs for MLOs.

NMLS was enhanced in 2016 to enable state regulators to permit specified natural person direct owners, executive officers, indirect owners, qualified individuals, and branch managers to provide fingerprints and authorization for the purposes of completing a federal criminal background check. The functionality is available only if: (1) state law permits the submission of a fingerprint-based CBC for licensing purposes, and (2) the state has opted to utilize the functionality for the specified license. Twenty-nine states agencies adopted the functionality in 2016.

### ELECTRONIC SURETY BONDS (ESB)

Electronic Surety Bonds functionality was deployed in two phases in 2016.

The implementation of electronic surety bonds (ESB) in NMLS was a major paradigm shift in 2016, for state regulators, NMLS industry users, and the surety industry. Many state laws and regulations require financial services licensees to obtain surety bonds as a condition of licensure. State regulators and consumers can file claims against a surety bond to cover fines or penalties assessed or provide restitution to consumers due to failure of a licensee to comply with licensing or regulatory requirements. Prior to the implementation of the ESB functionality in NMLS, NMLS functionality only accommodated the uploading of PDF versions of paper bonds to NMLS.

.....  
“*The partnership this initiative created among surety companies, our producers, and state regulators has produced a much-needed advancement - one sure to kick off a new phase of reengineering in the surety bond industry.*”  
- Courtney Larsen, Surety and Fidelity e-Business Manager, CapSpecialty  
.....

On January 25, 2016, NMLS was updated with the ability for surety companies and surety bond producers to request accounts in NMLS and establish business associations. The business associations in NMLS between a surety company and a surety bond producer were developed to be an electronic replacement of the paper power of attorney and authorize the surety bond producer to issue bonds on behalf of the surety company. Regulators were given



the ability to view surety entities and their associations in NMLS.

Further updates were made in September 2016 with the adoption by nine state agencies of the ESB functionality for various licenses. These updates provided a robust suite of functionality including bond and bond rider creation, delivery to state regulators, and ongoing bond management; broker of record management; and System controls for each state regulator to streamline ESB requirements and monitoring, along with supporting notification and reporting capabilities.

ESB functionality was the first major deployment of a feature in NMLS that requires users other than state or federal regulators or licensees to directly access NMLS. In order to successfully deploy the functionality, state regulators and SRR staff worked closely with representatives from the surety industry to understand their business, work collaboratively towards streamlining common processes with the states. The process also focused on leveraging data in NMLS to avoid duplicative efforts and reduce unnecessary errors often found in the paper surety bond process. In 2017, 12 additional states agencies have committed to adopting ESB and we anticipate that further features and functionality will be added to continue the efficiency gains from the initial adoption of ESB.

## SYSTEM USABILITY

- **Document Upload.** Branch document upload functionality was enhanced to organize document upload views in pending and submitted filings and allow users to more easily identify documents modified on a filing. Similar company document upload enhancements were deployed in 2015.
- **Form Submission.** NMLS was enhanced to eliminate the need for a direct owner/executive officer, indirect owner, qualifying individual, and/or branch manager to attest to a new individual filing if information is current and no criminal background check or credit report requirements need to be met.
- **Mortgage Call Report.** Enhancements were made to increase CSV upload availability and improve printing capabilities.
- **Authorized Agents (UAAR).** Address verification functionality was improved to allow a licensee who has previously uploaded an authorized agent to update the agent record even if the automated address validation system validates to a different address.

## SECURITY

SRR has ongoing initiatives to enhance system and data security. Security-related enhancements made in 2016 include:

- **Browser Restrictions.** Users were warned and then prohibited from accessing NMLS and/or NMLS Consumer Access with a browser that does not support the TLS 1.2 security protocol.
- **Role-Based Two-Factor Authentication.** NMLS can enforce two-factor authentication requirements based on user roles. In 2016, state regulator Account Administrators and state regulator users with the ability to view RAP sheets or credit reports were added to the pool of users requiring two-factor authentication.

## NMLS PRODUCT ROADMAP - LOOKING AHEAD

During 2016, NMLS continued to deploy improved software development processes to increase responsiveness and deliver value faster for system users. Work continued in NMLS Modernization and Examination Management Tool Suite. NMLS is working on the following major enhancements for future implementation.

- **Electronic Surety Bond Enhancements.** Additional surety bond enhancements are being developed to extend surety bond delivery, tracking, and maintenance capabilities in NMLS.
- **Money Services Businesses (MSB) Call Report.** A new reporting capability is being developed for MSB licensees to submit their routine financial and business reporting electronically in NMLS. Deployment is scheduled for Q1 2017.
- **Next Generation Identification Program – RAP Back Service.** Participate in the FBI's "RAP Back" program that would permit NMLS to receive information on subsequent arrests or prosecutions for individuals and provide notices to the relevant regulators.
- **PE Expiration.** Implement functionality in NMLS to expire pre-licensing education (PE) courses for individuals if they have not obtained a license or federal registration within three years of required course completion. After expiration, an individual will have to become compliant with PE requirements before they can apply for a new license.

# TESTING AND EDUCATION

## OVERVIEW

In 2016, SRR continued to contribute to important elements of consumer protection through its MLOs testing and education programs. Highlights include:

- In November, SRR recorded a milestone of administering 1 million SAFE MLO tests since the inception of the testing program in July 2009.
- By the end of 2016, thirty state agencies had implemented requirements for MLO applicants to satisfy state-specific pre-licensure (PE) education requirements. Twenty-two agencies had similar requirements for licensees to satisfy their continuing education (CE) requirements.
- More states adopted the National Test with Uniform State Content (UST), bringing the total number to 54.
- The test maintenance function was improved.
- An initiative to ensure the authentication of students taking online courses reached a critical milestone.
- More than 140 course compliance exams of education providers were completed by SRR staff.

The rest of this section describes these and other accomplishments.

## BACKGROUND

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, SRR must:

- Develop and administer a qualified written test that all state-licensed MLOs must take and pass with a minimum passing score of 75, and
- Approve all courses that state-licensed MLOs must take to satisfy their pre-licensure education and continuing education requirements.

## UNIFORM STATE TEST (UST)

Four additional state agencies adopted the UST in 2016 bringing the total number of state agencies that have adopted the test to 54. While the adoption of the UST

has had a very positive impact on the increase of MLO applications in the adopting states, the existing test requirement, as well as additional education requirements by some states, ensure that applicants and licensees understand general mortgage knowledge, federal laws and state laws. The map (Figure 25) shows the adoption of the UST across the country.

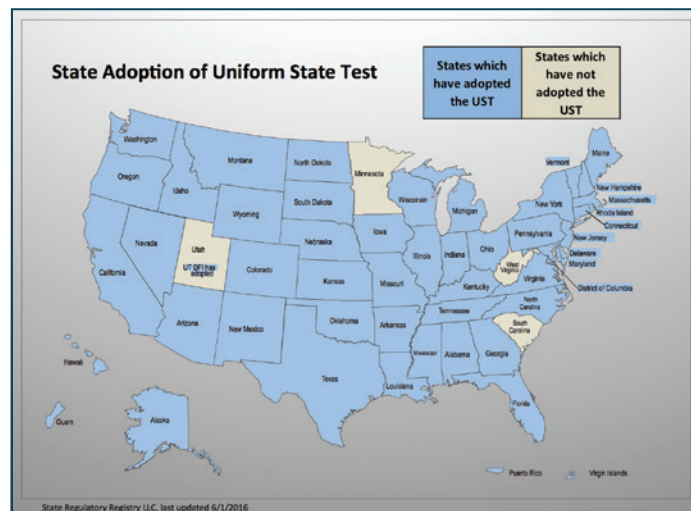


FIGURE 25. STATE ADOPTION OF UNIFORM STATE TEST

## TEST DEVELOPMENT AND MAINTENANCE

A fundamental obligation to consumers and to test candidates is to ensure that SAFE MLO tests are valid, fair and reliable. In 2016, SRR continued to ensure that these criteria were met or exceeded.

In 2015, SRR completed the conversion of the National Test Component with Uniform State Content to a Linear on the Fly Test (LOFT) administration and scaled scoring model. Since then, test performance has been monitored to ensure that the new test construction and delivery met its intended goals. The conversion to LOFT and scaled scoring has not changed the performance of the test and has made it easier to maintain the test and improved its security.

As reported last year, SRR conducted a Job Analysis study in 2015 to revalidate the SAFE MLO National Test with Uniform State Content. A Job Analysis study is an industry standard process used in validating the knowledge areas

assessed in a professional licensure examination. In short, the study is done to ensure that the material covered on the exam is relevant to the profession as practiced. That study was followed in 2016 by a Standard Setting project. One of the objectives was to update SRR about the ability level of applicants which can be applied to the construction of the test. The process and the outcome also demonstrate the link between a score on the test and a minimally competent test taker. Together, job analysis and standard setting are crucial steps in establishing and maintaining the value and credibility of any professional status, such as a state license, that is granted based on the test results.

SRR and its testing vendor continued with regular test maintenance activities that include convening test maintenance committees to review test content outlines and the content of test items (questions), along with evaluating item performance data and creating new test questions. SRR and those state agencies that require a state-specific test also conduct regular legislative reviews of state and federal components to ensure that test questions are accurate and up-to-date. This process has been improved through use of an approach that features multiple maintenance cycles throughout the year. We greatly appreciate the many contributions from industry and regulatory subject matter experts who gave their time and expertise this past year to help implement these improvements.

Part of the maintenance effort includes the “Test Content Comments and Challenges” process which is outlined on the NMLS Resource Center in the MLO Testing Handbook. In 2016, SRR formally responded to 93 challenges that were submitted under this process, which is a modest decline from 2015. In addition, SRR improved the average time we responded to challenges by over 90 percent from the previous year.

## TEST ADMINISTRATION

The national and eight state components of the SAFE MLO Test were available in 2016. Due to the adoption of the National Test with Uniform State Content by five state agencies, four state tests remained available at the beginning of 2017. Approximately 61,000 test components were administered in 2016. MLOs were able to take any of the test components at more than 270 high-stakes test centers throughout the United States. A summary of the number of tests administered in 2015 and 2016 is included in Figure 26. This was the second year that test results could expire if the individual failed to maintain a

valid, renewable license for a period of five or more years as mandated by the SAFE Act. (MLO testing under the SAFE Act began in 2009.) In 2016, over 30,000 test results expired in NMLS.

2014 - 2015 NUMBER OF TESTS ADMINISTERED		
TEST NAME	2015	2016
SAFE MLO Test - National Component with Uniform State Content	37,638	44,052
SAFE MLO Test - State Components (Aggregate)	34,991	17,146
Total Tests Administered	72,629	61,198

FIGURE 26. NUMBER OF TESTS ADMINISTERED

## TEST PERFORMANCE

SRR regularly monitors the performance of the SAFE MLO Tests and posts quarterly test administration and performance information on the NMLS Resource Center. An example of the information collected and posted is found in Figure 27., which shows the pass rates by attempt for the National Test with Uniform State Content for the past 24 months. In addition, Figure 28. illustrates the first-time pass rates by month through 2016.

NATIONAL COMPONENT WITH UNIFORM STATE CONTENT			
Pass Rates by Attempt			
January 1, 2015 through December 31, 2016			
	Tests Taken	Tests Passed	Pass Rate
1st Time	59,512	36,488	61%
Subsequent Attempts	22,178	9,840	44%
Overall	81,690	46,328	57%
	Candidates	Candidates Passed	Pass Rate by Individual
All Attempts	62,000	46,309	75%

FIGURE 27. NATIONAL TEST WITH UST PASS RATES BY ATTEMPT

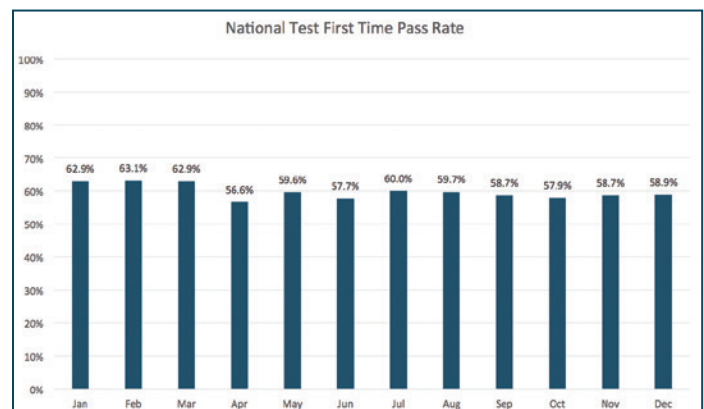


FIGURE 28. NATIONAL TEST FIRST TIME PASS RATES BY MONTH



## TESTING AND EDUCATION SECURITY

Following substantial improvements in 2015 to the overall security of the mortgage testing and education programs, SRR maintained and continued to improve these efforts in 2016. All persons who take education courses must acknowledge and accept the Rules of Conduct for Education Students. SRR employs an internet surveillance program to detect if copyrighted content from the SAFE MLO Test is being shared or disseminated online. The service continuously monitors the web for public posts that contain confidential test content which has resulted in several investigations and successful requests for the removal of copyrighted materials from the internet. Finally, SRR has been working on a new initiative to authenticate students who participate in online NMLS-approved courses. This will better help ensure that students who take online courses are indeed the persons they claim to be. The following table (Figure 29.) summarizes the investigations SRR initiated in 2016.

2015 SUMMARY OF SRR AND MTEB INVESTIGATIONS					
			Findings		
Subject of Investigation	Type of Violation	Number of Cases	Violations Found	No Violation	Ongoing
Education Students	Rules of Conduct	2	0	0	2
Course Providers	Standards of Conduct	1	0	0	1
Test Takers	Rules of Conduct	9	9	0	0
Online Web Publishers	Misuse of Test Content	1	1	0	0
Total		13	10	0	3

FIGURE 29. 2016 SUMMARY OF SRR AND MTEB INVESTIGATIONS

## EDUCATION

For the seventh consecutive year, the mortgage education program experienced growth. Over 130,000 state-licensed MLOs and MLO applicants completed more than 2.3 million hours of education in 2016 (over 1 million hours of both PE and CE). The number of PE hours completed in 2016 increased 31 percent from the year before. Of the more than 130,000 MLOs who were required to complete CE in 2016, a record 91 percent did so by December 31,

2016, an increase of 1 percent from the previous year. Sixty-five percent of MLOs completed their annual CE online, up 2 percent from 2015.

There were 111 NMLS-approved course providers at the end of 2016, one fewer than 2015. Course providers submitted 824 new courses for approval, and over 800 existing courses for renewal. A team of six mortgage subject matter experts reviewed the courses.

NMLS-Approved Education Fast Facts for the year ending December 31, 2016	
Active Course Providers	111
PE and CE Courses	1,624
MLOs Completing Courses	153,392
PE Hours Completed	1,074,222
CE Hours Completed	1,257,551
CE Completed Online	65%
MLOs Completing CE by 12/31	91%
Course Compliance Exams Completed	146

FIGURE 30. 2016 NMLS-APPROVED EDUCATION - SUMMARY

In response to the continued adoption of the National Test with Uniform State Content (UST), 30 agencies now require state-specific PE and 22 require state-specific CE. This number is expected to grow as the final remaining states move to adopt the UST.

## EDUCATION COMPLIANCE

**Online Course Student Authentication:** To enhance integrity in the delivery of online courses, in 2016, SRR completed two rounds of Request for Proposals (RFP) for the design, development and delivery of an online course Student Authentication System. The objective is to verify student identity and validate that persons who complete an online course are the same persons they claim to be. In November 2016, SRR selected a company that specializes in biometrics and course security, to implement a pilot program in early 2017. SRR's objective is to have a solution that can be implemented by NMLS approved course providers to deliver online courses by July 2017.

**Course Examination Program:** SRR continued to focus heavily on ensuring courses are delivered in accordance with the intent of the SAFE Act. Staff initiated and completed over 140 classroom and online course compliance exams in 2016. These exams included attending courses and meeting with course providers to review company policies, delivery methods, and to exchange information and ideas about how to improve

the overall mortgage education program. As in previous years, course delivery standards were monitored through a scorecard approach that measures instructor knowledge, course delivery, administration, and overall student satisfaction. Data is derived from surveys sent to students after each course and those results are shared with the course providers. In 2016, SRR collected and analyzed nearly 5,000 survey comments.

Throughout 2016, SRR continuously surveyed course providers to solicit feedback regarding the course evaluation and approval process. Course providers expressed a 97 percent satisfaction rate with the amount of time it takes for SRR to review and approve courses and the level of feedback detail provided.

### **COURSE PROVIDER WORKING GROUP (CPWG)**

Initially established in 2015, the CPWG continued to review and make policy recommendations to SRR throughout 2016. Of significant note, the CPWG examined industry claims that online courses were often taking longer to complete than the time for which they were approved. Using data from their own learning management systems, the CPWG validated that the existing course configuration

standards are meeting the course/subject time requirements of the SAFE Act. The CPWG also completed an annual review and made change recommendations to the Functional Specifications that govern the technical design and delivery of NMLS approved courses. The members of the CPWG in 2016 are listed in **Appendix F**.

### **MORTGAGE TESTING AND EDUCATION BOARD (MTEB)**

MTEB, created in 2009 by the SRR Board of Managers, comprises at least nine state regulators representing each of the five CSBS Districts and at least one AARMR representative. The MTEB primary mission is to provide guidance and recommendations to SRR staff, the NMLS Policy Committee and the SRR Board of Managers on a range of issues affecting the implementation and operations of SAFE Act testing and education program. Additionally, MTEB performs an appellate role as necessary for the investigations involving violations of the Rules of Conduct for Test Takers and Education Students and the Standards of Conduct for Course Providers. A roster of MTEB members can be found in **Appendix F**.

## **NMLS LEGAL AND ADMINISTRATIVE ISSUES**

### **SECURITY, PRIVACY, AND BREACH POLICIES**

NMLS complies with the Federal Information Security Management Act (FISMA) of 2002, National Institute of Standards and Technology (NIST) best practices, Office of Management and Budget (OMB) Circular A-130, and all applicable laws, directives, policies, and directed actions per our contract with CFPB. The Federal Registry meets the moderate baseline security controls contained within NIST Special Publication 800-53, is in compliance with Continuous Monitoring requirements per NIST 800-137, has a valid and current Authorization to Operate (ATO) approved by CFPB.

The NMLS Criminal Background Check [CBC] system was audited by the FBI for compliance with the Criminal Justice Information Services (CJIS) Security Policy version 5.3 in 2014 and deemed to be CJIS compliant. The FBI will

audit for compliance with CJIS Security Policy version 5.5 in early 2017.

Annual Compliance with the Payment Card Industry Data Security Standard (PCI DSS) was completed and attestation documents for SRR for period ended December 2015, was submitted by the NMLS Application Hosting and Operating organization.

The NMLS Privacy, Data Security and Security Breach Notification Policy is available on the NMLS Resource Center.

### **NMLS LEGAL AGREEMENTS**

To use NMLS or to access specific types of data or functionality within the System, a user must agree to one or more of the following online agreements:

- Industry Terms of Use
- State Agency Terms of Use



- Federal Agency Terms of Use
- Credit Terms of Use (Industry and Agency)
- Criminal History Record Information (CHRI) Terms of Use
- Payment Terms of Use
- Surety Bond Industry Terms of Use

The Industry, State Agency, and Federal Agency Terms of Use are general System user agreements that an industry or regulator user must agree to as part of the NMLS log in process. Copies of these System user agreements can be found on the NMLS Resource Center.

There are two Credit Terms of Use agreements: one for state-licensed MLOs and control persons; and one for state regulators. State-licensed MLOs and control persons must push their credit reports to the appropriate state agencies where they are seeking licensure or renewing a license and acknowledge in NMLS that the credit report will be made available to one or more state regulators. State regulatory users are required to accept restrictions on the dissemination of an individual's credit information before accessing their credit data in NMLS. State regulators use this information as one tool to determine an individual's financial responsibility as required by the SAFE Act or corresponding state laws or regulations. Additional information regarding the Credit Terms of Use agreements can be found on the NMLS Resource Center. The CHRI Terms of Use must be agreed to by an authorized user and restricts the dissemination of CHRI to only

authorized recipients and requires state agencies and financial institutions to provide reasonable opportunity for applicants or licensees to respond to inquiries based on information contained in the CHRI.

## MEMORANDUM OF UNDERSTANDING

SRR has signed an information sharing MOU with the Office of Financial Research (OFR) under the Financial Stability Oversight Council (FSOC). The MOU contains specific protections and limitations to share NMLS data. The OFR will use NMLS data for research and analysis in performing their duties for the FSOC. Only aggregate, masked or de-identified work product can be made public by OFR. As noted earlier in this report, information on all MOUs can be found on the Information Sharing through NMLS webpage.

## LITIGATION

SRR was not subject to any significant litigation in 2016.

## REQUESTS FOR PROPOSAL

### NMLS 2.0 and EMTS RFPs

NMLS 2.0 proposals were received in early 2016 and are being reviewed. The EMTS RFP that was released in July 2015, was combined with the NMLS 2.0 RFP in 2016. Work on the NMLS 2.0 RFP will continue into 2017 as vendor negotiations continue.

# SRR FINANCIAL PERSPECTIVE

## OVERVIEW

SRR is structured as a single member limited liability corporation (LLC) with CSBS being the sole member. For tax reporting purposes, SRR is considered a part of CSBS and is therefore a 501(c)(3) tax exempt entity. Annually, an audit of SRR is performed by an independent accounting firm. At the time of this printing, the annual audit for the year ending December 31, 2016 was underway, but the final report had not been presented. When available, a copy of the final audit report will be posted on the SRR website.

## OUTLOOK

Looking ahead, 2017 includes significant items, including the modernization of NMLS, new and enhanced system functionality, and the expanded use of NMLS by additional state agencies with oversight of financial services industries. 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 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 and licensed through NMLS.

# APPENDICES

<b>Appendix A</b>	Organizational Governance
<b>Appendix B</b>	SAFE Act
<b>Appendix C</b>	NMLS Unique Identifier
<b>Appendix D</b>	NMLS Fees
<b>Appendix E</b>	CSBS Organizational Chart
<b>Appendix F</b>	Committee and Working Group Rosters
<b>Appendix G</b>	List of Charts and Figures

## APPENDIX A: ORGANIZATION GOVERNANCE

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 services regulators. Agency personnel spend countless hours leading and participating on boards, committees, and ad hoc working groups, contributing their expertise to make NMLS an effective regulatory tool. SRR also greatly benefits from, and appreciates, industry input and participation on various user groups.

### STATE REGULATORY REGISTRY LLC

SRR is a non-profit entity that operates NMLS on behalf of state financial services regulatory agencies. SRR is governed by a nine-member Board of Managers comprised of state banking regulators and a representative of AARMR<sup>4</sup>. The SRR Board of Managers is responsible for all development, operations and policy matters concerning NMLS. SRR operates as a subsidiary of CSBS.<sup>5</sup> An organizational chart of CSBS and related entities can be found below.

At the end of 2016, SRR had 37 full-time equivalent professionals in Washington, D.C. These professionals work under the direction of the SRR Board of Managers to develop, enhance, and operate NMLS, oversee SAFE Act compliance, administer the professional standards programs, and facilitate working groups of state and federal regulators and industry related to state licensing, federal registration, supervision, and NMLS policy. Additionally, SRR contracts with the CFPB to register MLOs through the NMLS Federal Registry, as well as with other firms to deliver various portions of NMLS functionality and program oversight.

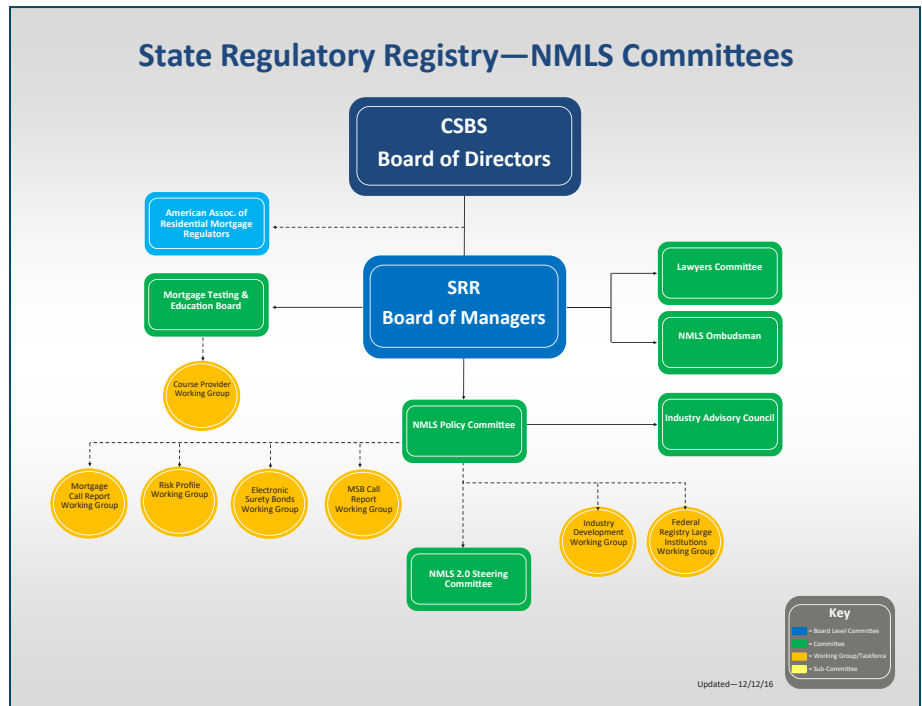


FIGURE 31. SRR-NMLS ORGANIZATIONAL CHART

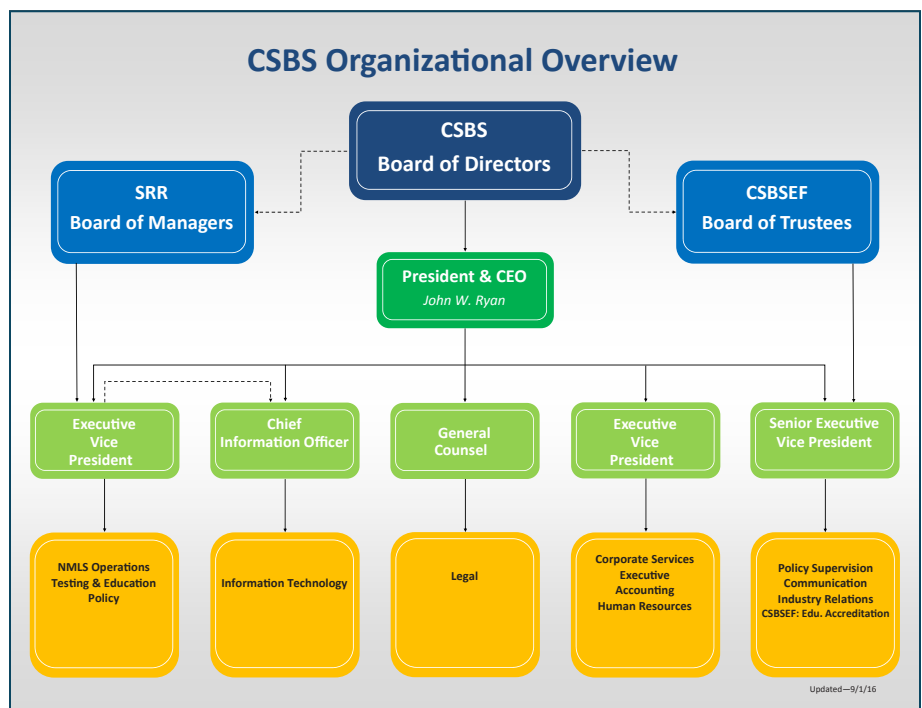


FIGURE 32. CSBS ORGANIZATIONAL CHART

## NMLS OMBUDSMAN

The position of NMLS Ombudsman was created in 2009 by the SRR Board of Managers to provide NMLS industry users and other interested parties with a neutral venue to discuss issues or concerns regarding NMLS operations and functionality and SRR policies governing the System. The objective of the NMLS Ombudsman is to foster constructive dialogue between industry users of NMLS and state regulators to work mutually toward the goal of modern and efficient financial services regulation.

The NMLS Ombudsman is a member of the NMLS Policy Committee and reports directly to the SRR Board of Managers. The NMLS Ombudsman in 2016 was Scott Corscadden, Supervisor, Bureau of Loans, Alabama State Banking Department.

## NMLS POLICY COMMITTEE (NMLSPC)

The NMLSPC is instrumental in the decision-making process related to NMLS operations, development and policy matters. All other committees and working groups generally report recommendations and findings to the NMLSPC which makes final decisions or recommends specific policy to the SRR Board of Managers, as appropriate. The Committee is comprised of 11 state regulators, including the NMLS Ombudsman, representatives from each of the five CSBS Districts, and representatives from AARMR, MTRA<sup>6</sup>, NACCA<sup>7</sup>, and NACARA<sup>8</sup>.

## MORTGAGE TESTING AND EDUCATION BOARD (MTEB)

MTEB has both oversight and advisory roles in connection with a wide array of issues affecting the continued development and operation of SAFE Act testing and education requirements. MTEB is comprised of nine state regulators representing the five CSBS Districts and at least one AARMR representative.

## INDUSTRY ADVISORY COUNCIL (IAC)

IAC provides industry input on System policies and operations. IAC members consist of individuals from state-licensed non-depository financial services companies, financial institutions, and financial services-related industry trade groups.

.....  
“*Having NMLS has created transparency among state regulators and industry. NMLS has resulted in streamlined regulatory oversight for the states and allowed industry to share its information with multiple states instantly, decreasing the burden of working with each state independently*”  
- Rick St. Onge, Program Managers/Examination Chief, Washington State Department of Financial Institutions  
.....

## SRR LAWYERS COMMITTEE

The SRR Lawyers Committee consists of attorneys from state regulatory agencies. The committee meets to identify and analyze legal issues related to NMLS operations with the intent of helping SRR spot potential legal issues from a state agency perspective and help shape solutions before they are incorporated into the System. The SRR Lawyers Committee also helps provide a multistate perspective on issues of interpretation and offers recommendations in order to facilitate a more uniform application of law on a nationwide basis. The SRR Lawyers Committee, however, does not provide SRR with legal advice.

<sup>4</sup>AARMR is the national organization representing state residential mortgage regulators. AARMR’s mission is to promote the exchange of information between and among the executives and employees of the various states who are charged with responsibility for the administration and regulation of residential mortgage lending, servicing and brokering.

<sup>5</sup>The Conference of State Bank Supervisors (CSBS) is the national organization of bank regulators from all 50 states, District of Columbia, American Samoa, Guam, Puerto Rico and U.S. Virgin Island. State regulators supervise roughly three-quarters of all U.S. banks and a variety of non-depository financial services. CSBS, on behalf of state regulators, also operates the Nationwide Multistate Licensing System to license and register non-depository financial service providers in the mortgage, money services businesses, consumer finance and debt industries.

<sup>6</sup>MTRA is a national non-profit organization dedicated to the efficient and effective regulation of the money transmission industry in the United States. The MTRA membership consists of state regulatory authorities in charge of regulating money transmitters and sellers of traveler’s checks, money orders, drafts and other money instruments.

<sup>7</sup>NACCA was formed in 1935 to improve the supervision of consumer financial companies and to facilitate the administration of laws governing these companies. NACCA presently has members from 49 states, the District of Columbia, Puerto Rico, and Alberta, Canada. Its members primarily license and regulate non-depository institutions such as finance companies, mortgage companies, small loan companies, pay day lenders, pawnbrokers, and other similar types of industries.

<sup>8</sup>NACARA is comprised of the various regulatory agencies in the United States and its territories and Canada that oversee the activities of third-party debt collectors.





## **NMLS PARTICIPATING STATES**

The NMLS Participating States meets to discuss NMLS policy, process, and development through the Open Forum Calls and Release Feature Meetings. The NMLS Participating States consists of representatives from each state agency participating in NMLS.

## **INDUSTRY DEVELOPMENT WORKING GROUP (IDWG)**

IDWG is comprised of NMLS industry users. The IDWG discusses NMLS operations, enhancements, and development issues.

## **LARGE INSTITUTIONS WORKING GROUP (LIWG)**

LIWG provides input on matters related to the NMLS Federal Registry's policy and functionality. The working group is comprised of large mortgage originating institutions across all charter types that are required under federal regulations to register their mortgage loan originators.

## **AD HOC WORKING GROUPS**

SRR convenes state regulator and industry working groups and committees as needed to determine System policy and development and to set the direction for operational needs. Working groups that were convened during 2016 include:

- Course Provider Working Group
- NMLS Consumer Access Working Group
- Document Upload Working Group
- Mortgage Call Report Working Group
- Risk Profiling Working Group
- Uniform Forms Working Group
- Electronic Surety Bond Working Group
- Checklist Improvement Working Group
- NMLS Consumer Access Working Group
- Manager Analytics Working Group
- Mortgage Licensing School Working Group
- Uniform Forms Working Group
- Money Services Businesses Call Report Working Group

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## APPENDIX B: SAFE ACT

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### OVERVIEW

On July 30, 2008, President George W. Bush signed into law The Housing and Economic Recovery Act of 2008. Title V of this Act, entitled The Secure and Fair Enforcement for Mortgage Licensing Act of 2008, or the SAFE Act, contained provisions to enhance consumer protection and reduce mortgage fraud by requiring states to establish minimum standards for the licensing or registration of all MLOs. The law provided that MLOs who work for an insured depository, for an owned or controlled subsidiary regulated by a federal banking agency, or for an institution regulated by the Farm Credit Administration, must be registered. All other MLOs must be licensed by the states. All MLOs must be licensed or registered in NMLS.

### CONSUMER FINANCIAL PROTECTION BUREAU (CFPB)

Under the provisions of the SAFE Act, HUD was given oversight authority for the states to determine that each jurisdiction's MLO licensing standards meet the federally mandated minimums and that each licensing agency participates in NMLS. Effective July 21, 2011, the Dodd-Frank Act transferred HUD's SAFE Act oversight authority as a regulator of the System, and as the arbiter of state law consistent with the mandates of the SAFE Act, to CFPB.

### STATE SAFE ACT REQUIREMENTS AND COMPLIANCE

The SAFE Act requires state-licensed MLOs to pass a written qualified test, complete pre-licensure education courses, and take annual continuing education courses. The SAFE Act also requires registered and licensed MLOs to submit fingerprints in NMLS for submission to the FBI for a criminal background check, and state-licensed MLOs to provide authorization for NMLS to obtain an independent credit report.

State legislation must also establish financial responsibility standards and require that all MLOs are covered by a surety bond, net worth requirements, or recovery fund. Additionally, all states must license MLOs through NMLS. CFPB must determine that each state's MLO licensing standards meet the federally mandated minimums and that the state is participating in NMLS.

Under additional rule making (amending Regulation Z) from the CFPB, effective January 2, 2014, new federally registered MLOs were also required to meet financial responsibility standards, complete annual training, and meet the same standards for criminal background checks as state-licensed MLOs.

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. CFPB's regulation would be in addition to any state licensing requirements.

The implementing federal rules under the SAFE Act, Regulations G and H, clarify and expand upon the SAFE Act provisions, and CFPB will base its determination of state compliance on the language contained rules. The rules stipulate that a supervisory authority that is accredited under the CSBS/AARMR Mortgage Accreditation Program will be presumed by CFPB to be compliant with required performance standards. The following state agencies are accredited under the program: California Department of Business Oversight, Hawaii, Idaho, Iowa, Kentucky, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma Department of Consumer Credit, Pennsylvania, Tennessee, Texas Department of Saving and Mortgage Lending, Texas Office of Consumer Credit Commissioner, Vermont, Virginia, Washington, and Wyoming.

### AMENDMENTS TO THE SAFE ACT

At the end of 2015, the U.S. Congress enacted two amendments to the SAFE Act. The State Licensing Efficiency Act of 2015 was signed into law December 4, 2015.<sup>9</sup> This law amended section 1511 of the SAFE Act, giving state regulators the explicit authority to use NMLS to process background checks for non-depository financial services industries beyond the mortgage industry. Prior to this amendment, NMLS was authorized to process fingerprint based background checks for only licensed and registered mortgage loan originators.

Congress also enhanced the existing privilege and confidentiality protections shared among regulators

through NMLS by expanding those protections to apply to regulatory officials with financial services industry oversight authority in addition to those that have mortgage oversight authority.<sup>10</sup>

## NMLS SAFE ACT REQUIREMENTS AND COMPLIANCE

In addition to requiring state laws and regulations to meet certain minimum requirements, the SAFE Act contained specific mandates for NMLS. Those mandates are generally reflected in other sections of this report. They include:

- Establishing protocols for the issuance of NMLS Unique Identifiers
- Receiving and processing of fingerprints for federal criminal history background checks for all MLOs

- Developing and administering a qualified written test
- Reviewing and approving pre-licensure and continuing education courses
- Providing public access to licensing information on all residential mortgage licensed loan originators
- Developing and implementing the NMLS Mortgage Call Report
- Making publicly adjudicated disciplinary and enforcement actions available to the public. State actions started being posted in 2012, and in 2013, self-reported disciplinary actions for federally registered MLOs were able to be displayed in NMLS Consumer Access. As of year-end 2016, 45 state agencies had posted more than 7,700 public regulatory actions and federally registered MLOs had reported over 1,409 actions.

<sup>9</sup>See Title VXXXVII of the Fixing America's Surface Transportation Act ("Fast Act") Pub. L. No. 114-94, sec. 88002 (Dec. 4, 2015).

<sup>10</sup>See Section 703 of the 2015 Omnibus Appropriations bill (Pub. L. No. 114-113).

## APPENDIX C: NMLS UNIQUE IDENTIFIER

As required by Section 1503 of the SAFE Act, an NMLS Unique Identifier (NMLS ID) is permanently assigned by NMLS to each state-licensed or federally registered MLO. NMLS also assigns an NMLS ID to each company, branch, and control person that maintains a single account in NMLS. Once assigned, an entity's NMLS ID cannot be changed. The NMLS ID granted to loan originators and companies allows regulators to monitor licensed entities and individuals across state lines to ensure a provider will not escape regulatory supervision in one state, simply by crossing into another state. The NMLS ID also allows consumers and the industry to easily identify and research specific originators' histories and qualifications through NMLS Consumer Access.

When a company or individual creates an account in NMLS, an NMLS ID is automatically assigned and reserved for use by the applying entity. However, the NMLS ID is not valid until either a state license or registration (or the denial of a state license/registration) or a federal registration has been issued. The NMLS ID can be verified for a state-licensed company, branch or MLO, or a registered institution or MLO through NMLS Consumer Access.

The benefit of the NMLS ID has been recognized by the Federal Housing Finance Agency (FHFA) and the U.S. Department of Housing and Urban Development (HUD). Both federal agencies require that any loan purchased or securitized by Fannie Mae and Freddie Mac or submitted for insurance by the Federal Housing Administration (FHA) must include the NMLS ID for the company and individual MLO that originated the mortgage loan.

Additionally, the FHA collects the NMLS ID of all individuals and entities participating in the origination of FHA loans. The NMLS ID is also widely used by the private sector, particularly investors and compliance management providers, to ensure that purchased loans are being made in compliance with federal and state laws and to track performance levels of originators.

For additional information of the NMLS Unique Identifier and its uses, see the NMLS Resource Center.



## APPENDIX D: NMLS FEES

### SYSTEM FEES

To fulfill SAFE Act obligations, NMLS charges various fees for services provided. NMLS fees are paid for, in the majority of cases, by the licensed entity or, in some instances, by the state.

A summary of NMLS fees for entities by type includes:

- NMLS processing fees for company, branch and MLO licenses and registrations managed in the System
- Test fees for the national and state test components
- Education fees related to the:
  - banking of course hours taken by licensed MLOs
  - approval and renewal of course providers and pre-licensure and continuing education courses
- Criminal background check fee for the collection of fingerprints and distribution of the FBI's criminal history record information to authorized recipients
- Credit report fee for the pulling of single-bureau report for use by state regulators.
- Two-factor subscription fee for the provision of dual factor authentication of all institution users who have access to more than one MLO's personal identifying information
- Uniform Authorized Agent Reporting (UAAR) functionality user fees
- Merger and Acquisition fees for Registration

Other NMLS services, such as the NMLS Call Center, NMLS Consumer Access, System access, updating a licensee's record, and System reports are provided at no charge to the user.

Additionally, SRR has developed a subscription service that provides a subset of the data available in NMLS Consumer Access in a B2B format. The subscription service is available to organizations seeking to use the data to meet the purposes of the SAFE Act, such as confirming license status, verifying information, and preventing fraud. The subscription service is not available for solicitation or marketing purposes.

The SRR Board of Managers annually reviews NMLS fees by type to determine the appropriateness of each fee. SRR solicits public comment on any fees that the SRR Board of Managers has under consideration for change.

### NMLS PROCESSING FEES

NMLS users pay various processing fees as listed below. These fees are unchanged since the System launched in January 2008 despite continual development to improve and expand system functionality.

- **Initial Set-up Fee.** This fee is incurred each time a company, institution, branch, or individual loan originator uses NMLS to apply for a new license or new registration in a participating state. The Initial Set-up Fee is a "per agency/per license." fee. For state licensed applicants, the initial set-up fee is "per state/per license." The initial set-up fee is not charged for license authorities that do not include the ability to originate, fund, or service mortgages.
- **Annual Processing Fee.** Charged annually at the time of renewal when a company, institution, branch, or individual loan originator, renews a license or registration. For state licensees, the annual processing fee is a "per state/per license" fee.
- **MLO Change of Sponsorship Fee.** Charged each time NMLS processes a company's request to have an MLO's license affiliated with that company. The Mortgage Loan Originator Change of Sponsorship Fee is a "per state/per license" fee.
- **MLO Change of Employment Fee.** Charged each time an institution requests to have a registered MLO associated with their institution.
- **Reactivation Fee.** Charged when a federal MLO's registration status is changed from inactive to active. This active registration status is maintained through the end of the calendar year the reactivation request occurs in.

### NMLS TESTING AND EDUCATION FEES

NMLS test fees are payable by an individual who is enrolling to take the SAFE MLO National Test with Uniform State Content and State Test Components or by the company that may be enrolling its MLOs for the test components.



- National Test with Uniform State Content: \$110 (contains 125 questions with an appointment time of 225 minutes)
- Each Unique State Component: \$69 (contains 55-65 questions with an appointment time of 120 minutes)

Fees are charged for the approval and renewal of education courses and course providers, and each NMLS-approved course provider is charged a “credit banking fee” of \$1.50 per course hour taken by an MLO. “Credit banking” is the process where the course provider records a candidate’s or licensee’s SAFE Act required education hours in NMLS. Fees paid by an MLO to take an NMLS approved course are set by the NMLS approved course provider.

## **NMLS CRIMINAL BACKGROUND CHECK FEES**

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 is attached to an individual’s NMLS record and is viewable by the state regulator who issues the company or MLO license or by the employing institution of federally registered MLOs. Fees associated with a criminal background check are as follows:

- Live Scan (electronic). \$36.25
- Paper Card Capture (if Live Scan is not selected). \$46.25

## **NMLS CREDIT REPORT FEES**

NMLS provides state-licensed MLOs, qualifying individuals, branch managers, or control persons the ability to provide a single credit report and score to the state(s) where the individual is filing an application. The functionality provided in the System enables an individual to use that same credit report for subsequent licensure requests for up to 30 days and does not negatively impact his or her credit score. The fee associated with a credit report and credit score is \$15.

## **NMLS TWO-FACTOR AUTHENTICATION FEES**

NMLS uses a two-factor authentication system (Verisign security token) for all NMLS Federal Registry institution users and state agency users who have access to criminal background check results, credit reports, federal registry

information, or account administrator rights. The \$55 annual subscription fee is charged to each institution user or state agency user to cover the cost of this service. It is a “per user/per year” fee.

## **UNIFORM AUTHORIZED AGENT REPORTING FEES**

The Uniform Authorized Agent Reporting (UAAR) functionality allows licensees to meet Authorized Agent reporting requirements for multiple states directly through NMLS using a single file, a uniform set of information and a uniform process. Fees associated with the UAAR Functionality are based on an annual per agent fee as follows:

- Per Active Agent: \$0.25
- Capped at \$25,000 per licensee.

No licensee will pay an annual UAAR processing fee on the first 100 active agents. If a licensee has 100 agents or less, they pay no fee.

## **MERGER AND ACQUISITION FEES FOR REGISTRATION**

There are two fees for processing federal registry mergers and acquisitions in NMLS:

- M&A Batch Upload base processing fee: \$750 Standard fee paid by acquiring institution at initiation of MLO transfer
- MLO transfer fee for each record successfully processed: \$10 per MLO fee for each MLO to be transferred from acquired institution, paid by acquiring institution

More information about NMLS fees can be found on the NMLS Resource Center.

## APPENDIX E: NMLS 2016 DEVELOPMENT SCHEDULE AND FEATURES

DATE:	PRIMARY FEATURES
<b>01/25/2016</b> <b>(2016.1 Release)</b>	<ul style="list-style-type: none"><li>• Surety Bonds – Phase I (Entitlement)</li><li>• Mortgage Call Report (MCR) Updates</li></ul>
<b>09/12/2016</b> <b>(2016.3 Release)</b>	<ul style="list-style-type: none"><li>• Biennial Licensing Form Changes</li><li>• Branch Document Upload Usability Enhancements</li><li>• Criminal Background Check (CBC) for Control Persons</li><li>• Individual Document Upload</li><li>• Surety Bonds – Phase II (Tracking)</li></ul>
<b>10/10/2016</b> <b>(2016.4 Release)</b>	<ul style="list-style-type: none"><li>• Authorized Agents (UAAR): Address Verification Updates</li><li>• Information Security: Browser Restrictions</li><li>• Surety Bond Enhancements</li></ul>
<b>10/05/2015</b> <b>(2015.4 Release)</b>	<ul style="list-style-type: none"><li>• Company Document Upload Usability Enhancements</li><li>• Industry Dashboard – ACNs and Renewals</li><li>• Renewal Enhancements</li></ul>

**Maintenance Releases were deployed: 5/6/2016, 6/20/2016, 8/22/2016, and 11/21/2016**

### PLANNED FUTURE ROADMAP ENHANCEMENTS

- Features:**
- Electronic Surety Bond Extensions
  - Money Services Businesses (MSB) Annual/Call Report
  - Next Generation Identification Program – RAP Back Service
  - PE Expiration

## APPENDIX F: COMMITTEE AND WORKING GROUP ROSTERS as of december 31, 2016

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North Dakota Department of  
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Ms. Felicia Faison-Holmes  
Director, Non-Depository Financial Institutions  
Georgia Department of Banking & Finance

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Washington Department of Financial Institutions

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and Finance

Mr. Ryan Walsh  
Pennsylvania Department of Banking  
and Securities

Mr. Shu-fen Weng  
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Mr. Tom Brennan  
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Mr. Craig Christensen  
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California Department of Real Estate

Ms. Sandra Knaup  
California Department of Real Estate

Ms. Phyllis Berry  
Vermont Department of Financial  
Regulation

Ms. Sue Clark  
Vermont Department of Financial  
Regulation

Mr. Steven O'Shields  
Texas Department of Savings &  
Mortgage Lending  
Group Sunsetting August 2016

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Financial Institutions & Professional  
Registration

Mr. William Mejia  
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Department

Ms. Lorenda Lillard  
Washington Department of Financial  
Institutions

Ms. Michelle Hickman  
Wyoming Division of Banking

Group Sunsetting August 2016

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# IMPORTANT PHONE NUMBERS, EMAILS, ADDRESSES & WEBSITE

## PHONE NUMBERS:

For questions related to NMLS, please contact the NMLS Call Center at 1855-NMLS-123.

## EMAILS:

NMLS Ombudsman  
([ombudsman@stateregulatoryregistry.org](mailto:ombudsman@stateregulatoryregistry.org))

## ADDRESSES:

CSBS  
1129 20th Street, N.W., 9th Floor  
Washington, D.C. 20036

## WEBSITES:

**NMLS Resource Center** –  
[www.nmls.org](http://www.nmls.org)

**NMLS Consumer Access** –  
[www.nmlsconsumeraccess.org](http://www.nmlsconsumeraccess.org)

**Federal Registry Resource Center** –  
[fedregistry.nationwidelicensingsystem.org/Pages/default.aspx](http://fedregistry.nationwidelicensingsystem.org/Pages/default.aspx)

**NMLS Call Center** –  
[mortgage.nationwidelicensingsystem.org/about/Pages/HoursofOperation.aspx](http://mortgage.nationwidelicensingsystem.org/about/Pages/HoursofOperation.aspx)

**NMLS B2B Access** –  
[mortgage.nationwidelicensingsystem.org/about/Pages/NMLSB2BAccess.aspx](http://mortgage.nationwidelicensingsystem.org/about/Pages/NMLSB2BAccess.aspx)

**NMLS Annual Conference and Training** –  
[www.NMLSconference.org](http://www.NMLSconference.org)

**NMLS Ombudsman** –  
[mortgage.nationwidelicensingsystem.org/contact/Pages/Ombudsman.aspx](http://mortgage.nationwidelicensingsystem.org/contact/Pages/Ombudsman.aspx)

**Criminal Justice Information Services (CJIS) Security Policy version 5.3** –  
[www.fbi.gov/about-us/cjis/cjis-security-policy-resource-center](http://www.fbi.gov/about-us/cjis/cjis-security-policy-resource-center)

**NMLS Privacy, Data Security and Security Breach Notification Policy** –  
[mortgage.nationwidelicensingsystem.org/about/policies/Pages/SystemPrivacyPolicy\\_old.aspx](http://mortgage.nationwidelicensingsystem.org/about/policies/Pages/SystemPrivacyPolicy_old.aspx)

**About SRR** –  
[www.csbs.org/srr/Pages/AboutSRR.aspx](http://www.csbs.org/srr/Pages/AboutSRR.aspx)

**CSBS** –  
[www.csbs.org](http://www.csbs.org)

# STATE REGULATORY REGISTRY LLC

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STATE REGULATORY REGISTRY LLC

**Audited Financial Statements**  
**STATE REGULATORY REGISTRY LLC**  
**December 31, 2016**

# State Regulatory Registry LLC

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## Independent Auditor's Report

To the Board of Managers  
State Regulatory Registry LLC

We have audited the accompanying financial statements of State Regulatory Registry LLC (SRR), a limited liability company whose sole member is the Conference of State Bank Supervisors, Inc., which comprise the statements of financial condition as of December 31, 2016 and 2015, and the related statements of operations and owner's equity and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SRR's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SRR's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of State Regulatory Registry LLC as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC  
April 28, 2017

# State Regulatory Registry LLC

## Statements of Financial Condition

<i>December 31,</i>	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 49,309,831	\$ 30,981,872
Accounts receivable	493,578	300,819
Investments	55,016,507	53,096,635
Prepaid expenses and other	335,727	424,906
Due from related party, net	111,019	122,557
NMLS development costs, net	13,674,655	16,275,573
Capitalized test development costs, net	59,092	122,221
<b>Total assets</b>	<b>\$ 119,000,409</b>	<b>\$ 101,324,583</b>
<b>Liabilities and Owner's Equity</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 4,500,459	\$ 5,186,784
Deferred revenue	1,005,744	1,039,351
Total liabilities	5,506,203	6,226,135
Owner's equity		
Retained earnings - undesignated	13,733,748	16,397,794
Retained earnings - designated for reserves and development	99,760,458	78,700,654
Total owner's equity	113,494,206	95,098,448
<b>Total liabilities and owner's equity</b>	<b>\$ 119,000,409</b>	<b>\$ 101,324,583</b>

# State Regulatory Registry LLC

## Statements of Operations and Owner's Equity Year ended December 31, 2016

*(With comparative totals for the year ended December 31, 2015)*

	2016		2016	2015
	Operations (Undesignated)	Designated for reserves and development		
Revenue				
NMLS processing fees	\$ 35,884,559	\$ 11,927,936	\$ 47,812,495	\$ 43,387,177
NMLS professional services	16,943,173	5,631,868	22,575,041	21,529,076
Registration fees	595,122		595,122	234,217
NMLS state development contributions	1,000		1,000	9,000
Net investment income (loss)	1,951,686		1,951,686	(164,180)
<b>Total revenue</b>	<b>55,375,540</b>	<b>17,559,804</b>	<b>72,935,344</b>	<b>64,995,290</b>
Expenses				
Program expenses				
NMLS system operations	13,768,751		13,768,751	14,334,807
NMLS professional services	11,609,168		11,609,168	11,284,931
NMLS - call center	3,719,231		3,719,231	3,623,637
Professional services - legal, audit & other	4,610,525		4,610,525	3,017,179
Staff, board & member travel/meetings	1,000,834		1,000,834	903,002
Grants to Education Foundation	639,102		639,102	639,961
Total program expenses	35,347,611	-	35,347,611	33,803,517
Staffing & administrative expenses				
Salaries and benefits	14,348,298		14,348,298	13,790,062
Technology & general office	3,308,780		3,308,780	3,134,533
Rent and occupancy	1,534,897		1,534,897	1,309,467
Total staffing & administrative expenses	19,191,975	-	19,191,975	18,234,062
<b>Total expenses</b>	<b>54,539,586</b>	<b>-</b>	<b>54,539,586</b>	<b>52,037,579</b>
<b>Change in net assets</b>	<b>835,954</b>	<b>17,559,804</b>	<b>18,395,758</b>	<b>12,957,711</b>
Owner's equity, beginning of year	16,397,794	78,700,654	95,098,448	82,140,737
Designation of net assets to reserve	(3,500,000)	3,500,000	-	-
<b>Owner's equity, end of year</b>	<b>\$ 13,733,748</b>	<b>\$ 99,760,458</b>	<b>\$ 113,494,206</b>	<b>\$ 95,098,448</b>

# State Regulatory Registry LLC

## Statements of Cash Flows

<b>Year Ended December 31,</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 18,395,758	\$ 12,957,711
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,914,851	5,252,472
(Gain) loss on investments, net	(862,644)	1,269,128
Changes in assets and liabilities:		
Accounts receivable	(192,759)	48,920
Prepaid expenses	89,179	(108,794)
Accounts payable and accrued expenses	(686,325)	439,576
Due from related party	11,538	55,838
Deferred revenue	(33,607)	359,963
Total adjustments	3,240,233	7,317,103
Net cash provided by operating activities	21,635,991	20,274,814
<b>Cash flows from investing activities</b>		
Purchases of NMLS systems and development	(2,250,804)	(2,395,731)
Purchases of investments	(1,057,228)	(1,079,218)
Net cash used in investing activities	(3,308,032)	(3,474,949)
<b>Net increase in cash and cash equivalents</b>	<b>18,327,959</b>	<b>16,799,865</b>
Cash and cash equivalents, beginning of year	30,981,872	14,182,007
<b>Cash and cash equivalents, end of year</b>	<b>\$ 49,309,831</b>	<b>\$ 30,981,872</b>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for interest	\$ -	\$ 70,768

See notes to the financial statements.

# State Regulatory Registry LLC

## Notes to the Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The State Regulatory Registry LLC (SRR) is a nonprofit entity that operates Nationwide Multistate Licensing System and Registry (NMLS) on behalf of state financial services regulatory agencies. SRR is governed by an eight-member Board of Managers comprised of state banking and financial regulators and a representative of the American Association of Residential Mortgage Regulators (AARMR). The SRR Board of Managers is responsible for all development, operations, and policy matters concerning NMLS.

SRR is a single-member limited liability company owned entirely by the Conference of State Bank Supervisors, Inc. (the Conference). The Conference was founded in 1902 as a nonprofit organization. The primary purpose of the Conference is to assure the ability of each state banking authority to provide safe, sound, and well-regulated financial institutions to meet the unique financial needs of local economies and their citizens. Its members are public entities who charter, regulate, and supervise state-chartered banks of the United States. State bankers are also members.

NMLS is a web-based system that allows state-licensed non-depository companies, branches, and individuals in the mortgage, consumer lending, money services businesses, and debt collection industries to apply for, amend, update, or renew a license online for all participating state agencies using a single set of uniform applications. Mortgage loan originators employed by insured depository institutions are also registered through NMLS. NMLS brings greater uniformity and transparency to these non-depository financial services industries while maintaining and strengthening the ability of state regulators to monitor these industries and protect their citizens. NMLS began operation on January 2, 2008. All individual mortgage loan originators are represented in the system.

Income taxes: As a single-member limited liability company, SRR is treated as a disregarded entity for income tax purposes. Thus, SRR's financial activity is reported in conjunction with the Federal income tax filings of the Conference.

Basis of accounting: SRR prepares its financial statements on the accrual basis of accounting. As such, revenue is recognized when earned and expenses when the underlying obligations are incurred.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, SRR considers all highly liquid investments with an original maturity of three months or less that are not held in investment accounts to be cash equivalents.

# State Regulatory Registry LLC

## Notes to the Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable: Accounts receivable consist primarily of NMLS processing fees for system transactions pending final processing by the bank, education course and credit banking fees, and registration fees for user training courses. Accounts receivable are presented at the net amount due to SRR (i.e., gross amount less allowance, if any). SRR's management periodically reviews the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer, SRR's relationship with the customer, and the age of the receivable balance. SRR has established an allowance for doubtful accounts to estimate the portion of receivables that will not be collected. The allowance was less than \$1,000 as of each December 31, 2016 and 2015. This allowance is regularly reviewed by management.

Deferred revenue: Deferred revenue consists of NMLS processing fees paid in advance to SRR by certain participating states.

Owner's equity: SRR has designated a portion of its owner's equity as a reserve for the continued future maintenance and upgrading of NMLS.

Subsequent events: Subsequent events have been evaluated through April 28, 2017 which is the date the financial statements were available to be issued.

### B. CREDIT AND MARKET RISK

Cash: SRR maintains demand deposits and overnight treasury fund sweep accounts with commercial banks. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. SRR has not experienced any such losses in the past, and does not believe it is exposed to any significant financial risk on these cash balances.

Investments: SRR invests primarily in mutual funds and exchange-traded funds (ETFs). Such investments are exposed to market and credit risks. Thus, SRR's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in these financial statements may not be reflective of the portfolio's value during subsequent periods.



# State Regulatory Registry LLC

## Notes to the Financial Statements

### C. INVESTMENTS AND FAIR VALUE MEASUREMENTS

SRR has implemented the accounting standard regarding fair value measurements. The standard defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

The following is a summary of the input levels used to determine fair values, measured on a recurring basis, of the investment assets at December 31, 2016 and 2015:

2016	Total	Level 1	Level 2	Level 3
Equity mutual funds & ETFs	\$ 9,880,203	\$ 9,880,203	\$ -	\$ -
Fixed income mutual funds & ETFs	45,125,784	45,125,784		
<b>Assets carried at fair value</b>	<b>55,005,987</b>	<b>\$ 55,005,987</b>	<b>\$ -</b>	<b>\$ -</b>
Money market funds & cash*	10,520			
<b>Total investments</b>	<b>\$ 55,016,507</b>			

2015	Total	Level 1	Level 2	Level 3
Equity mutual funds & ETFs	\$ 8,620,700	\$ 8,620,700	\$ -	\$ -
Fixed income mutual funds & ETFs	44,461,652	44,461,652		
<b>Assets carried at fair value</b>	<b>53,082,352</b>	<b>\$ 53,082,352</b>	<b>\$ -</b>	<b>\$ -</b>
Money market funds & cash*	14,283			
<b>Total investments</b>	<b>\$ 53,096,635</b>			

\*Money market funds and cash included in the investment portfolio are not subject to the provisions of fair value measurements as they are recorded at cost.

Investments consist of the following at December 31,:

	2016	2015
Fixed income mutual funds	\$ 25,790,265	\$ 25,401,052
Bond market ETFs	19,335,519	19,060,600
Equity mutual funds	8,428,777	7,236,381
Equity ETFs	1,451,426	1,384,319
Money market funds and cash	10,520	14,283
<b>Total investments</b>	<b>\$ 55,016,507</b>	<b>\$ 53,096,635</b>

# State Regulatory Registry LLC

## Notes to the Financial Statements

### C. INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED

Investment income consists of the following for the years ended December 31,:

	2016	2015
Dividends and interest	\$ 1,089,042	\$ 1,104,948
Net gain (loss) on investments	862,644	(1,269,128)
Net investment income (loss)	<u>\$ 1,951,686</u>	<u>\$ (164,180)</u>

### D. RELATED PARTY TRANSACTIONS

Due to/from related party – CSBS Education Foundation: At December 31, 2016, SRR owed CSBS Education Foundation (the Foundation) \$27,155 for expenses paid by the Foundation on SRR's behalf. At December 31, 2015, CSBS Education Foundation (the Foundation) owed SRR \$2,664 for expenses paid by SRR on behalf of the Foundation.

Due to/from related party – CSBS: Since 2007, the Boards of the Conference and SRR have orally agreed to allow certain expenses to be paid by the Conference as an administrative convenience to SRR. Interest on the average outstanding borrowed balance (in excess of related party receivables) is compounded monthly at a fixed rate of six percent for the years ended December 31, 2016 and 2015, as agreed to by the Boards of each organization. In addition, SRR may incur certain costs on behalf of the Conference. The Conference reimburses SRR for these costs. The total amount due from the Conference, net of amounts owed by SRR for accrued liabilities, was \$138,174 and \$119,893 at December 31, 2016 and 2015, respectively. SRR's interest expense amounted to \$- and \$70,768 for the years ended December 31, 2016 and 2015, respectively.

Grant to affiliate: For the years ended December 31, 2016 and 2015, SRR made unconditional grants to the Foundation of \$639,102 and \$639,961, respectively.

Expense allocations: The Conference pays the payroll costs of the employees allocated to SRR and certain other costs. Benefit costs, such as health insurance premiums and retirement plan costs, are allocated on the basis of each department's or entity's percentage of total salaries. As a result of SRR's share of this allocation, the Conference allocated \$1,958,034 and \$1,928,317 of its benefit costs to SRR for the years ended December 31, 2016 and 2015, respectively. Administrative and overhead costs, such as rent for SRR's portion of office space, are allocated on the basis of the percentage of office space each department's or entity's employees occupy at the Conference's DC offices.

The Conference performs services related to non-depository activities on behalf of SRR. Costs allocated to SRR for these services were \$550,000 and \$0 for the years ended December 31, 2016 and 2015, respectively.

# State Regulatory Registry LLC

## Notes to the Financial Statements

### D. RELATED PARTY TRANSACTIONS (CONTINUED)

Total costs allocated by the Conference to SRR were as follows for the years ended December 31,:

	2016	2015
Salaries and benefits	\$ 5,615,883	\$ 4,900,689
Rent and occupancy	1,534,897	1,309,466
Overhead and administrative services	<u>3,222,837</u>	<u>2,505,752</u>
Total allocated costs	<u>\$ 10,373,617</u>	<u>\$ 8,715,907</u>

### E. NMLS DEVELOPMENT COSTS

Acquisitions of property and equipment greater than \$5,000 are recorded at cost. The capitalized development costs of NMLS began amortizing when the system went live on January 2, 2008, and they were being amortized over the system's estimated useful life of seven years. The capitalized development costs of each subsequent update release version begins amortizing when the release becomes operational, and will be amortized over the estimated useful lives of each release, which are also determined to be seven years.

The capitalized purchase costs of the Cogent Background Check Automation System began amortizing when the system became operational in January 2010, and was amortized over a five year term. During the years ended December 31, 2016 and 2015, SRR recognized \$4,851,722 and \$5,162,273, respectively, of amortization expense related to capitalized software costs.

Net property and equipment consisted of the following at December 31,:

	2016	2015
NMLS development	\$ 46,730,263	\$ 44,479,459
Cogent Background Check Automation System	<u>505,838</u>	<u>505,838</u>
	47,236,101	44,985,297
Less accumulated amortization	<u>(33,561,446)</u>	<u>(28,709,724)</u>
Total property and equipment, net	<u>\$ 13,674,655</u>	<u>\$ 16,275,573</u>

# State Regulatory Registry LLC

## Notes to the Financial Statements

### F. CAPITALIZED TEST DEVELOPMENT COSTS

In order to address provisions of the Secure and Fair Enforcement of Mortgage Licensing Act of 2008, SRR developed a national test component as well as state-specific test components which all state-licensed mortgage loan originators registering on NMLS are required to take. SRR is amortizing these test development costs over an estimated useful life of five years. During the years ended December 31, 2016 and 2015, SRR recognized \$63,129 and \$90,199, respectively, of amortization expense.

Net capitalized test development costs consisted of the following at December 31,:

	2016	2015
National test component	\$ 633,595	\$ 633,595
State-specific test components	376,047	624,367
	<u>1,009,642</u>	<u>1,257,962</u>
Less accumulated amortization	<u>(950,550)</u>	<u>(1,135,741)</u>
Total capitalized test development costs, net	<u>\$ 59,092</u>	<u>\$ 122,221</u>

### G. COMMITMENTS AND CONTINGENCIES

Vendor relationship: The development of NMLS and its update releases is performed by FINRA. FINRA is also contracted to provide development support for NMLS' education and testing components. Given the size of the FINRA services contract, a disruption in the capabilities provided by FINRA could have a detrimental impact on SRR.

NMLS 2.0 development: In March 2017, the Boards of SRR and CSBS approved a contract for the development of NMLS 2.0, a redesign of the NMLS that will incorporate the latest technology and streamline the license approval process. The redesign of the NMLS will be performed by PwC and the services performed by FINRA will be gradually phased out. Budgeted expenditures range between \$42 million and \$50 million and the project is expected to be completed over several years.

### H. RESERVES

In May 2014, SRR established a formal reserve policy. The primary purposes of the reserves are to ensure that SRR is financially prepared to meet the needs for planned system enhancements as well as uninsurable risks. Reserves are defined as unrestricted net assets less investments in items such as NMLS development costs and capitalized test development costs. Thus, the reserve balance at December 31, 2016 and 2015 was \$99,760,458 and \$78,700,654 respectively.