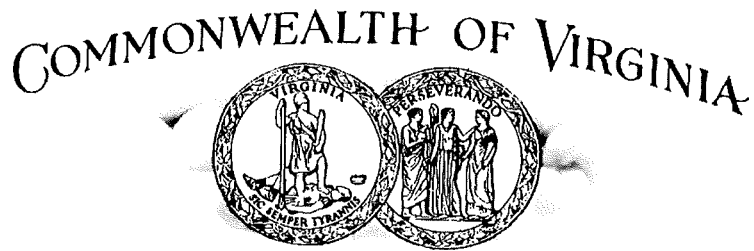


E. J. FACE, JR.
COMMISSIONER OF
FINANCIAL INSTITUTIONS



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**STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL INSTITUTIONS**

June 12, 2020

TO: The Honorable Richard L. Saslaw, Chair,
Senate Committee on Commerce and
Labor
The Honorable Jeion A. Ward, Chair,
House Committee on Labor and
Commerce

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

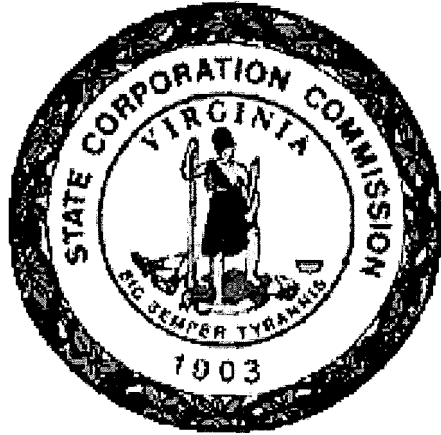
Sincerely,

A handwritten signature in black ink, appearing to be 'E. J. Face, Jr.', is written over a faint circular stamp.

E. J. Face, Jr.

cc: Members Senate Commerce and Labor Committee
Members House Labor and Commerce Committee

Confidential



Report on the Operations
of
State Regulatory Registry LLC

Prepared by the Bureau of Financial Institutions
State Corporation Commission

June 12, 2020

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2019 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 (“Code”), 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 SRR on a regular basis.

On behalf of the Commission, its Bureau of Financial Institutions (“Bureau”) is pleased to submit this report on the 2019 operations of SRR and the Nationwide Mortgage Licensing System and Registry (“NMLS”).

SRR is a non-profit subsidiary of the Conference of State Bank Supervisors (“CSBS”), a national organization which advances the quality and effectiveness of regulation and supervision of state banking and financial services, that operates the NMLS on behalf of state financial services regulatory agencies and carries out mortgage loan originator (“MLO”) testing and education requirements under the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (“SAFE Act”). Through NMLS, SRR supports the strategic goals of CSBS’ members by assisting state agencies in consumer protections and supervision of non-depository financial service industries by providing technological resources and information on a nationwide basis. NMLS is the system of record for non-depository financial services licensing or registration, including the licensure of mortgage companies, in participating state agencies, the District of Columbia, and the U.S. territories of Puerto Rico, Virgin Islands, and Guam. As of December

31, 2019, SRR reported audited total assets of \$169.8 million and net income of \$14.7 million. The certified public accounting firm of RSM US LLP issued a “Clean” or Unqualified Opinion of SRR, and the financial statements and budgets appear to be accurate and reasonable. The Bureau does not take issue with the disclosures therein.

In 2019, SRR achieved significant milestones in managing its MLO testing and education programs. Those highlights include, among other things, an expanded and improved the Education Management System to better support the needs of NMLS Approved Course Providers and the Testing and Education staff. During 2019, over 38,000 MLO test components were administered by SRR. At the end of 2019, NMLS was the system of record for 64 state and territorial agencies, managing a total of 484 different license authorities covering a broad range of non-depository financial services. In 2019, 4,275 individuals applied to be licensed in the Commonwealth after taking and passing the National Test and 3,572 of those individuals were approved for licensure. In addition, SRR did not experience any material issues related to NMLS security, privacy, or information breach in 2019, nor was it subject to any significant litigation in 2019.

INTRODUCTION

In accordance with the Code, 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 MLOs. SRR was formed in 2006 and is a non-profit corporation based in Washington, D.C. SRR is a wholly owned subsidiary of CSBS, 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 industry 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 residential 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 also serves as the vehicle for scheduling education and testing and maintaining all state-licensed MLO test and course completion records.

NMLS launched with seven states on January 2, 2008, and the Bureau began utilizing NMLS on August 3, 2009. Title V of the *Housing and Economic Recovery Act of 2008*, the SAFE Act, mandates that all MLOs either be federally registered or state-licensed through NMLS. As of December 31, 2019, Virginia had 15,302 MLOs in the approved status and 3,076 MLOs in the approved-inactive status through NMLS, as well as 447 mortgage lender licenses, 685 mortgage broker licenses and 2,281 branch licenses 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 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 acquired responsibility for the NMLS development contract between SRR and the federal agencies for use of the NMLS to register depository MLOs.

NOTABLE ACTIVITY IN 2019

At the end of 2019, 64 state and territorial agencies were using NMLS. Fifty-nine of those agencies use NMLS for mortgage licensing, while 51 agencies use NMLS to manage licensing for other non-depository entities (e.g., money service businesses and consumer finance).

Among the highlights in 2019, NMLS: established an NMLS Program Management Office and introduced an executive strategy to guide the multi-phase effort to build a modernized NMLS; issued a Request for Proposals to prospective vendors for the further development of the

new NMLS; and implemented new functionality in NMLS; to support Temporary Authority to Operate (TA), which became effective November 24th. The new functionality helps regulators determine if an individual loan operator qualifies for TA status and to manage this streamlined approach to MLO licensing. TA permits eligible federally registered MLOs seeking state licensure, and eligible state-licensed MLOs seeking licensure in another state to continue originating loans for up to 120 days, while completing state specific requirements for licensure. Forty-eight percent of MLO applications have been identified in NMLS as eligible for TA since implementation.

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 updated continually with system news and event items, as well as state agency news that affects industry licensees.

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 to provide real-time help in navigating NMLS. The call center received a total of 453,572 calls in 2019 and responded to an average of 1,800 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, their branches, and individuals that are state licensed or federally registered in NMLS. The website provides identifying information for each individual or entity, detailed information on all licenses or registrations held, as well as any applicable regulatory actions taken.

Other NMLS notable events in 2019 were:

- Launched the State Examination System (SES) into pilot with nine state agencies conducting seven examinations focused on mortgage and money transmitter companies. SES is the only nationwide system that connects agencies and companies in the examination process.
- Over 38,000 MLO test components were administered. In addition, there were 99 approved course providers who delivered over 2.4 million hours of education through more than 1,555 NMLS-approved courses.
- More than 700 state agency and industry professionals attended the 2019 Annual Conference, February 18-21, in Orlando, Florida. Conference highlights included demonstrations of new prototypes, including the License Wizard created to help inform future development for NMLS. SES and TA demonstrations were also a main attraction.
- Launched the NMLS/SES Customer Portal public-facing functionality for SES in conjunction with the start of the SES pilot. The portal provides support guides and documentation for SES agency and industry users. Portal support also includes creating and managing requests for agency users.
- The Learning and Development team created 21 videos and posted 14 knowledge articles to the new NMLS/SES Customer Portal for SES pilot participants. The team also developed comprehensive resources to prepare regulators and industry for the implementation of TA

An additional NMLS highlight in 2019 was the establishment of the Consumer Finance Call Report Working Group to create a standardized report of consumer lending activity that state-licensed consumer finance companies will submit in NMLS.

AUDITED FINANCIAL STATEMENTS AND BUDGET

As of December 31, 2019, SRR reported audited total assets of \$169.8 million (compared to \$150.6 million at the end of 2018), owner's equity of \$158.2 million (compared to \$143.5 million at the end of 2018), and net income of \$14.7 million (compared to \$12.7 million for 2018). The CPA firm of RSM US LLP of Washington, D.C., prepared the Audited Consolidated Financial Statements for the Conference of State Bank Supervisors, Inc. and Affiliates, including SRR. RSM US 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 represented that the development of NMLS and its system updates are performed by the Financial Industry Regulatory Authority ("FINRA"). FINRA is a non-profit organization authorized by the Congress of the United States dedicated to investor protection and securities market integrity. FINRA is also contracted to provide development support for NMLS's education and testing components. Given the scope of the FINRA services contract, a disruption in the capabilities provided by FINRA could have a detrimental impact on SRR.

NATIONWIDE MORTGAGE LICENSING SYSTEM AND REGISTRY FEES

To fulfill SAFE Act obligations, NMLS charges various fees for the services provided. NMLS fees are typically paid 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 the SRR Board of Managers has under consideration for change.

The NMLS test fee is charged to an individual who enrolls to take the SAFE MLO National Test or by the company that may be enrolling its MLOs for the test. The fee for the National Test with Uniform State Content is \$110 and the test contains 125 questions with a duration time of 225 minutes.

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 obtaining a federal criminal background check through the Federal Bureau of Investigation ("FBI"). The criminal history 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 2019, over 127,000 authorizations for credit reports and over 250,000 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 check results, credit reports, federal registry information, or account administrator rights. The fee associated with the two-factor authentication is a \$55 "per user/per year subscription" fee.

SECURING AND SAFEGUARDING INFORMATION

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 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.

EDUCATION AND TESTING

The SAFE Act established many education and testing 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. Over 38,000 test components were administered in 2019 (a decline of 7% from the previous year) at more than 270 test centers throughout the United States. The following chart provides National Test with Uniform State Content data from January 1, 2018 through December 31, 2019.

| National Test with Uniform State Content Pass Rates by Attempt January 1, 2018 through December 31, 2019 | | | |
|---|-------------|--------------|-------------|
| | Tests Taken | Tests Passed | Pass Rate % |
| First Time | 54,848 | 31,989 | 58 |
| Subsequent Attempts | 24,410 | 10,359 | 42 |
| Overall | 79,258 | 42,348 | 53 |

In 2019, over 178,700 state-licensed MLOs and MLO applicants completed more than 2.4 million hours of education. Seventy-two percent of MLOs completed their annual continuing education online, an increase of 5% from 2018. At the end of 2019, there were 99 NMLS-approved course providers.

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 countless hours leading and participating on boards, committees, and *ad hoc* working groups, contributing their expertise to making NMLS an effective regulatory tool. SRR also benefits from the valuable insight industry working group participants provide.

At the end of 2019, SRR had 46 full-time equivalent staff, located primarily in Washington, D.C. These professionals work to develop, enhance and operate NMLS, oversee SAFE Act compliance and administer the education and testing programs. SRR staff also manage relationships with state and federal regulators, and industry working groups related to state licensing, federal registration, supervision and NMLS policy.

Looking ahead, 2020 will continue to include significant financial investments in technology with the development of a modernized NMLS with new and enhanced system functionality. 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 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.

SUMMARY

NMLS launched on January 2, 2008, and the Bureau began utilizing NMLS on August 3, 2009. As of December 31, 2019, SRR reported audited total assets of \$169.8 million and net income of \$14.7 million. The CPA firm of RSM US issued a "Clean" or Unqualified Opinion of

SRR, and financial statements and budgets appear to be accurate and reasonable. The Bureau does not take issue with the disclosures therein. SRR did not experience any material issues related to NMLS security, privacy, or information breach in 2019. Over 38,000 MLO test components were administered in 2019. Virginia had 4,275 individuals apply to be licensed in the Commonwealth after taking and passing the National Test, and 3,572 of those individuals were approved.

ATTACHMENT

State Regulatory Registry LLC **2019** Annual Report



STATE REGULATORY REGISTRY LLC



BUILDING A FOUNDATION FOR THE FUTURE

2019 Annual Report



BUILDING A FOUNDATION FOR THE FUTURE

2019 Annual Report

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Figure 1. SRR Board of Managers (Mr. Mark Quandahl not pictured)

LETTER FROM THE SRR BOARD OF MANAGERS

The Board of Managers is pleased to present the 12th annual report of the State Regulatory Registry LLC and the Nationwide Multistate Licensing System's operations and performance in 2019.

We started 2019 focused on our ongoing commitment to CSBS' Vision 2020. The accomplishments we made demonstrate not only how we are aligning with state agencies to address today's needs for a more cohesive state system of nonbank supervision, but exemplify how we are "Building a Foundation for the Future," the theme of this year's annual report.

Specifically, we delivered on the Vision 2020 idea of harmonizing supervision among state agencies by completing development of the State Examination System (SES) and launching it into pilot October 1. SES is the first nationwide system that allows state agencies to manage the examination process on a single, collaborative platform. The nine state agencies that participated in the pilot conducted seven examinations of mortgage and money transmitter companies. As of the end of December, nearly 40 state agencies have committed to adopting SES when the system launches nationwide in 2020.

As part of Vision 2020, we also fulfilled a Fintech Industry Advisory Panel recommendation to explore

standardizing approaches for identifying control persons. In support of this recommendation, we established a Key Individual Wizard Initiative Working Group comprised of state agency regulators and industry representatives. The working group led the development of the Key Individual Wizard prototype. Through surveys, we know this is a tool many state agencies have indicated they would like to see implemented.

Separately, state agencies also contributed to the development of the License Wizard prototype, created to explore how we can improve the process for state agencies to select and identify business activities and license types in the Nationwide Multistate Licensing System (NMLS). Both the Key Individual Wizard and License Wizard are two models for standardized practices in nonbank supervision that will help inform future NMLS development.

We also led the implementation of Temporary Authority to Operate (TA) in NMLS, a new, streamlined approach to mortgage loan originator (MLO) licensing. With a few limitations, TA permits eligible federally registered MLOs seeking state

licensure, and eligible state-licensed MLOs seeking licensure in another state to continue originating loans for up to 120 days, while completing any state-specific requirements for licensure. Forty-eight percent of MLO applications have been identified in NMLS as eligible for TA since implementation on November 24.

As we prepare for 2020, we will continue to align our efforts with priorities that have been identified in the CSBS Strategic Plan. Those priorities call on us to empower a strong, efficient and assertive state system of financial regulation that results in fewer calls for federal preemption. We also are charged with executing a regulatory standard with real-time compliance validation and networked supervision with flexible and timely access to data. These priorities will help set the parameters and drive our efforts as we move toward a new NMLS.

Our vision for modernizing NMLS is to develop a next generation nationwide multistate licensing and supervisory system to anticipate and accommodate the evolving needs of the state system of financial regulation. The concept of "networked supervision" is integral to how we see the future of nonbank supervision. What networked supervision means is state agencies relying on each other's work. In addition, networked supervision factors into how we will leverage data and establish shared standards. We have started to see how the concept of network supervision works with the Multistate MSB Licensing Agreement Program, in which 27 state agencies currently participate.

As we end the year, we are pleased to share the fact that 64 state agencies are using NMLS. Fifty-nine of those agencies use NMLS for mortgage licensing, while 51 agencies use NMLS to manage licensing for other nonbank entities (e.g., money services businesses, consumer finance and debt).

We look forward to joining you at the 2020 NMLS Annual Conference & Training in San Francisco, California, February 18-21, 2020.

Sincerely,

The Board of Managers
State Regulatory Registry LLC

SRR BOARD OF MANAGERS

Chairman

Mr. John Ducrest

Commissioner
Louisiana Office of
Financial Regulation

Mr. Edward Leary

Commissioner
Utah Department of
Financial Institutions

Vice Chairman

Mr. Charles Cooper

Commissioner
Texas Department
of Banking

Mr. Tony Florence

Director of Mortgage
Examination
Texas Department of
Savings and Mortgage
Lending
(AARMR Representative)

Treasurer

Mr. Thomas C. Fite

Director
Indiana Department of
Financial Institutions

Mr. Mark Quandahl

Director
Nebraska Department of
Banking and Finance

Members

Mr. Bret Afdahl*

CSBS Chairman and
Director of Banking
South Dakota Division of
Banking

**Mr. John Ryan,
Secretary***

President and CEO
CSBS

**Mr. William
Matthews***

President and CEO
SRR

Ms. Cynthia Begin

First Deputy
Commissioner
Massachusetts Division
of Banks

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

¹SRR is a wholly owned subsidiary of the Conference of State Bank Supervisors (CSBS). Through NMLS, SRR supports the strategic goals of CSBS' 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.

2019 HIGHLIGHTS

State Examination System

Launched the State Examination System (SES) into pilot with nine state agencies conducting seven exams focused on mortgage and money transmitter companies. The pilot phase helped determine readiness for nationwide launch, which will occur in 2020. SES is the only nationwide system that connects agencies and companies in the examination process.

S. 2155 Temporary Authority to Operate

Implemented new functionality in NMLS and established policies to support Temporary Authority (TA), which became effective November 24. New functionality helps regulators determine if an individual mortgage loan originator qualifies for TA and manage this streamlined process.

NMLS/SES Customer Portal

Launched the NMLS/SES Customer Portal public-facing functionality for SES in conjunction with the start of the SES pilot. The portal provides support guides and documentation for SES agency and industry users. Portal support also includes creating and managing requests for agency users.

NMLS Modernization

Established an NMLS Program Management Office and introduced an execution strategy to guide the multi-phase effort to build a modernized NMLS. Also issued a Request for Proposals to prospective vendors to develop the new NMLS; and created the Key Individual Wizard and License Wizard prototypes, which will support the NMLS modernization effort.

Consumer Finance Call Report Working Group

Established a Consumer Finance Call Report Working Group to create a standardized report of consumer lending activity that state-licensed consumer finance companies will submit in NMLS. Creating the report was based on a recommendation from the Fintech Industry Advisory Panel subcommittee on lending.

NMLS Annual Conference & Training

More than 700 state agency and industry professionals attended the 2019 NMLS Annual Conference, February 18-21, in Orlando, Florida. Conference highlights included demos of new prototypes, including the License Wizard, created to help inform future development for NMLS. SES and TA demos were also a main attraction.

Regulator and Industry Training

The Learning and Development team created 21 videos and posted 14 knowledge articles to the new NMLS/SES Customer Portal for SES pilot participants. The team also developed comprehensive resources to prepare regulators and industry for the implementation of TA. Further, training efforts supported state agencies' transition of 59 licenses onto NMLS.

Testing and Education

Over 38,000 MLO test components were administered in 2019. SRR staff also supervised 99 course providers who delivered over 2.4 million hours of education through 1,555 NMLS-approved courses. In addition, SRR staff hosted a National Test Maintenance Committee Fly-in event for 30 subject matter experts representing state agencies and industry.

OVERVIEW OF NMLS

NMLS BY THE NUMBERS

At the end of 2019 ...

64

State agencies used NMLS¹. The system serves as the licensing system of record for 63 state agencies.

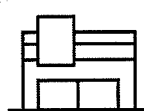
484

Total different license authorities² managed covering a broad range of nonbank financial services.

23

More than the 461 different license authorities managed at the end of 2018³.

NMLS manages:



427

Company



268

Branch



76

Individual

Different license or registration types

NMLS can 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).

FIGURE 2. Count of State Entities and Licenses in NMLS

| STATE-LICENSED | 2017 | | 2018 | | 2019 | |
|------------------|----------|----------|----------|----------|----------|----------|
| | ENTITIES | LICENSES | ENTITIES | LICENSES | ENTITIES | LICENSES |
| Companies | 22,811 | 59,265 | 24,341 | 65,003 | 25,425 | 69,605 |
| Branches | 31,324 | 74,104 | 34,072 | 80,593 | 35,672 | 86,225 |
| MLOs | 158,199 | 562,760 | 165,240 | 594,041 | 165,116 | 569,190 |

FIGURE 3. Count of Federal Entities in NMLS

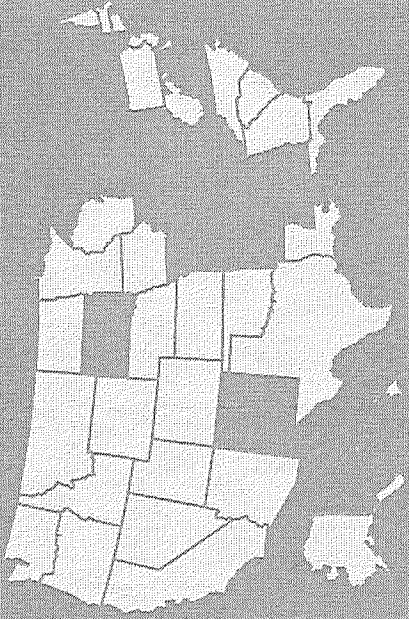
| FEDERALLY REGISTERED | 2017 | 2018 | 2019 |
|----------------------|---------|---------|---------|
| Institutions | 9,491 | 9,196 | 8,878 |
| MLOs | 421,743 | 415,517 | 415,978 |

¹ Colorado Division of Banking (CO-DOB) money transmitter licensees who hold an active license on NMLS with another state agency are required to report their authorized agents/delegate through the Uniform Authorized Agent Reporting (UAAR). CO-DOB accesses this information through NMLS.

² "Authorities" refers to the license programs managed on NMLS. Branch license types are not included in this count.

³ Agencies may restructure or retire their license types as necessary. This is typically the cause of the number of licenses decreasing.

In 2019, Alabama Securities Commission became the 64th state agency to begin using NMLS.



19 STATE AGENCIES ADDED AN ADDITIONAL 31 LICENSES IN 2019:

- Alabama Securities Commission
- Arkansas Securities Department
- Illinois Department of Financial Professional Regulation - Division of Banking
- Indiana Secretary of State
- Kentucky Department of Financial Institutions
- Maryland Office of Financial Regulation
- Maine Office of Consumer Credit (Bureau of Consumer Protection)
- Michigan Department of Insurance and Financial Services
- Missouri Division of Finance
- Mississippi Department of Banking and Consumer Finance
- New Mexico Financial Institutions Division
- New York State Banking Department (State Department of Financial Services)
- Ohio Division of Financial Institutions
- Puerto Rico Office of Commissioner of Financial Institutions
- Rhode Island Department of Business Regulation
- South Dakota Division of Banking
- Tennessee Department of Financial Institutions
- Vermont Department of Financial Regulation
- Virginia Bureau of Financial Institutions

In addition to being a state licensing system for nonbank 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 (MLOs) who are required by federal law to register in NMLS prior to originating mortgages. Over the course of 2019, the number of these institutions and MLOs 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 nonbank, and individuals authorized in the United States to originate mortgages⁴. Since state agencies began expanding their use of NMLS to include additional financial services industries, the system has been moving toward the ability to provide a national perspective on these other industries. The following sections highlight the industry-specific financial information available in NMLS.

State Mortgage Licensing

In 2019, all states, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands continued using 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 agencies and industry to have the information needed to identify business and licensing activities, and trends. SRR publishes quarterly reports that compile data on state-licensed companies, branches and MLOs. These reports are available on the [Reports](#) page of the NMLS Resource Center.

⁴ Texas Office of Consumer Credit Commissioner is the only state agency that does not currently manage mortgage company licenses in NMLS.

Figure 4 compares the growth in entities to the number of licenses issued throughout the year, while Figure 5 shows the average number of licenses held per MLO.

In 2019, while all segments for companies grew during the year, individuals licensed in 11-20 states and more than 21 states decreased. (Figures 6 and 7).

Figure 8 depicts the percentage of net growth in MLO licenses around the United States. Arkansas, Georgia, New Jersey, Alaska and North Carolina experienced the greatest increase in MLO growth, respectively.

FIGURE 4. Annual Growth - Mortgage Companies vs Licenses

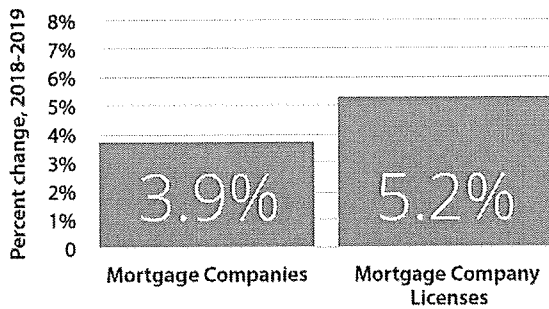


FIGURE 5. Annual Growth - Average Number of Licenses Per MLO

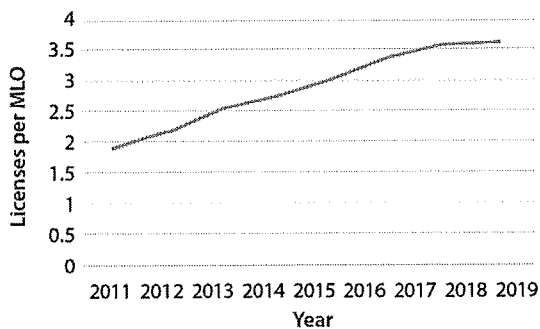


FIGURE 6. Annual Growth - Company Licenses Held

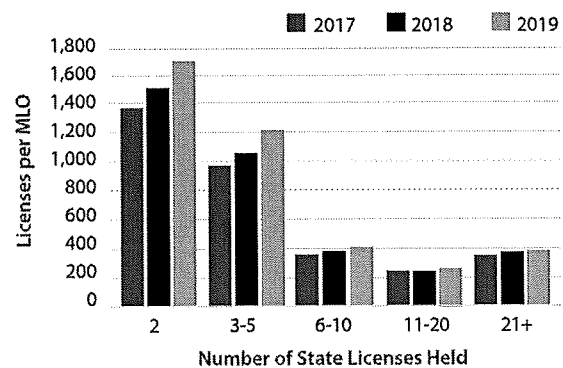
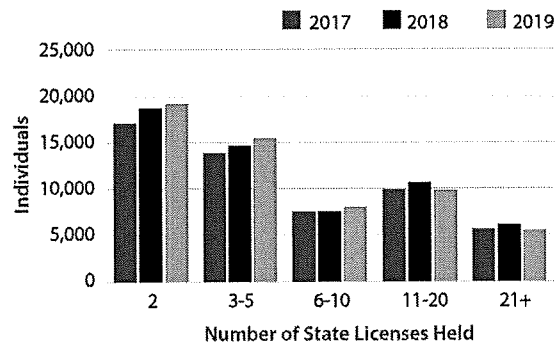


FIGURE 7. Annual Growth - State Individuals by Licenses Held



Federal Mortgage Registration

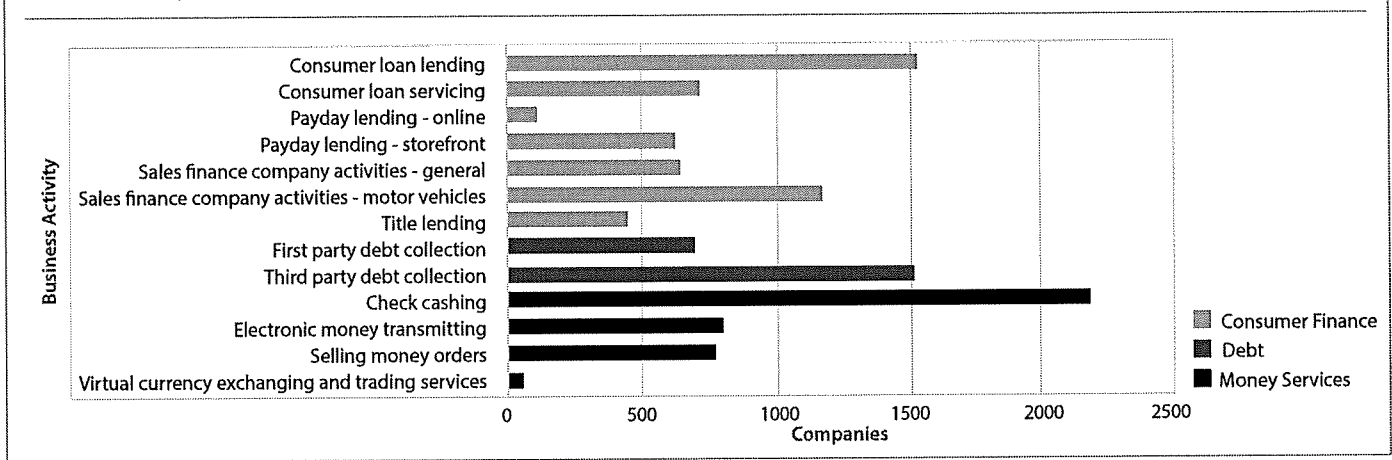
Over the course of 2019, the number of actively registered MLOs remained relatively flat with 415,978 individuals employed by 8,878 institutions (Figures 9 and 10). While the total number of federally registered MLOs remained unchanged, the number of institutions declined for the fifth year straight, specifically by 3 percent in 2019.

SRR also publishes quarterly reports that detail the number of federal registrants, MLO locations and a breakdown of NMLS-registered institutions by specific federal regulator. These reports can be found on the [Reports page](#) of the NMLS Resource Center.

FIGURE 12. MSB License Numbers and Types by State

| STATE AGENCY | LICENSE DESCRIPTION | APPROVED LICENSES | STATE AGENCY | LICENSE DESCRIPTION | APPROVED LICENSES |
|--------------|--|-------------------|--------------|--|-------------------|
| AK | Currency Exchange License | 0 | NC | Money Transmitter License | 120 |
| AK | Money Transmitter License | 115 | ND | Money Transmitter License | 126 |
| AL-SC | Money Transmitter License | 157 | NE | Money Transmitter License | 125 |
| AR | Currency Exchanger | 1 | NH | Money Transmitter License | 109 |
| AR | Money Transmitter License | 118 | NM | Currency Exchange License | 1 |
| AZ | Money Transmitter License | 132 | NM | Check Cashier License | 19 |
| CA-DBO | Money Transmitter License | 107 | NM | Money Transmission License | 126 |
| CT | Check Cashing License | 52 | NY | Check Cashier Company License | 1 |
| CT | Money Transmission License | 132 | NY | Commercial Check Cashier Company License | 1 |
| DC | Check Cashier License | 38 | NY | Virtual Currency Business Activity Company License | 4 |
| DC | Money Transmitter License | 124 | NY | Money Transmitter License | 104 |
| GA | Seller of Payment Instruments License | 92 | OH | Money Transmitter License | 134 |
| GA | Money Transmitter License | 111 | OK-DOB | Money Transmission License | 116 |
| GA | Check Cashier License | 828 | OR | Money Transmitter License | 160 |
| HI | Money Transmitter License | 78 | PA | Retail Grocery Store Check Cashier License | 86 |
| IA | Money Services License | 152 | PA | Money Transmitter | 110 |
| ID | Money Transmitters | 130 | PA | Check Cashier License | 199 |
| IL | Money Transmitter License | 187 | PR | Money Transmitter License | 63 |
| IN-DFI | Money Transmitter License | 76 | RI | Currency Transmitter | 0 |
| KS | Money Transmitter License | 138 | RI | Check Cashier License | 19 |
| KY | Check Cashing | 1 | RI | Sales of Checks | 42 |
| KY | Money Transmitter License | 125 | RI | Electronic Money Transfers | 123 |
| LA | Sale of Checks and Money Transmitters | 116 | SC-AG | Currency Exchange License | 1 |
| LA | Check Cashier License | 403 | SC-AG | Money Transmitter License | 116 |
| MA | Check Seller | 23 | SD | Money Transmitter License | 125 |
| MA | Check Cashier | 61 | TN | Money Transmitter License | 149 |
| MA | Foreign Transmittal Agency | 73 | TX-DOB | Money Transmitter License | 137 |
| MD | Check Cashing Services Registration | 6 | UT-DFI | Money Transmitter License | 118 |
| MD | Check Cashing Services License | 140 | VA | Money Order Seller and Money Transmitter License | 107 |
| MD | Money Transmitter License | 147 | VT | Check Cashing and Currency Exchange | 4 |
| ME | Money Transmitter License | 106 | VT | Debt Adjuster | 24 |
| MI | Money Transmitter License | 135 | VT | Money Transmitter | 108 |
| MN | Currency Exchange Registration | 3 | WA | Currency Exchange (only) | 8 |
| MN | Currency Exchange License | 18 | WA | Check Cashier with Small Loan Endorsement | 22 |
| MN | Money Transmitter License | 139 | WA | Check Cashier | 76 |
| MO | Sale of Checks and Money Transmitter License | 137 | WA | Money Transmitter (includes Currency Exchange) | 202 |
| MS | Check Cashing Company Registration | 12 | WI | Seller of Checks | 79 |
| MS | Check Cashing Company License | 38 | WV | Money Transmitter License | 110 |
| MS | Money Transmitter License | 125 | WY | Money Transmitter License | 94 |

FIGURE 13. Expansion Industries in NMLS



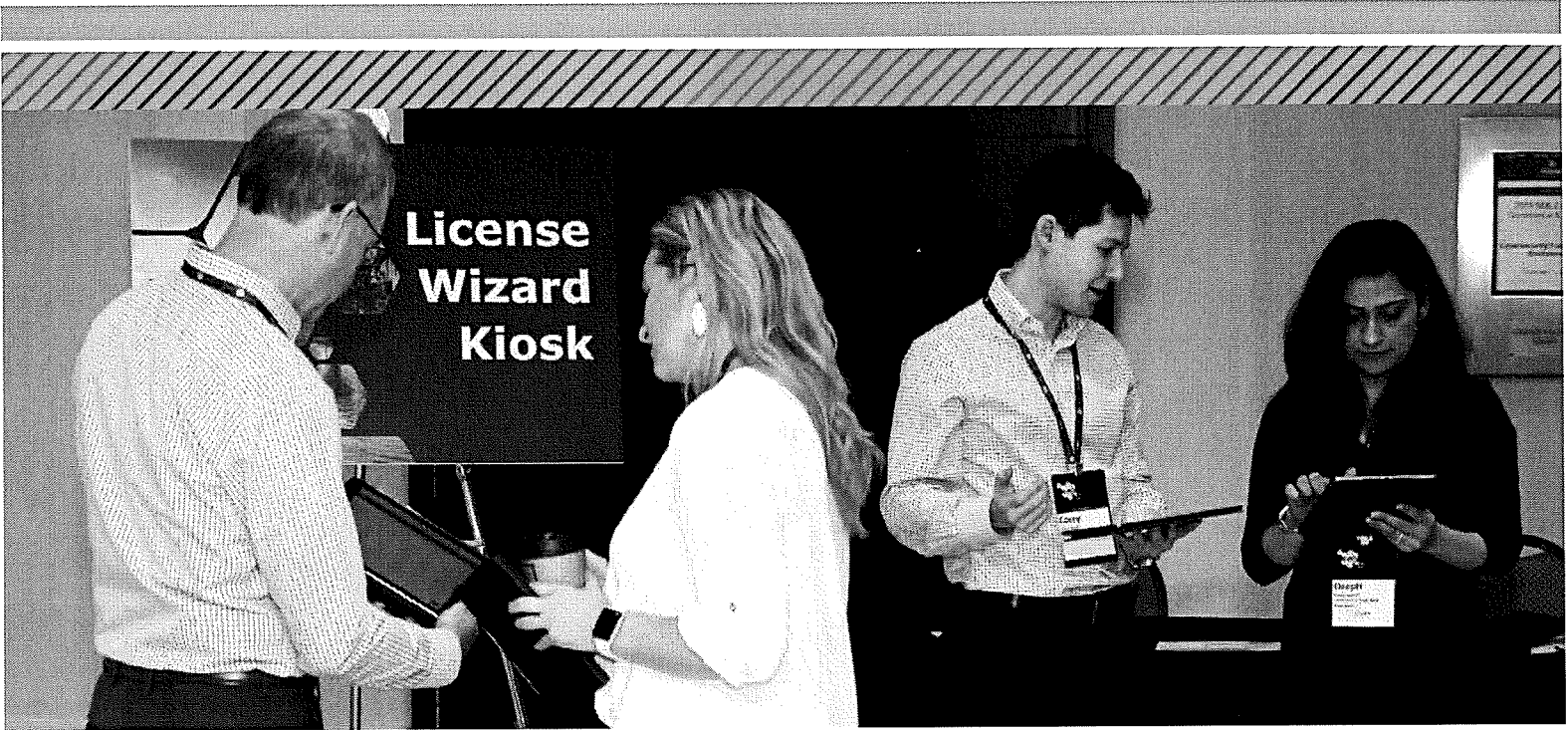
NMLS Activities

NMLS processes a variety of transactions for system users. NMLS assists state agencies 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. In addition, NMLS collects state fees from licensed entities and disburses these funds to the regulatory agencies. Figure 14 highlights the registration, licensing and professional standards activities that occurred in NMLS over the past few years for licensed or registered companies, institutions, branches and MLOs.

FIGURE 14. Licensing, Registration and Professional Standards Activity

| STATE LICENSING ACTIVITIES | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| New Application Request | 133,765 | 157,798 | 181,220 | 193,962 | 182,493 | 177,056 |
| Renewal Request | 365,998 | 431,681 | 492,593 | 555,283 | 562,551 | 600,643 |
| Change of Sponsorship Request | 57,003 | 57,532 | 62,746 | 89,827 | 96,913 | 100,847 |
| FEDERAL REGISTRATION ACTIVITIES | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| New Registration Request | 78,707 | 80,300 | 80,432 | 65,688 | 91,429 | 61,539 |
| Renewal Request | 374,512 | 386,635 | 385,109 | 406,278 | 400,601 | 388,810 |
| Change of Employment Request | 38,158 | 37,431 | 39,919 | 36,647 | 38,431 | 36,345 |
| PROFESSIONAL STANDARDS | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Credit Report | 110,006 | 110,533 | 125,368 | 130,242 | 134,754 | 127,164 |
| Background Check | 230,685 | 236,452 | 261,066 | 260,091 | 256,915 | 250,687 |
| Test | 102,861 | 83,228 | 70,226 | 59,744 | 47,625 | 44,826 |
| Education Hours | 1,764,436 | 2,091,024 | 2,255,889 | 2,459,904 | 2,313,891 | 2,343,817 |



NMLS MODERNIZATION

(Key Individual Wizard Initiative and License Wizard)

In support of Vision 2020 and recommendations from the Fintech Industry Advisory Panel, we led efforts to create new tools to solve regulator and industry pain points related to identifying control persons and selecting licenses for business activities. These tools, the Key Individual Wizard and License Wizard, are two models for standardized practices in nonbank supervision that will help inform future NMLS development. This section highlights the process for developing these tools—from stakeholder engagement to working prototypes.

Key Individual Wizard Initiative

The Key Individual Wizard Initiative (KIWI) Working Group, comprised of state agency regulators and industry representatives, seeks to create a single standard for ownership and control persons disclosure that can be adopted by all agencies. The group, which meets weekly, started in November 2018.

In February, SRR staff presented a high-level prototype of an application for a corporate entity during sessions at the 2019 Annual NMLS Conference & Training. The high-level prototype was refined in March to incorporate feedback

received during the conference. In April, the SRR Board of Managers approved SRR staff to move forward with developing a working model, which was completed in May. Figure 15 shows the SRR Governance structure.

Stakeholder Engagement

During June and July, KIWI Working Group members, with support from SRR Business Services staff, conducted five virtual town halls to demo KIWI to state agency participants from each CSBS district. The town halls served as a platform for further discussion about KIWI. At the

conclusion of the townhall series, state agencies received a survey asking for their opinions and feedback.

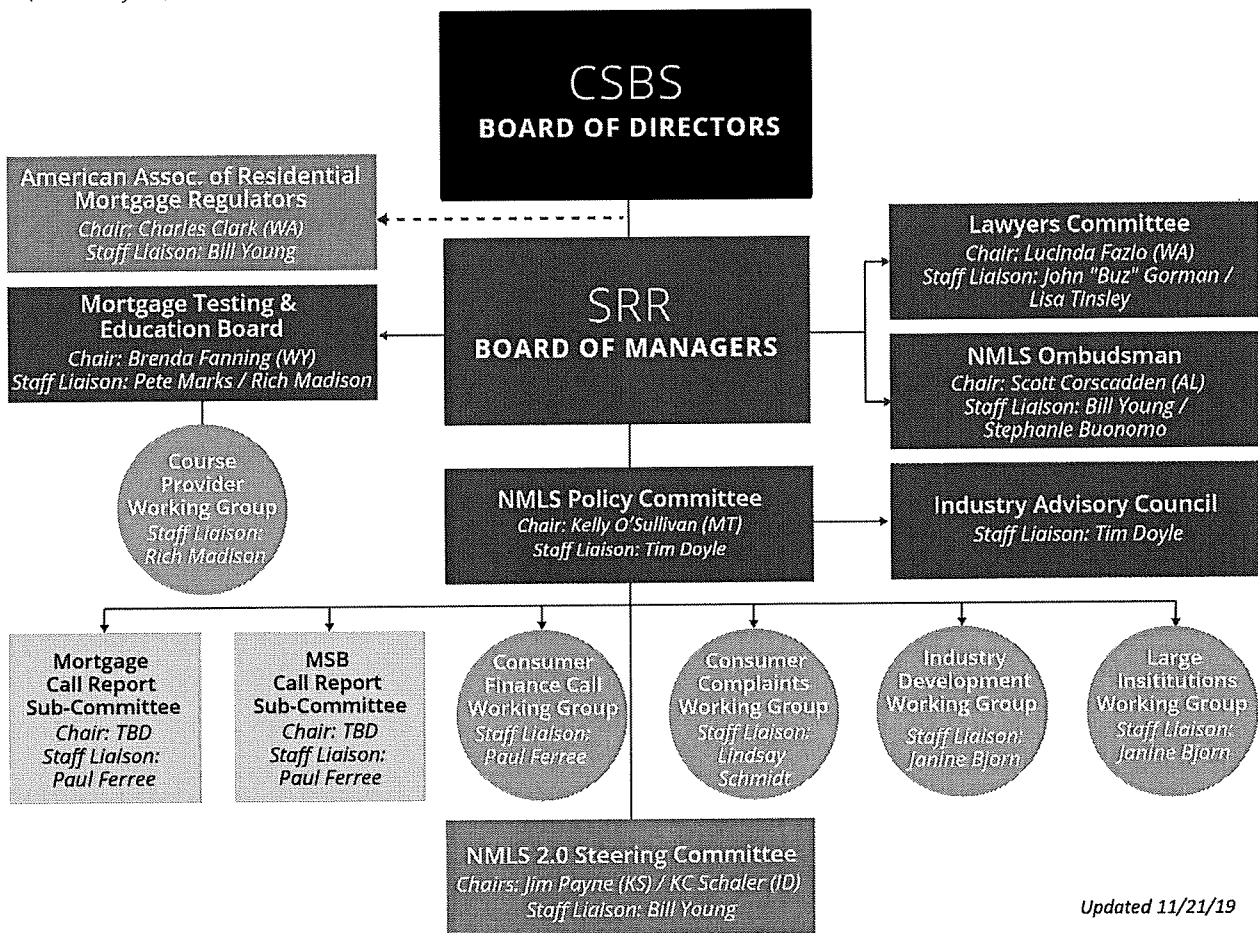
In addition, SRR staff held in-person demos and feedback sessions for regulators and industry at the AARMR Annual Conference in August and the MTRA Annual Conference in September. Regulators who attended the NACARA Annual Conference in September also received a KIWI demo during a regulator-only session.

How the Key Individual Wizard Works

KIWI takes a risk-based approach. KIWI guides potential applicants through a series of questions concerning the applicants' management and business activities and requires persons to be disclosed. The disclosures are not based on job titles but on who is responsible for and performs critical functions deemed to be of most interest to regulators. KIWI also provides for a single standard to build and display an applicant's

FIGURE 15. SRR Governance

■ Board-Level Committee (Named in Bylaws) ■ Authorized by Board (Committee Level) ■ Committee ■ Working Group/Taskforce ■ Sub-Committee



Updated 11/21/19

In April, SRR Business Services staff hosted a call with NMLS representatives and NMLS legal contacts to kick off the NMLS License Wizard Data Collection Effort. The purpose of the call was to 1) demonstrate the enhanced prototype and 2) explain the process through which data for the License Wizard would be collected.

Additional stakeholder engagement included outreach to the NMLS Policy Committee, the SRR Lawyers Committee and the Industry Development Working Group.

How the License Wizard Works

SRR staff developed a proof of concept that guides potential applicants through a series of questions concerning the business activities they intend to engage in under their business model and the states in which they intend to provide these services.

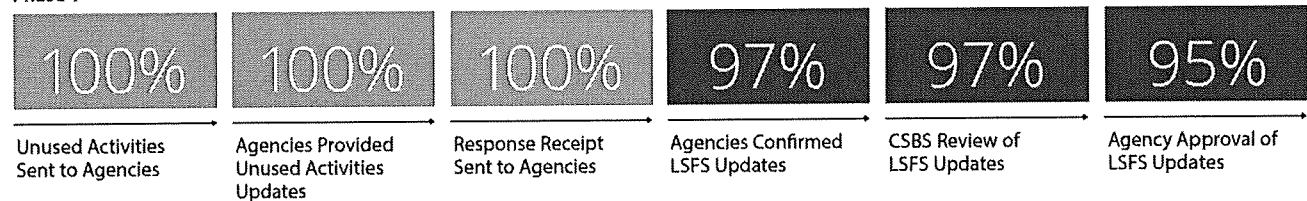
Data Collection Effort

Phase 1 of the data collection effort started in May. Agencies were asked to 1) review their current mappings and to make updates or corrections in the License Information & Fee Environment and 2) review unused business activities.

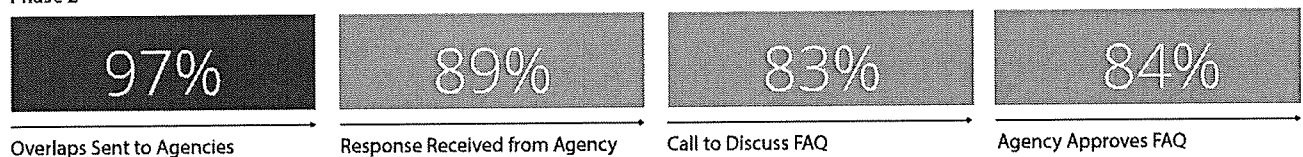
For Phase 2 of the data collection effort, agencies were asked to re-review their mappings. SRR staff use the data collected from agencies to develop the FAQs that will be used in the License Wizard. Figure 17 shows the status of the data collection effort.

FIGURE 17. License Wizard Data Collection Update

Phase 1



Phase 2



STATE EXAMINATION SYSTEM

On October 1, SRR launched into pilot the State Examination System (SES), a suite of functionality to support the supervision, enforcement, investigation and complaints processes for state regulators and the companies they supervise.



The pilot phase was used to test the new system and evaluate readiness for nationwide launch in the first quarter of 2020¹. SES transforms many of the supervisory processes state regulators use by bringing standardization, information sharing, collaboration, risk-based analytics and best practices to these processes. With SES, state agencies now have a powerful new tool that will continue to evolve as more agencies and companies begin to use it.

SES brings many benefits to both state agencies and companies. SES allows state agency examiners to quickly and easily create information requests and build their exam team. For companies, information requests they receive from state agencies will be more consistent and tailored to the supervisory activity at hand, reducing burden. Agency users will find that with more of the examination process now performed electronically, travel and time away from home may be reduced. Scheduling examinations also becomes easier and more transparent as each agency can access exams scheduled by other agencies.

In addition, SES allows state agencies that supervise companies jointly to improve collaboration. For example, as more companies are licensed in multiple jurisdictions, agencies will be able to share relevant supervisory information about these companies with one another. These features facilitate multistate or coordinated supervision, allowing agencies to work together in the supervisory process unlike they have before. In turn, companies should see more coordination in the regulatory process and possibly fewer examinations.

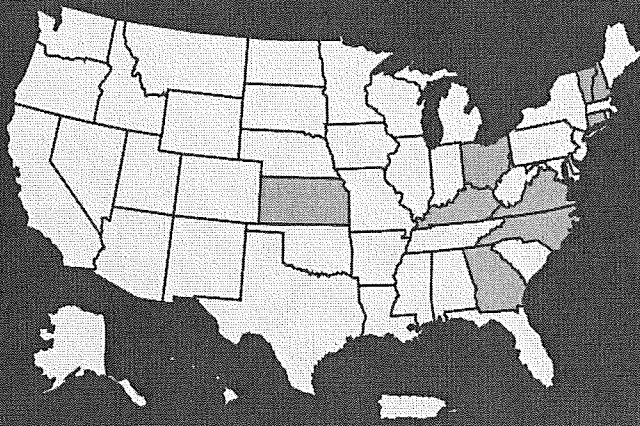
Beyond collaboration and information sharing, SES leverages data analytics to improve how companies are selected for supervisory activities. The data set in SES allows state agencies respond to risks, tailor supervision programs across industries, and continually refine the supervision process through informed metrics.

SES delivers on Vision 2020 in many ways—most significantly by bringing all state agencies onto a single uniform and secure platform, encouraging the creation of more consistent standards, procedures and work processes.

Preparing for Nationwide Deployment

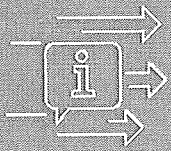
Following an evaluation of the pilot results, SES will launch nationwide in early 2020. Nearly 40 state agencies have expressed they would like to begin using SES as soon as possible after launch, demonstrating demand to use the new system is strong. Visit SES on the web at www.csbs.org/aboutSES to learn more about the system's key features and how it benefits state agency and company users.

¹ As of October, nine state agencies were participating in the pilot with seven exams being conducted in the system. The industries subject to examination in the system during the pilot include mortgage lending and money transmitter companies.



SES PILOT PARTICIPANTS

FIGURE 18. SES Pilot Participants ■ Mortgage Exams ■ Money Transmitter Exams



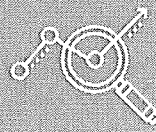
INFORMATION SHARING

SES allows state regulators to share certain supervisory information across state lines. For the first time, state regulators can grant access to their scheduling plans, supervisory ratings, concerns, and other information with other authorized agencies as it relates to companies they supervise jointly. SES is the only nationwide examination system, making information sharing a natural fit for the application.



COLLABORATION

SES enables efficient collaboration throughout the supervisory process in a single platform—from pre-examination communications to exchanging exam information requests to delivering a final examination report. In addition, maintaining correspondence and supervisory information in SES and having the ability to track the entire exam cycle and related tasks in the system reduces redundancy and simplifies cumbersome, paper-based processes used today. Further, using a single, secure system to exchange information improves the overall security of the state regulatory process.



RISK-BASED ANALYTICS

SES offers state regulators an impressive, uniform and nationwide set of data they can use to analyze macro and micro trends in the financial system. As a result, access to this data improves state regulators' ability to respond to risk, tailor supervision programs across industries, and continually refine the supervision process through informed metrics.



BEST PRACTICE DEVELOPMENT

SES will encourage the development of best practices across regulatory agencies on an ongoing basis. For example, if a state agency develops an innovative and effective approach to a supervisory challenge, the method can be shared quickly through the system with other agencies. This brings much needed consistency across agencies and will lead to a more familiar supervision experience for companies.



TEMPORARY AUTHORITY TO OPERATE

A NEW STREAMLINED LICENSING PROCESS FOR MORTGAGE LOAN ORIGINATORS

On March 15, 2018, Congress passed the Economic Growth, Regulatory Relief and Consumer Protection Act (S. 2155), which included a new provision under the SAFE Act of 2008. This new provision, known as Temporary Authority to Operate (TA), streamlines the license application process for eligible federally registered mortgage loan originators (MLOs) seeking state licensure, and eligible state-licensed MLOs seeking licensure in another state.

S. 2155 was signed into law May 24, 2018 and became effective November 24, 2019. Under TA, MLOs (as described above) may continue originating loans for up to 120 days, while completing any state-specific requirements for licensure, such as testing and education.

New TA Policies

Analysis of S. 2155 began soon after the law was passed. There were several vague areas that needed more in-depth interpretation. CSBS also received requests for guidance from both state agencies and industry on a variety of TA-related topics. New policies were created to address these issues. The policies were drafted in consultation with the SRR Lawyers Committee, and with input from the Consumer

Financial Protection Bureau and the Mortgage Bankers Association. The NMLS Policy Committee provided final approval of the new policies.

Below is an overview of the new TA policies:

- **Criminal History Record Information (CHRI) Review Policy:** Outlines the 2-day/9-day review process state agencies use when analyzing an MLO's CHRI. This is the first step in which a regulator can make a determination on an MLO's application.
- **Use of Intent to Deny License Item:** Explains that the Intent to Deny License Item can be used when a state agency has found one or more reasons to deny the license under the state's licensing statutes and rules.

- **License/Registration Period Eligibility and Breaks in Service:** Explains the continuous length of licensure or registration required for TA and the permitted 14 calendar-day break in service that still allows an applicant to be eligible for TA.
- **Sponsorship and Worker Classification:** Explains that to be eligible for TA, only a “request” for sponsorship is required and clarifies that an MLO must be a W-2 Employee.

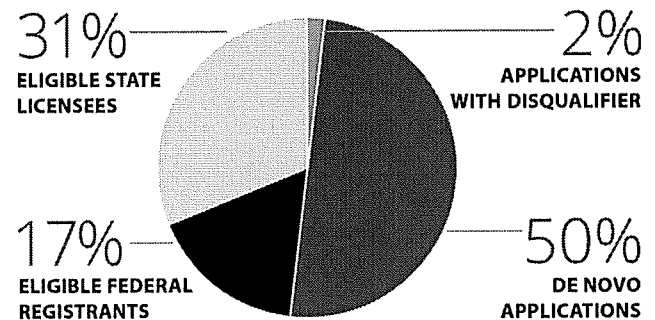
Enhancing NMLS to Support TA

NMLS was enhanced to help state agencies manage their TA workload. Some of these enhancements also aid companies and MLOs in managing their application submissions.

Functionality added to NMLS includes:

- Worker Classification
- Intent to Deny License Item
- TA CHRI Worklist
- TA Statuses
 - Pending-Deficient (Temporary Authority Eligible)
 - Pending-Deficient (Temporary Authority)
 - Pending-Review (Temporary Authority)
 - Pre-Approved (Temporary Authority)

FIGURE 19. MLO Applications Since TA Implementation



Stakeholder Engagement

How we prepared stakeholders for TA:

- Held monthly All States Calls with state agencies
- Conducted live and recorded webinars
- Delivered presentations at regulator and industry conferences
- Provided demonstrations of TA functionality in NMLS
- Developed a series of training and educational materials
- Launched a new TA web page
- Provided ongoing Regulator Resource Center updates
- Created new TA policies

FIGURE 20. NMLS Enhancements for TA

The following enhancements were made to support TA:

| RELEASE | DATE | FEATURE |
|---------|--------------------|------------------------------------|
| 2019.7 | July 20, 2019 | Worker Classification |
| 2019.9 | September 19, 2019 | TA Feature deployed to production |
| 2019.10 | October 21, 2019 | Regulator CHRI Worklist |
| 2019.11 | November 24, 2019 | TA Feature go live into production |

NMLS RESOURCES

NMLS Resource Center

The [NMLS Resource Center](#) 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. The NMLS Resource Center also includes a section dedicated to the NMLS modernization effort. The site gives state agencies and industry a chance to learn about activities related to development of the new NMLS.

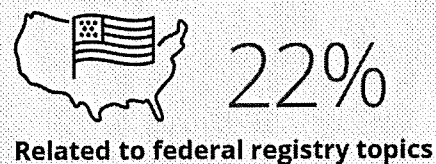
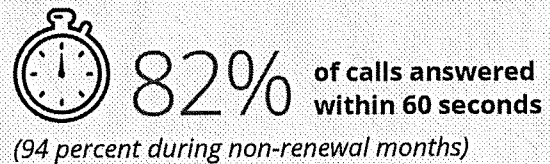
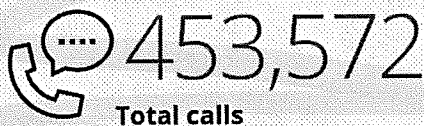
In addition, SRR maintains the [Federal Registry Resource Center](#), which provides federally regulated depository institutions and federally registered individuals updated information on the federal registration process and system news.

Live User Support

The [NMLS Call Center](#) and Regulatory User Group provides live user support. It is a priority to provide timely and complete resolution to industry or state agency user needs during every interaction. These interactions also give support agents a chance to identify user pain points, document those opportunities and develop solutions.

This year, the call center transitioned to a new Customer Relationship Management

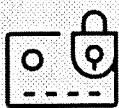
NMLS CALL CENTER 2019 ACTIVITY AT A GLANCE



(CRM) system called ServiceNow. The CRM documents user interaction within a client/ case management database. Cases can then be escalated, reviewed and analyzed through data analysis. ServiceNow also provides a customer portal platform, which allowed SRR staff to provide support for the State Examination System (SES) via the portal.

CRM analysis of the interactions allows SRR staff to better understand and act on the following:

- User satisfaction with the call center agent's courtesy, knowledge and overall performance
- Usability of NMLS, SES and the resource centers
- Response times to user requests
- Training needs

20% 

Related to entitlement issues
(such as password reset and account unlock requests)



95.6%

Overall satisfaction with the NMLS Call Center (4,200+ user surveys)

FIGURE 21. Call Volume by User Type

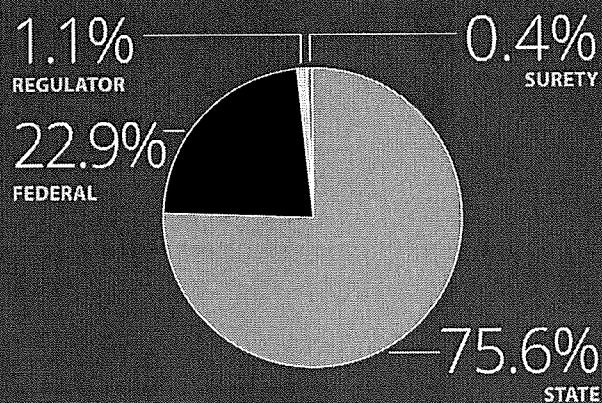


FIGURE 22. NMLS Call Center Monthly Inbound Call Volume

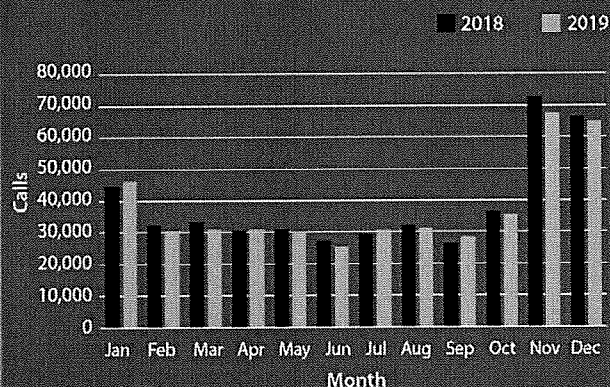


FIGURE 23. User Satisfaction

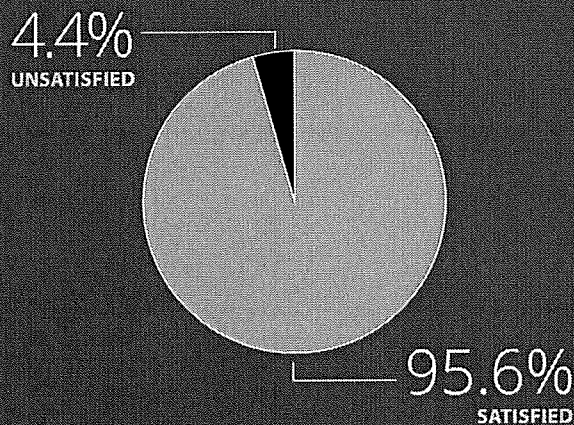




Figure 24. 2019 NMLS Annual Conference & Training

- User acceptance of system enhancements, security upgrades and process changes
- Tracking of system incidents related to NMLS, SES and their supporting systems

Call center agents are trained in system use and policy. In addition, teams are assigned to provide more specialized support in specific areas including, the Mortgage Call Report, authorized agent reporting, Federal Registry issues and more. 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 21, 22 and 23). The call center is funded through NMLS processing fees and operates at no additional charge to system users.

In 2019, SRR completed the transition of regulatory support requests from the Regulatory User Group to the NMLS Call Center. The support is now provided by a "Tier 3" group that consists of six experienced agents.

Learning and Development

In 2019, the Learning and Development team focused on developing content for several efforts including, the NMLS Annual Conference & Training, SES, Temporary Authority (TA), call

center support and state license transitions to NMLS. In-person sessions, video tutorials, live webinars, recorded webinar training, eLearning courses, user guides and demonstration videos were made available to state agencies, state-licensees, federal registrants and vendors.

The Learning and Development team helped manage more than 400 user guides and help documents on both the NMLS Resource Center and within NMLS. Nearly 50 training programs were delivered to various audiences in support of NMLS and other internal SRR initiatives. Within the CSBS Learning Management System (LMS), which is used to store, deliver and track the history of training sessions for individual users, more than 200 users were enrolled in courses designed to help them learn about NMLS. At the end of 2019, SRR partnered with a new LMS, called the Flexible Learning Experiences (FLEX) system. All learners and courses will be transferred to FLEX in early 2020.

Various state agencies transitioned several license types onto NMLS over the past year. The Learning and Development team, in conjunction with the State Relations and Business Services teams, helped train agency staff and industry on how to manage these licenses on NMLS. The trainings have become more sophisticated, requiring learners to complete prerequisite self-paced online training to ensure users adopt

best practices for using the system. As a result of these training efforts, more than 59 licenses were transitioned successfully onto NMLS in 2019.

The Learning and Development team also played a significant role in supporting the SES pilot. In anticipation of users' needs, 21 videos and 14 knowledge articles were posted to the NMLS/SES Customer Portal. In addition to being a part of the self-service help available to SES users, the videos and articles were integrated into live training events used to onboard state agencies and companies participating in the pilot. As SES continues to be developed and feedback is submitted as part of the pilot, the Learning and Development team will continue to determine resources needed to support nationwide deployment in 2020.

The Mortgage Licensing School continued to provide best practices in license application review and NMLS functionality to our members. Since the program's launch, 177 learners across 37 state agencies have enrolled, and 36 learning plans have been completed. 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.

In addition, the Learning and Development team collaborated with the SRR Business Services team to develop comprehensive training resources to support TA, which went live in NMLS on November 24. In preparation for the deployment, the Learning and Development team created videos to provide state agencies and industry updates on new features being added to NMLS. These videos were presented at several conferences and posted to the NMLS Resource Center and Regulator Resource Center. Further, as a part of the TA communications plan, industry received a variety of educational resources via email, and state agencies had an opportunity to participate in a live training webinar.

In 2020, the Learning and Development team anticipates more involvement in supporting SES,

launching and maintaining FLEX and developing support materials for the NMLS modernization effort.

NMLS Consumer Access

NMLS Consumer Access is a fully searchable website that allows consumers to view and search for information on companies, branches and individuals that are state-licensed or federally registered in NMLS. This free service is an invaluable consumer resource that contains information on virtually all mortgage loan originators operating in the United States and state-licensed or federally registered companies in NMLS. Specifically, data available through NMLS Consumer Access includes identifying information for each individual or entity, details on all licenses or registrations held, and any applicable regulatory actions taken. SRR launched NMLS Consumer Access in 2010.

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 that service the mortgage industry with data and loan origination products.

In 2019, SRR added five new B2B subscribers, bringing the total to 37 subscribers who use the NMLS data for license verification, fraud prevention or referral purposes.

Information Sharing Through NMLS

The SAFE Act encourages state and federal agencies to share information through NMLS. The State Agency Terms of Use and the Industry Terms of use contain language that facilitate that kind of information sharing. SRR has entered into information sharing agreements with the following agencies:



WHAT WE HEARD FROM NMLS ANNUAL CONFERENCE ATTENDEES:

“The regulator only day was great, very informative. The SES demos were extremely helpful and provided attendees with vital information.”

“The openness among the group—industry and regulators. It made me want to get involved.”

“Different industries working together for a common goal.”

- [Office of Financial Research \(OFR\)](#)
- [Consumer Financial Protection Bureau \(CFPB\)](#)
- [Financial Crimes Enforcement Network \(FinCEN\)](#)
- [Federal Housing Administration \(FHA\)](#)
- [Federal Trade Commission \(FTC\)](#)
- [Federal Reserve Board \(FRB\)](#)

Two additional agreements were entered into in 2019 and will become effective in 2020:

- [Federal Deposit Insurance Corporation \(FDIC\)](#)
- [Financial Stability Oversight Council \(FSOC\)](#)

NMLS Annual Conference & Training

SRR staff hosted more than 700 state agency and industry professionals in Orlando, Florida for the 11th NMLS Annual Conference & Training, February 18–21.

The NMLS Annual Conference kicked off with a full day of activities and engagement just for regulators. During the four-day event, attendees participated in a variety of breakout sessions to get the latest updates on NMLS, SES and issues that matter to state agencies.

A highlight of the NMLS Annual Conference was the prototyping activity. Prototypes of new tools and functionality that will inform future

development for NMLS were on display. They included:

- Electronic Surety Bonds
- Multistate MSB Licensing Agreement
- License Wizard
- Control Persons Questionnaire (a foundational component of the Key Individual Wizard)
- NMLS/SES Customer Support Model
- TA

In addition to the prototypes, multiple demos of the SES exam and complaints functionality were presented to state agency and company users. These future system users provided feedback that was factored into next phases of SES development in preparation for the pilot.

The NMLS Ombudsman Meeting, which serves as a public venue for regulators and industry to discuss key issues, drew 41 percent more attendees than the previous year. Further, we continued to improve the conference experience and reduce our use of paper by making the event schedule and updates available through the conference app; and using online polling during sessions to get real-time feedback.

NMLS DATA ANALYTICS AND REPORTS

In 2019, SRR continued to use NMLS data to build analysis tools for state agencies, publish data for the public, and improve state supervision.

SRR worked with two state agency working groups to develop new methods for analyzing risk based on data from the Mortgage Call Report (MCR) and the Money Services Businesses (MSB) Call Report. The Risk Profile Working Group (RPG)—comprised of state agency mortgage examiners—developed a risk score based on outliers reported in certain MCR data points. The risk scores have allowed the RPG to monitor the health of companies supervised by the Multi-State Mortgage Committee, as well as to identify data quality issues in those companies’ MCR filings. Meanwhile, the MSB Call Report Working Group provided oversight for new reports being tested for inclusion in the MSB Call Report Analytics tool. These new reports include analysis of outliers, cash burn rate and international transactions.

SRR also created a new working group, the Consumer Finance Call Report (CFCR) Working Group. Following a recommendation from the Fintech Industry Advisory Panel subcommittee on lending, CSBS has decided to create a call report of consumer finance lending activity to be submitted by state-licensed consumer finance companies. The CFCR Working Group will determine the data points to be collected, definitions of the data points, and the frequency of data collection. The group began meeting in October and is expected to publish a proposed CFCR for public comment in 2020.

MCR Analytics, which provides mortgage examiners with self-serve access to customizable aggregations of MCR data, continued to be the

most popular tool in the NMLS Analytics suite in 2019, with 372 unique users in 54 state agencies. In addition, 169 unique users from 36 state agencies logged into MSB Call Report Analytics during the year. Figures 25 and 26 provide an overview of NMLS Analytics Tools usage.

FIGURE 25. NMLS Analytics Tool Usage, Number of State Agencies

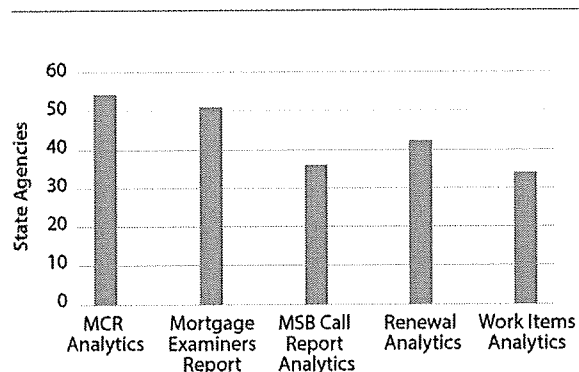
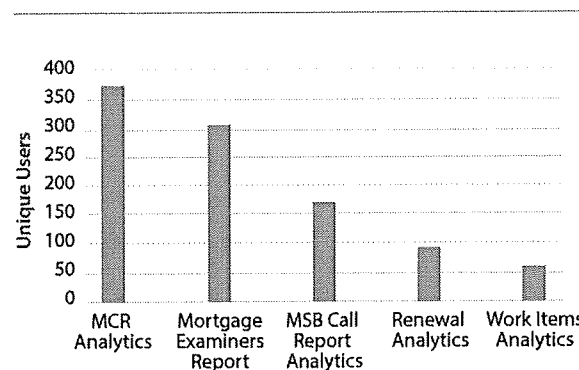


FIGURE 26. NMLS Analytics Tool Usage, Number of Users



NMLS POLICY

NMLS Policy Committee

The NMLS Policy Committee (NMLSPC) is at the center of the NMLS policy making process. The SRR Board of Managers created this 11-person committee of state financial services regulators who are NMLS users to make policy decisions for NMLS functionality and operations. The NMLSPC, which meets monthly, makes decisions after considering input from NMLS participating state agencies, licensees and industry.

In 2019, the NMLSPC reviewed a variety of issues affecting NMLS policies and system operations. In addition to NMLS core policy issues, the committee focused on:

- Review of suggested updates to the NMLS Policy Guidebook and the Mortgage Call Report (MCR)
- Review of NMLS Consumer Access suppression requests
- Approval of applications for business-to-business subscriptions
- Discussions with state regulators and industry about issues raised to the NMLS Ombudsman
- Additional business activities on NMLS
- Various policy issues associated with the implementation of Temporary Authority to Operate (TA), and the License Wizard and Key Individual Wizard Initiative (KIWI)

A roster of NMLSPC members can be found in [Appendix E](#).

NMLS Ombudsman

The NMLS Ombudsman serves as a resource to assist system users with resolving NMLS policy and operational issues. The Ombudsman's objective is to foster constructive dialogue between NMLS industry users and state regulators to work mutually toward modern



Figure 23. Photo 2019 NMLS Policy Committee

Back (Left to Right): Scott Corscadden (AL), Kelly O'Sullivan (MT), Valerie Carbone (MA), Kirsten Anderson (OR), Kelly Rainsford (SC), Front (Left to Right) Rick St. Onge (WA), Jedd Bellman (MD); Not pictured: Rholda Ricketts (NY), Kyle Krapf (IL), Nicole Chamblee (TN), Bill Poe (TX)

and efficient financial services regulation. The NMLS Ombudsman assists with these matters by identifying options for resolving issues and by directing issues to the appropriate SRR personnel or state agency.

The current NMLS Ombudsman is Scott Corscadden, Supervisor, Bureau of Loans for the Alabama State Banking Department. Visit the [NMLS Ombudsman page](#) on the NMLS Resource Center to view Mr. Corscadden's full bio.

In 2019, the NMLS Ombudsman held two public meetings—one in conjunction with the NMLS Annual Conference & Training in Orlando, Florida and another in conjunction with the AARMR Annual Regulatory Conference in San Diego, California. A variety of issues were raised during these meetings, including:

- Emerging NMLS issues
- MCR issues
- State Examination System (SES)
- TA
- Limiting access to MLO SAFE Test and pre-licensure course information

- Branch licensing
- State-specific information reporting in NMLS

In addition, the NMLS Ombudsman received over 189 emails from individuals and companies in the United States seeking assistance. A summary of all public meetings is posted on the [NMLS Ombudsman page](#) of the NMLS Resource Center.

NMLS Participating States Committee — Regulator Open Forum

Regulator Open Forum calls are held monthly with all state agencies using NMLS. The calls are designed to provide regulators 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 participating state agencies to develop more uniform practices and policies related to NMLS. The calls also serve as a springboard to identify and prioritize proposed system enhancements and development.

In addition to using Open Forum calls as a platform for ongoing NMLS stakeholder engagement, major topics discussed during 2019 include:

- Impact of TA
- License Wizard and KIWI
- License Information & Fee Environment (LIFE)
- SES
- User agreements
- Single Sign-On
- NMLS Call Center
- NMLS Policy Guidebook updates
- The 2020 license renewal plan and strategy

Industry Development Working Group

NMLS consults with the Industry Development Working Group (IDWG) to gather input from

industry users. This group provides input into the technical and functional development of NMLS. Topics the IDWG reviewed in 2019 include:

- TA
- Electronic Surety Bond updates
- KIWI
- License Wizard
- SES

A roster of IDWG members can be found in [Appendix E](#).

Key Individual Wizard Initiative Working Group

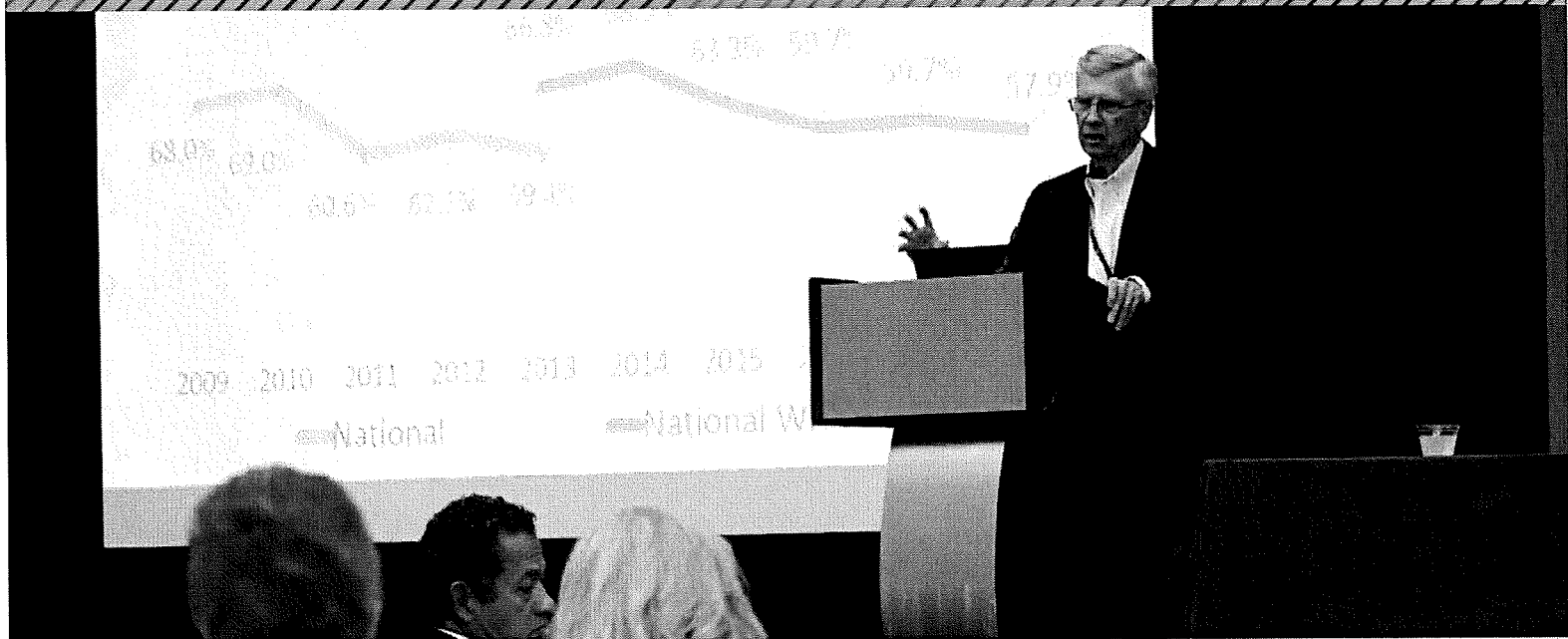
The KIWI Working Group is comprised of state agency regulators and industry representatives. The working group seeks to create a single standard for ownership and control persons (identified as key individuals) disclosure that can be adopted by all state agencies and agreed to by industry. The working group meets weekly and developed the KIWI prototype in six months. The work is also contributing the fulfillment of a Fintech Industry Advisory Panel recommendation to streamline the company application process.

A roster of KIWI members can be found in [Appendix E](#).

Public Comment Requests

Public comments are requested for significant policy issues or system functionalities, as determined by the SRR Board of Managers or the NMLSPC. In 2019, there were no requests for public comments issued.

Active and archived proposals issued for public comment, comments received and SRR's response to comments are available on the [Proposals for Comment](#) page of the NMLS Resource Center.



TESTING AND EDUCATION

OVERVIEW

In 2019, SRR achieved several milestones in managing its mortgage loan originator (MLO) testing and education programs. Highlights include:

- SRR expanded and improved the Education Management System (EMS) to better meet the needs of NMLS Approved Course Providers and the Testing and Education staff.
- SRR hosted its second National Test Maintenance Committee (NTMC) Fly-in event in Washington, D.C.
- SRR staff completed 115 course compliance exams for education providers.
- SRR expanded and refined the use of its student authentication system.
- SRR saw the successful outcome to the lawsuit it filed in Colorado Federal District Court in 2017.

The rest of this section describes these and other accomplishments.

BACKGROUND

The SAFE Act established a number of testing and education requirements to ensure 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.
- Approve all courses that state-licensed MLOs must take to satisfy their pre-licensure education (PE) and continuing education (CE) requirements.



attempt for the National Test for the past 24 months. In addition, Figure 30 illustrates the first-time pass rates by month throughout 2019.

Colorado Lawsuit

SRR successfully resolved the lawsuit filed in federal court in Denver, Colorado in 2017 against three defendants who SRR claimed had infringed the copyrights it owns on the National Test questions as well as other charges. In September, the court issued its ruling on SRR's Motion for Partial Summary Judgment. The court largely agreed with SRR's claims and affirmed that SRR owns valid copyrights on its National Test questions and that two of the defendants copied the protectable works of SRR's National Test questions. The court further found that a third defendant breached his contract with SRR in his role as a subject matter expert serving on SRR's NTMC. In November, SRR reached settlements with each of the parties on terms that were satisfactory to SRR.

Testing and Education Security

During 2019, SRR continued its focus on maintaining and improving the security of its testing and education programs. SRR works closely with its test vendors to ensure the development, delivery and processing of MLO tests is secure. Both test takers and education

students are required to acknowledge and accept a Candidate Agreement (for test takers) and Rules of Conduct (for test takers and education students). SRR uses an Internet surveillance program to detect if copyrighted content from the SAFE MLO National Test is being shared or disseminated online. The service continuously monitors the web for public posts that contain confidential test content. The surveillance has resulted in several investigations and successful requests for the removal of copyrighted materials from the Internet. For example, one investigation led SRR to file a lawsuit against three defendants who are alleged to have illegally obtained and misused National Test content. Figure 31 summarizes the investigations SRR initiated in 2019.

In 2019, SRR continued the use of a biometric authentication requirement for students completing NMLS-approved online self-study CE courses. The requirement, which was implemented in 2017, requires students to create and re-enter a simple behavioral biometric password—adding a unique multi-factor authentication to the traditional username and password security procedures. Using the biometric ensures students who are taking online self-study courses are the persons they claim to be. The application was used successfully by more than 107,000 MLOs who

FIGURE 31. 2019 Summary of SRR Investigations

| SUBJECT OF INVESTIGATION | TYPE OF VIOLATION | NUMBER OF CASES | FINDINGS | | |
|--------------------------|------------------------|-----------------|------------------|--------------|---------|
| | | | VIOLATIONS FOUND | NO VIOLATION | ONGOING |
| Course Providers | Standards of Conduct | 7 | 4 | 3 | 0 |
| Test Takers | Rules of Conduct | 5 | 3 | 1 | 1 |
| Education Student | Rules of Conduct | 16 | 4 | 0 | 12 |
| Online Test Prep | Misuse of Test Content | 1 | 1 | 0 | 0 |
| Company Branch | Rules of Conduct | 1 | 0 | 1 | 0 |
| TOTAL | | 30 | 12 | 5 | 13 |

completed their annual CE requirement online. Deployment of the biometric technology enabled SRR to identify and take enforcement against MLOs who failed to complete education in accordance with the SAFE Act mandate.

Education

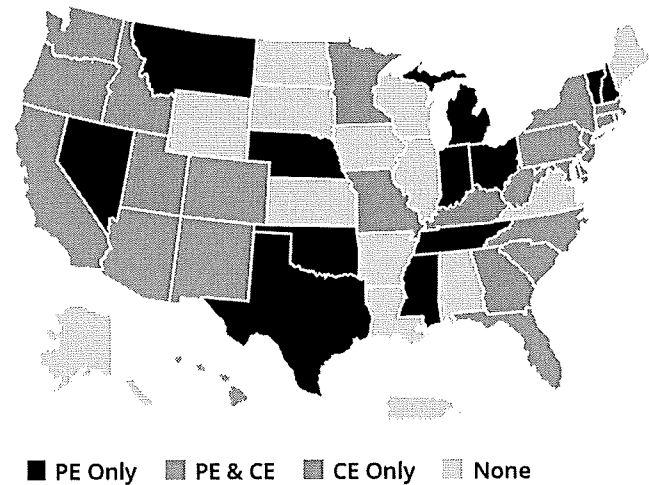
Over 178,700 state-licensed MLOs and potential MLO applicants completed more than 2.4 million hours of education in 2019. Reversing a trend from the previous year, the number of PE hours completed in 2019 increased by nearly 8,000 hours. In 2019, of the more than 149,000 MLOs who were required to complete CE, 88 percent did so by December 31, 2019, an increase of 2 percent from the previous year. Seventy-two percent of MLOs completed their annual CE using an online course, an increase of 5 percent from 2018.

There were 99 NMLS-approved course providers at the end of 2019. This number reflects a trend in consolidation happening in the past couple of years. Course providers submitted 1,146 new courses for approval, and 664 existing courses for renewal. A team of five mortgage SMEs reviewed the courses. For the first time in the history of the program, in 2019 SRR enacted a change to the approval of state-specific PE

FIGURE 32. 2019 NMLS Approved Education – Summary

| NMLS APPROVED EDUCATION FAST FACTS FOR THE YEAR ENDING DECEMBER 31, 2019 | |
|--|-----------|
| Active Course Providers | 99 |
| PE and CE Courses | 1,555 |
| MLOs Completing Courses | 178,767 |
| PE Hours Completed | 995,521 |
| CE Hours Completed | 1,463,922 |
| CE Completed Online | 72% |
| MLOs Completing CE by December 31 | 88% |
| Course Compliance Exams Completed | 37 |

Figure 33. PE and CE Requirements



courses to enable them to be completed by MLOs in a self-study format. The change enables course providers to deliver the courses like annual CE without the requirement for instructor interaction.

An increasing number of state agencies have adopted the PE Expiration Policy that the NMLS Policy Committee (NMLSPC) initially approved in 2016. The policy requires individuals who have completed 20 of hours PE pursuant to 12 U.S.C 5104(c) to retake 20 hours of PE if they fail to acquire a valid state license or federal registration within three years of achieving federal compliance, or fail to reacquire a state license or federal registration within three years from the last date of licensure. The map (Figure 33) shows states that have enacted the policy.

Education Compliance

Course Examination Program: SRR continued to focus heavily on ensuring courses are delivered in accordance with the intent of the SAFE Act. SRR staff initiated and completed over 37 classroom and online course compliance exams in 2019. 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. Some exam visits are unannounced, scheduled with the providers or conducted remotely via computer. 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. SRR collected and analyzed nearly 4,500 survey comments.

SRR continued to actively work with the Multi-State Mortgage Committee to provide NMLS-approved course providers a required list of continuing education topics derived from common violations found during the state examinations. The purpose of this objective is to bring greater relevancy to annual CE and to hopefully reduce the number of violations.

Provider Applications and Renewals: In 2019, SRR considered applications from 11 organizations that were seeking NMLS approval to become a course provider. SRR approved three new providers. SRR did not have any applications denied this year. SRR processed and approved 78 provider renewals this year.

Course Provider Working Group

Initially established in 2015, the Course Provider Working Group (CPWG) continues to review and make policy recommendations to SRR. The CPWG provided feedback on the policy change for the approval of online state-specific PE that is 10 hours or less from instructor led to self-study. The CPWG also participated in the annual review of the functional specifications that govern the technical design and delivery of NMLS-approved courses. Current CPWG members are listed in [Appendix E](#).

Mortgage Testing and Education Board

The Mortgage Testing and Education Board (MTEB), created in 2009 by the SRR Board of Managers, is comprised of at least nine state regulators representing each of the five CSBS Districts and at least one AARMR representative. The MTEB's primary mission is to provide guidance and recommendations to SRR staff, the NMLSPC and the SRR Board of Managers on a range of issues affecting implementation and operations of SAFE Act MLO testing and education programs. In addition, the MTEB performs an appellate role as necessary for investigations involving violations of the Rules of Conduct for Test Takers and Education Students and the Standards of Conduct for Course Providers.



Figure 34. 2019 Mortgage Testing and Education Board

From Left to Right: Beth Henderson (NC), Jeff Thomas (AL), Justin Accola (TX), Edward Myslik (ME), Alison Kiyotoki (HI), Brenda Fanning (WY), Robin Brown (MN), Lorelei Botner Abrams (IL)

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 the Consumer Financial Protection Bureau (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 the CFPB.

The NMLS Criminal Background Check (CBC) system continues to comply with the Criminal Justice Information Services (CJIS) Security Policy.

Annual Compliance with the Payment Card Industry Data Security Standard (PCI DSS) was completed and attestation documents for SRR, for period ended December 2018, were 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 and is in the process of being updated in preparation for the NMLS modernization effort.

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, Federal Agency and Surety Bond Industry Terms of Use are general system user agreements that an industry or regulator user must agree to as part of the NMLS login process. Copies of these system user agreements can be found on the [NMLS Resource Center](#). SRR has updated these agreements to accommodate functionality that will be developed for the modernized NMLS.

There are two Credit Terms of Use agreements: one for state-licensed mortgage loan originators (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.

Litigation

SRR was not subject to any significant litigation in 2019. SRR won a summary judgement against a course provider and its associates for copyright violations concerning test questions that had been associated with the NMLS National Test that appeared in their course materials. The summary judgement also included breach of contract against a SME involved with that company who helped write test questions for NMLS. NMLS settled the claims in order to resolve the litigation prior to the trial on damages.

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, 2019 was underway, but the final report had not been presented. When available, a copy of the final audit report will be posted on the [CSBS website](#).

OUTLOOK

Looking ahead, 2020 will continue to include significant financial investments in technology with the development of a modernized NMLS with new and enhanced system functionality. 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, and 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.

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Looking Ahead

Appendix A: Organizational Governance

The guiding principles and policy decisions that drive the continuing evolution of the State Regulatory Registry's (SRR's) operations are 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 benefits from the valuable insight industry working group participants provide.

State Regulatory Registry LLC

SRR is a nonprofit 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 from AARMR¹. The SRR board of managers is responsible for all development, operations and policy matters concerning NMLS. SRR operates as a subsidiary of CSBS².

At the end of 2019, SRR had 46 full-time equivalent staff, located primarily in Washington, D.C. These professionals work to develop, enhance and operate NMLS, oversee SAFE Act compliance, including administer the testing and education programs. SRR staff also manage relationships with state and federal regulators, and industry working groups related to state licensing, federal registration, supervision and NMLS policy. In addition, SRR contracts with the Consumer Financial Protection Bureau to register mortgage loan originators (MLOs)

through the NMLS Federal Registry, as well as with other vendors to deliver NMLS functionality and program oversight.

NMLS Ombudsman

The SRR Board of Managers created the NMLS Ombudsman position in 2009 to provide NMLS industry users and other interested parties 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 NMLS industry users and state regulators to work mutually toward the goal of efficient financial services regulation.

The NMLS Ombudsman is a member of the NMLS Policy Committee and reports to the SRR Board of Managers. In 2019, Scott Corscadden, Supervisor, Bureau of Loans, Alabama State Banking Department served as the NMLS Ombudsman.

¹ 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.

² 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 nearly 80 percent 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.

NMLS Policy Committee

The NMLS Policy Committee (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 NMLSPC is comprised of 11 state regulators, including the NMLS Ombudsman, representatives from each of the five CSBS Districts, and representatives from AARMR, MTRA³, NACCA⁴ and NACARA⁵.

Mortgage Testing and Education Board

The Mortgage Testing and Education Board (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

The Industry Advisory Council (IAC) provides industry input on NMLS policies and operations. IAC members consist of individuals from state-licensed nonbank financial services companies, financial institutions and financial services-related industry trade groups.

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 committee also helps provide a multistate perspective on issues of interpretation and offers recommendations to facilitate a more uniform application of law on a nationwide basis. The SRR Lawyers Committee does not provide SRR with legal advice.

NMLS Participating States Committee

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

Industry Development Working Group

The Industry Development Working Group (IDWG) is comprised of NMLS industry users. The IDWG meets to discuss NMLS operations, enhancements and development issues. The group ensures, to the fullest extent possible, that the system provides industry users an efficient and effective mechanism

³ MTRA is a national nonprofit 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.

⁴ 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.

⁵ NACARA is comprised of the various regulatory agencies in the United States, its territories and Canada that oversee the activities of third-party debt collectors.



for applying for and maintaining their state financial services licenses.

Large Institutions Working Group

The Large Institutions Working Group (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 MLOs.

Ad Hoc Working Groups

SRR establishes state regulator and industry working groups and committees as needed to determine NMLS policy and development; and set the direction for operational needs. Working groups that convened during 2019 include:

- Consumer Finance Call Report Working Group
- Course Provider Working Group
- Key Individual Wizard Initiative Working Group
- Mortgage Call Report Working Group
- Money Services Businesses Call Report Working Group
- SES Regulator Stakeholder Steering Group

Appendix E includes a membership list for the SRR Board of Managers, NMLSPC, MTEB, IAC, SRR Lawyers Committee, IDWG, LIWG and 2019 Ad Hoc Working Groups.

Appendix B: SAFE Act

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 (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

Under the provisions of the SAFE Act, the U.S. Department of Housing and Urban Development (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 NMLS, and as the arbiter of state law consistent with the mandates of the SAFE Act, to the Consumer Financial Protection Bureau (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 Federal Bureau of Investigation for a criminal background check, and state-licensed MLOs to provide authorization for NMLS to obtain an independent credit report.

State legislation must establish financial responsibility standards and require that all MLOs are covered by a surety bond, net worth requirements, or recovery fund. In addition, 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 the 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 in the rules. The rules stipulate that a supervisory authority 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: Alabama, Arizona, California Department of Business Oversight, Hawaii, Idaho, Iowa, Kentucky, Louisiana, Maryland, Massachusetts, Mississippi, Montana, 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, 2015¹. This law amended section 1511 of the SAFE Act, giving state regulators the explicit authority to use NMLS to process background checks for nonbank 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 MLOs.

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 authority².

The Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155), which was signed into law on May 24, 2018, added a new section to the federal SAFE Act (12 U.S.C. 5101 et seq.) entitled "Employment Transition of Loan Originators." These amendments became effective November 24, 2019, 18 months after enactment.

Temporary Authority (TA) to act as a loan originator permits qualified MLOs who are either 1) changing employment from a depository institution to a state-licensed mortgage company or 2) a state-licensed MLO seeking licensure in another state, to continue originating loans while completing state-specific requirements for licensure, such as education or testing.

To be eligible for TA, an MLO must be:

- Employed by a state-licensed mortgage company in the application state and either;
 - Registered in NMLS as an MLO continuously during the one-year preceding application submission, or
 - Licensed as an MLO continuously during the 30-day period preceding the date of application.

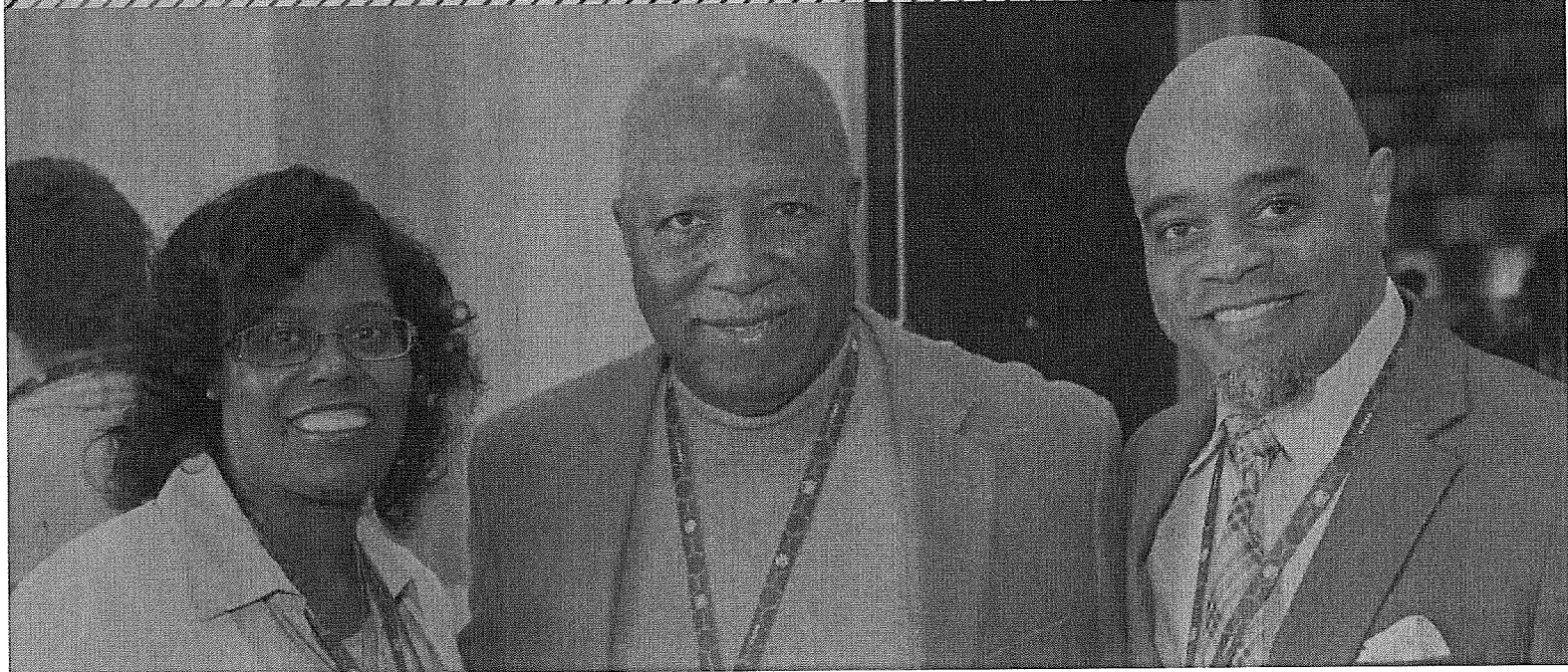
MLOs are not eligible for TA if they have:

- Been convicted of a misdemeanor or felony that would preclude licensure under the law of the application state

TA begins on the date an eligible MLO submits a license application with the required background check information (fingerprints, personal history and experience, and authorization for a credit report as required in 12 USC 5104(a)), assuming there is no disqualifying event. It ends when the earliest of the following occurs:

¹ See Title VXXXVII of the Fixing America's Surface Transportation Act ("Fast Act") Pub. L. No. 114-94, sec. 88002 (Dec. 4, 2015).

² See Section 703 of the 2015 Omnibus Appropriations bill (Pub. L. No. 114-113).



- The MLO withdraws the application
- The state denies or issues an intent to deny the MLO's application
- The state grants the MLO a license
- The MLO application is listed on NMLS as incomplete 120 days after it was submitted

S. 2155 specifies that MLOs operating under TA are subject to the requirements of the federal SAFE Act, and all applicable laws of the application state, to the same extent as if that MLO was a state-licensed loan originator licensed by the state.

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 issuing NMLS Unique Identifiers
- Receiving and processing 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 licensed residential MLOs
- Developing and implementing the NMLS Mortgage Call Report

Making publicly adjudicated disciplinary and enforcement actions available to the public via NMLS Consumer Access. State actions started being posted in 2012. In 2013, self-reported disciplinary actions for federally registered MLOs started being displayed. As of year-end 2019, 10,420 different regulatory actions, posted by 51 state agencies and the CFPB, were displayed in NMLS Consumer Access.



Appendix C: NMLS Unique Identifier

As required by Section 1503 of the SAFE Act, NMLS assigns a permanent NMLS Unique Identifier (NMLS ID) to each state-licensed or federally registered MLO. NMLS also assigns an NMLS ID to each company, branch and control person who 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 cannot avoid regulatory supervision in one state by crossing into another state. The NMLS ID also allows consumers and 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 federally registered institution or MLO through NMLS Consumer Access.

The importance of the NMLS ID has been recognized by the Federal Housing Finance Agency and the U.S. Department of Housing and Urban Development. 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 who originated the mortgage loan.

In addition, the FHA collects the NMLS ID for all individuals and entities that participate in originating FHA loans. The NMLS ID is also widely used by the private sector, particularly investors and compliance management providers, to ensure purchased loans are being made in compliance with federal and state laws, and to track originator performance levels.

For additional information on the NMLS Unique Identifier and how it is used, visit 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 most 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
- Fees for the National Test component
- Education fees related to:
 - 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 collecting fingerprints and distribution of the Federal Bureau of Investigation's (FBI's) criminal history record information to authorized recipients
- Credit report fee for pulling a single-bureau report for use by state regulators
- Two-factor subscription fee for providing dual factor authentication for 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, including the NMLS Call Center, NMLS Consumer Access, system access, updating a licensee's record and system reports are provided to users at no charge.

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

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



NMLS Processing Fees

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

- **Initial Set-up Fee.** 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 in which the reactivation request occurs.

NMLS Testing and Education Fees

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

National Test with Uniform State Content Fee: \$110 (contains 125 questions with an appointment time of 225 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 in which a course provider records a candidate's or licensee's SAFE Act required education hours in NMLS. NMLS-approved course providers set the fee MLOs pay to take an NMLS-approved course.

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. System functionality allows 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 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 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 (M&A) 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 the acquiring institution

More information about NMLS fees is available on the [NMLS Resource Center](#).

Appendix E: Committee and Working Group Rosters

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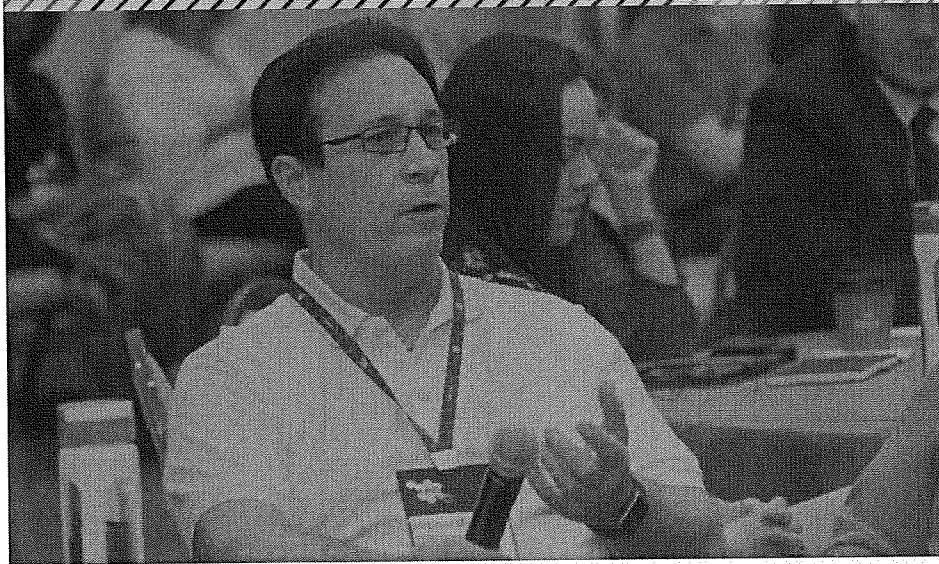
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Washington Department
of Financial Institutions

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Washington Department
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Mr. Michael Collins
Massachusetts Division
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Ms. Lindsay Maynard
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of Financial Institutions

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Illinois Department
of Financial and
Professional Regulation

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Georgia Department of
Banking and Finance

Mr. Edward Pike
Vermont Department of
Financial Regulation

Mr. Anthony Polidori
Idaho Department of
Finance

Mr. Rock Posey
California Department of
Business Oversight

Mr. Michael Poullos
New Hampshire State
Banking Department

Mr. Andy Reid
Georgia Department of
Banking and Finance

Mr. Shahid Salehjee
California Department of
Business Oversight

Mr. Daryl Wetter
Kansas Office of
the State Bank
Commissioner

Staff
Mr. Kyle Thomas
Vice President, SES
Business Services

Mr. Tony Vasile
Senior Director,
Nonbank Supervision
and Enforcement

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IMPORTANT NMLS CONTACT INFORMATION



PHONE NUMBER:

For questions related to NMLS, please contact the NMLS Call Center at **1-855-NMLS-123**



EMAIL:

NMLS Ombudsman
(ombudsman@nmls.org)



ADDRESS:

State Regulatory Registry LLC
1129 20th Street N.W., 9th Floor
Washington, DC 20036

WEBSITES:

NMLS Modernization
www.csbs.org/nmls-20

NMLS Resource Center
www.nmls.org

NMLS Consumer Access
<https://mortgage.nationwidelicencingsystem.org/about/Pages/NMLSConsumerAccess.aspx>

Federal Registry Resource Center
<https://fedregistry.nationwidelicencingsystem.org/Pages/default.aspx>

NMLS Call Center
<https://mortgage.nationwidelicencingsystem.org/about/Pages/HoursofOperation.aspx>

NMLS B2B Access
<https://mortgage.nationwidelicencingsystem.org/about/Pages/NMLSB2BAccess.aspx>

NMLS Annual Conference & Training
www.nmlsconference.org

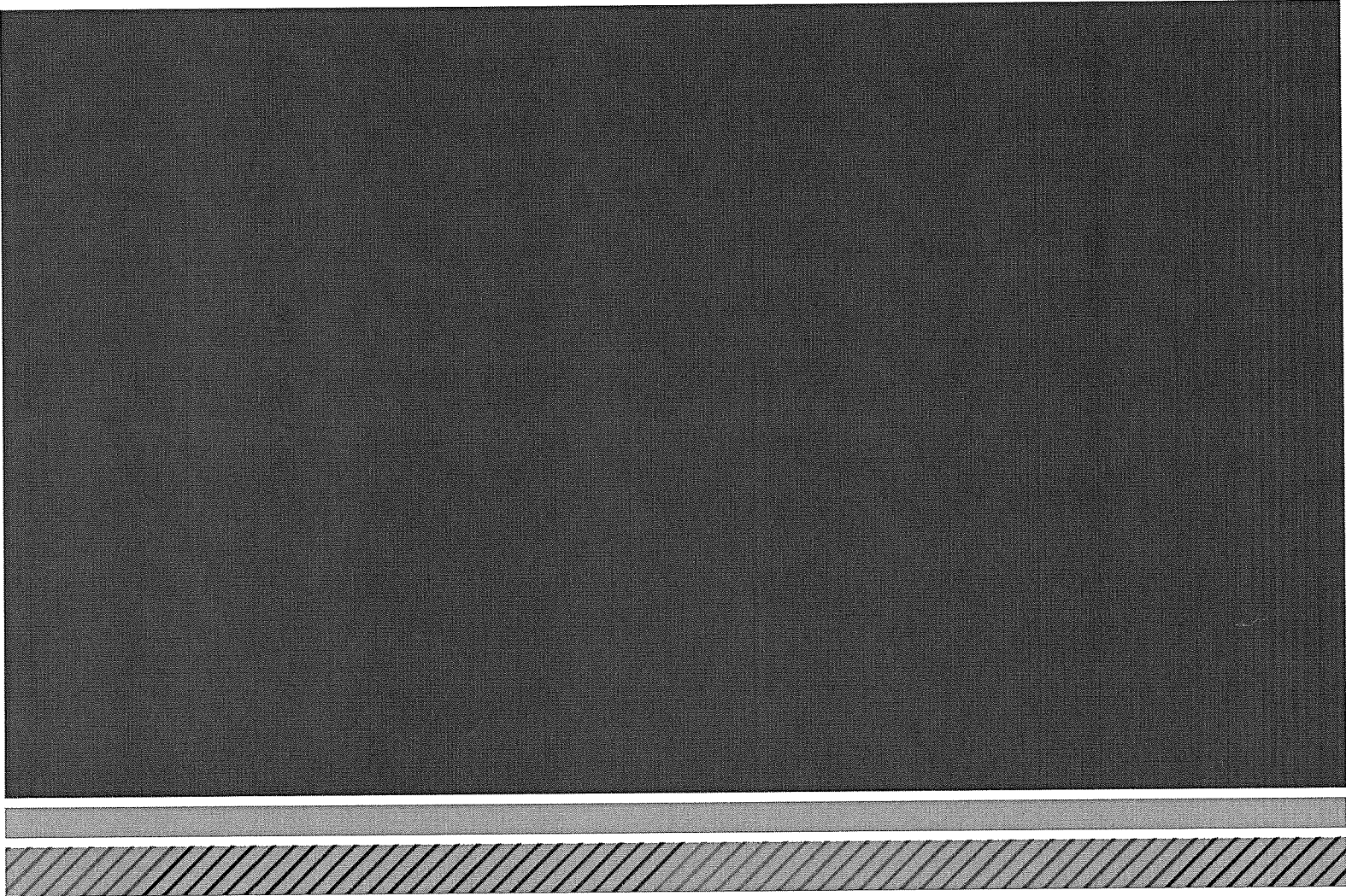
NMLS Ombudsman
<https://mortgage.nationwidelicencingsystem.org/contact/Pages/Ombudsman.aspx>

Criminal Justice Information Services Security Policy
www.fbi.gov/services/cjis/cjis-security-policy-resource-center

NMLS Privacy, Data Security and Security Breach Notification Policy
https://mortgage.nationwidelicencingsystem.org/about/policies/Pages/SystemPrivacyPolicy_old.aspx



STATE REGULATORY REGISTRY LLC



STATE REGULATORY REGISTRY LLC

1129 20th Street N.W., 9th Floor

Washington, DC 20036

202.296.2840

ATTACHMENT

**State Regulatory Registry LLC
2019 Audited Financial Statements**

State Regulatory Registry LLC

Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

Board of Managers
State Regulatory Registry LLC

Report on the Financial Statements

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 statement of financial position as of December 31, 2019, the related statements of operations and member's equity and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of State Regulatory Registry LLC, as of an for the year ended December 31, 2018, were audited by other auditors whose report, dated April 22, 2019, expressed an unmodified opinion on those financial statements.

RSM US LLP

Washington, D.C.
May 26, 2020

State Regulatory Registry LLC

**Statements of Financial Position
December 31, 2019 and 2018**

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 75,276,535 | \$ 75,182,380 |
| Accounts receivable, net | 545,267 | 856,265 |
| Investments | 63,169,603 | 57,787,313 |
| Prepaid expenses and other | 211,366 | 168,977 |
| Due from related parties, net | 526,005 | - |
| Property and equipment, net | 30,062,897 | 16,600,221 |
| Total assets | \$ 169,791,673 | \$ 150,595,156 |
| Liabilities and Member's Equity | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 6,582,973 | \$ 5,574,482 |
| Deferred revenue | 1,433,786 | 1,197,421 |
| Due to related party, net | 3,543,187 | 295,324 |
| Total liabilities | 11,559,946 | 7,067,227 |
| Commitments and contingencies (Note 8) | | |
| Member's equity: | | |
| Undesignated | 30,201,286 | 16,600,224 |
| Designated for reserves and development | 128,030,441 | 126,927,705 |
| Total member's equity | 158,231,727 | 143,527,929 |
| Total liabilities and member's equity | \$ 169,791,673 | \$ 150,595,156 |

See notes to financial statements.

State Regulatory Registry LLC

**Statement of Operations and Member's Equity
Year Ended December 31, 2019**

| | Operations (Undesignated) | Designated for Reserves and Development | Total |
|--|------------------------------|---|-----------------------|
| Revenue: | | | |
| NMLS processing fees | \$ 51,712,936 | \$ 911,199 | \$ 52,624,135 |
| NMLS professional services, net | 11,045,944 | 191,537 | 11,237,481 |
| Registration fees | 241,562 | - | 241,562 |
| Other income | 318 | - | 318 |
| Net investment income | 6,512,739 | - | 6,512,739 |
| Total revenue and support | 69,513,499 | 1,102,736 | 70,616,235 |
| Expenses: | | | |
| Program expenses: | | | |
| NMLS system operations | 12,839,875 | - | 12,839,875 |
| NMLS professional services | 810,979 | - | 810,979 |
| NMLS – call center | 4,738,830 | - | 4,738,830 |
| Professional services – legal, audit and other | 4,612,236 | - | 4,612,236 |
| Staff, board and member travel/meetings | 1,356,406 | - | 1,356,406 |
| Grants to CSBS and Education Foundation | 3,210,004 | - | 3,210,004 |
| Staffing and administrative expenses: | | | |
| Salaries and benefits | 22,027,619 | - | 22,027,619 |
| Technology and general office | 4,363,873 | - | 4,363,873 |
| Rent and occupancy | 1,952,615 | - | 1,952,615 |
| Total expenses | 55,912,437 | - | 55,912,437 |
| Change in member's equity | 13,601,062 | 1,102,736 | 14,703,798 |
| Member's equity | | | |
| Beginning | 16,600,224 | 126,927,705 | 143,527,929 |
| Ending | \$ 30,201,286 | \$ 128,030,441 | \$ 158,231,727 |

See notes to financial statements.

State Regulatory Registry LLC

**Statement of Operations and Member's Equity
Year Ended December 31, 2018**

| | Operations (Undesignated) | Designated for Reserves and Development | Total |
|--|------------------------------|---|-----------------------|
| Revenue: | | | |
| NMLS processing fees | \$ 40,788,125 | \$ 10,041,915 | \$ 50,830,040 |
| NMLS professional services, net | 8,766,665 | 2,149,115 | 10,915,780 |
| Registration fees | 248,751 | - | 248,751 |
| Other income | 3,086,000 | - | 3,086,000 |
| Net investment income | 162,071 | - | 162,071 |
| Total revenue and support | 53,051,612 | 12,191,030 | 65,242,642 |
| Expenses: | | | |
| Program expenses: | | | |
| NMLS system operations | 11,967,375 | - | 11,967,375 |
| NMLS professional services | 1,057,991 | - | 1,057,991 |
| NMLS – call center | 4,629,532 | - | 4,629,532 |
| Professional services – legal, audit and other | 8,306,974 | - | 8,306,974 |
| Staff, board and member travel/meetings | 1,395,095 | - | 1,395,095 |
| Grants to CSBS and Education Foundation | 720,000 | - | 720,000 |
| Staffing and administrative expenses: | | | |
| Salaries and benefits | 18,639,981 | | 18,639,981 |
| Technology and general office | 3,789,955 | | 3,789,955 |
| Rent and occupancy | 1,999,667 | - | 1,999,667 |
| Total expenses | 52,506,570 | - | 52,506,570 |
| Change in member's equity | 545,042 | 12,191,030 | 12,736,072 |
| Member's equity: | | | |
| Beginning | 22,055,182 | 108,736,675 | 130,791,857 |
| Designation of net assets to reserve | (6,000,000) | 6,000,000 | - |
| Ending | \$ 16,600,224 | \$ 126,927,705 | \$ 143,527,929 |

See notes to financial statements.

State Regulatory Registry LLC

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|---------------------|--------------------|
| Cash flows from operating activities: | | |
| Change in member's equity | \$ 14,703,798 | \$ 12,736,072 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,807,400 | 3,507,744 |
| Loss on disposition of assets | - | 1,947,217 |
| (Gain) loss on investments, net | (3,743,813) | 2,116,428 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 310,998 | (249,689) |
| Prepaid expenses | (42,389) | (54,785) |
| (Decrease) increase in: | | |
| Accounts payable and accrued expenses | 1,008,491 | (304,519) |
| Due to related parties, net | 2,721,858 | 535,476 |
| Deferred revenue | 236,365 | 148,737 |
| Net cash provided by operating activities | 18,002,708 | 20,382,681 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (16,270,076) | - |
| Purchases of investments | (1,664,262) | (1,602,390) |
| Proceeds from sales of investments | 25,785 | 25,781 |
| Net cash used in investing activities | (17,908,553) | (1,576,609) |
| Net increase in cash and cash equivalents | 94,155 | 18,806,072 |
| Cash and cash equivalents: | | |
| Beginning | 75,182,380 | 56,376,308 |
| Ending | \$ 75,276,535 | \$ 75,182,380 |

See notes to financial statements.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations: The State Regulatory Registry LLC (SRR) 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) and is therefore, consolidated with the Conference and its affiliates. 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.

The NMLS was created to comply with the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act). 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. All individual mortgage loan originators are represented in the system.

A summary of SRR's significant accounting policies follows:

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.

Basis of presentation: SRR reports as a for profit entity even though it is a disregarded entity of the Conference and reported on the Center's form 990 information return.

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.

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.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to investment return net of related fees.

SRR invests funds in a professionally managed portfolio that contains money market funds, 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.

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 both December 31, 2019 and 2018. This allowance is regularly reviewed by management.

Property and equipment: Acquisitions of property and equipment greater than \$5,000 are recorded at cost. The initial capitalized development costs of NMLS began amortizing when the system went live on January 2, 2008, and they have been fully 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 is amortized over the estimated useful lives of each release, which has also been determined to be seven years. During the years ended December 31, 2019 and 2018, SRR recognized \$2,807,400 and \$3,507,744, respectively, of amortization expense related to capitalized NMLS development costs.

SRR's various information technology applications are currently in the process of being upgraded. Accordingly, SRR had capitalized work-in-progress development costs of \$24,073,498 and \$25,707,052 within the NMLS development category as of the years ended December 31, 2019 and 2018, respectively. Amortization of these amounts will begin when the assets are placed into service.

Impairment policy: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. During the years ended December 31, 2019 and 2018, management did not consider the value of any property or equipment or intangible assets to be impaired.

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

State Regulatory Registry LLC

Notes to the Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Adopted accounting pronouncements: During 2019, SRR adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. ASU 2014-09 replaces most existing revenue recognition guidance in generally accepted accounting principles (GAAP). This standard also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. SRR adopted the new standard effective for the year ended December 31, 2019 using the full retrospective method. Based on SRR's review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard with the exception of certain NMLS professional services revenue streams which are now considered to be agency transactions. The adoption of this standard required \$9,928,100 of NMLS professional expenses to be reclassified to net with NMLS professional fee revenue within the statements of operations and member's equity and changes in net assets for the year ended December 31, 2018, but had no effect on the previously reported change in member's equity.

Revenue: SRR's activities are primarily supported through NMLS license processing fees, and NMLS professional fees. Prices charged to customers are specific to distinct performance obligations and do not consist of multiple transactions. Economic factors are driven by consumer confidence, employment, inflation and other world events that impact the timing and level of cash received and revenue recognized by SRR. Periods of economic downturn resulting from any of the above factors may result in declines in future cash flows and recognized revenue of SRR.

SRR did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components. Finally, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

NMLS processing fees: NMLS processing fees revenue consists of NMLS license processing fees, credit card service fees, and NMLS subscription revenue.

NMLS license processing fees are fixed amounts charged by SRR to facilitate the obtainment and renewal of licenses through the NMLS. When a license issuance or renewal request is initiated by the customer within the NMLS, the request is transmitted to the selected state agencies who are responsible for making the licensing determination to issue or renew a license. Credit card service fees are fixed amounts charged by SRR to process customer payments through the NMLS. License processing and credit card service fees are recognized at the point in time when SRR processes the transactions through the NMLS. For the years ended December 31, 2019 and 2018, respectively, license processing and credit card processing revenue recognized at a point in time totaled \$50,101,046 and \$48,414,482.

NMLS subscription revenue consists of two-factor subscriptions and B2B subscriptions. For two-factor subscriptions, the customer receives the use of a two-factor authentication tool to meet NMLS security requirements for a period of one year. For B2B subscriptions, the customer receives access to various resources and data online for the selected weekly, monthly, or annual period. SRR's performance obligation for two-factor and B2B subscriptions are considered to occur evenly over the period of the subscriptions. Amounts received for subscriptions are deferred upon receipt and recognized ratably over the subscription period. For the years ended December 31, 2019 and 2018, respectively, subscription revenue recognized over time totaled \$2,523,089 and \$2,415,558.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

NMLS professional fees: NMLS professional fees represent the fees charged by SRR to facilitate the pre-licensure requirements of the SAFE Act. These fees include state and national test fees, fingerprinting fees, credit report fees and course provider fees.

For state and national test fees, SRR has a performance obligation to act as an agent in processing the customer request through the NMLS to register for exams. After the request is processed through the NMLS, all aspects of exam registration and administration are the responsibility of a third party provider. For fingerprinting fees, SRR has a performance obligation to act as an agent in processing the customer request through the NMLS for a criminal background check. After the request is processed through the NMLS, all aspects of the criminal background check are performed by the Federal Bureau of Investigation with results returned to the state agencies. For credit report fees, SRR has a performance obligation to act as an agent in processing the customer request through the NMLS for an independent credit report. After the request is processed through the NMLS, the credit report is created by a third party provider with results returned to the state agencies. State and national test fees, fingerprinting fees, and credit report fees are recognized at the point in time when the customer request is processed through the NMLS. For the years ended December 31, 2019 and 2018, respectively, state and national test fees fingerprinting fees and credit report fees revenue recognized at a point in time totaled \$7,000,511 and \$6,733,444 net of expenses paid to the third-party providers.

Course provider fees consist of course application fees and credit banking fees. As part of the SAFE Act pre-licensure requirements, licensure applicants must have a certain amount of continuing education credits in approved courses. Course application fees represent SRR's performance obligation to make an approval decision as to whether a course meets the continuing professional education requirements of the SAFE Act. Course application fees are recognized at the point in time when SRR has rendered an approval decision to the course provider. Credit banking fees represent SRR's performance obligation to track education courses that count towards licensure requirements within the licensure applicant's record in the NMLS. Credit banking fees are paid by the course providers to SRR when courses have been completed and revenue is recognized at the point in time when SRR has recorded the course completion details in the NMLS. For the years ended December 31, 2019 and 2018, respectively, course provider fees recognized at a point in time totaled \$4,236,970 and \$4,182,336.

Allocation of functional expenses: Expenses have been summarized on a functional basis in Note 9. Accordingly, costs primarily associated with personnel, professional fees, information technology, supplies, and other shared services have been allocated among the program and supporting services benefited on the basis of the labor costs utilized by each area.

Subsequent events: Subsequent events have been evaluated through May 26, 2020 which is the date the financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 10, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact SRR's operations, suppliers or other vendors, and customer base. The operations for SRR's services could be negatively impacted by the regional and global outbreak of COVID-19. Any quarantines, labor shortages or other disruptions to SRR's operations, or those of its customers, may adversely impact SRR's revenues, ability to provide its services and operating results. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in which SRR operates, resulting in an economic downturn that could affect demand for its services. The extent to which the coronavirus impacts SRR's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 2. Investments

Investments consist of the following at December 31:

| | 2019 | 2018 |
|---------------------------|----------------------|----------------------|
| Fixed income mutual funds | \$ 28,343,053 | \$ 27,248,240 |
| Bond market ETFs | 23,071,381 | 21,243,551 |
| Equity mutual funds | 10,150,407 | 7,984,139 |
| Equity ETFs | 1,595,448 | 1,301,622 |
| Money market funds | 9,314 | 9,761 |
| Total investments | <u>\$ 63,169,603</u> | <u>\$ 57,787,313</u> |

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

| | 2019 | 2018 |
|--------------------------------|---------------------|-------------------|
| Dividends and interest | \$ 2,780,559 | \$ 2,304,280 |
| Net gain (loss) on investments | 3,743,813 | (2,116,428) |
| Investment fees | (11,633) | (25,781) |
| Net investment income | <u>\$ 6,512,739</u> | <u>\$ 162,071</u> |

Note 3. Fair Value Measurements

The Fair Value Measurement Topic of the ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this topic as assumptions market participants would use in pricing an asset or liability.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. As required by the Fair Value Measurement Topic, SRR does not adjust the quoted prices for these investments even in situations where SRR holds a large position and a sale could reasonably impact the quoted price.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement. There were no Level 2 inputs for any assets or liabilities held by SRR at December 31, 2019 and 2018.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category are investments where fair value is not based on a NAV practical expedient. There were no Level 3 inputs for any assets or liabilities held by SRR at December 31, 2019 and 2018.

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Notes to the Financial Statements

Note 3. Fair Value Measurements (Continued)

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, 2019 and 2018:

| 2019 | Total | Level 1 | Level 2 | Level 3 |
|-----------------------------------|----------------------|----------------------|-------------|-------------|
| Fixed income mutual funds | \$ 28,343,053 | \$ 28,343,053 | \$ - | \$ - |
| Bond market ETFs | 23,071,381 | 23,071,381 | - | - |
| Equity mutual funds | 10,150,407 | 10,150,407 | - | - |
| Equity ETFs | 1,595,448 | 1,595,448 | - | - |
| Money market funds | 9,314 | 9,314 | - | - |
| Investments carried at fair value | <u>\$ 63,169,603</u> | <u>\$ 63,169,603</u> | <u>\$ -</u> | <u>\$ -</u> |
| 2018 | Total | Level 1 | Level 2 | Level 3 |
| Fixed income mutual funds | \$ 27,248,240 | \$ 27,248,240 | \$ - | \$ - |
| Bond market ETFs | 21,243,551 | 21,243,551 | - | - |
| Equity mutual funds | 7,984,139 | 7,984,139 | - | - |
| Equity ETFs | 1,301,622 | 1,301,622 | - | - |
| Money market funds | 9,761 | 9,761 | - | - |
| Investments carried at fair value | <u>\$ 57,787,313</u> | <u>\$ 57,787,313</u> | <u>\$ -</u> | <u>\$ -</u> |

Note 4. Related Party Transactions

Due to/from related party – Conference: 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. 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 \$2,980,579 and \$315,236 at December 31, 2019 and 2018, respectively.

Due to/from related party – CSBS Education Foundation: At December 31, 2018, CSBS Education Foundation (the Foundation) owed SRR \$19,912 for expenses paid by SRR on the Foundation's behalf. At December 31, 2019, SRR owed CSBS Education Foundation (the Foundation) \$97,500 for expenses paid by the Foundation on SRR's behalf.

Grants to affiliates: For the years ended December 31, 2019 and 2018, SRR made unconditional grants to the Foundation of \$1,060,000 and \$720,000, respectively. The grants to the Foundation represent general support for the Foundation's education programs. For the years ended December 31, 2019 and 2018, SRR made an unconditional grant to the Conference in the amount of \$2,150,004 and \$1,500,000 for the years ended December 31, 2019 and 2018, respectively. The grants to the Conference are for the purpose of reimbursing the Conference for non-depository activities performed in support of SRR's program.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 4. Related Party Transactions (Continued)

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 \$3,135,949 and \$2,426,185 of its benefit costs to SRR for the years ended December 31, 2019 and 2018, 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 D.C. offices.

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

| | 2019 | 2018 |
|--------------------------------------|----------------------|----------------------|
| Salaries and benefits | \$ 8,297,835 | \$ 7,337,954 |
| Rent and occupancy | 2,096,602 | 1,999,667 |
| Overhead and administrative services | 7,807,347 | 5,666,817 |
| Total allocated costs | <u>\$ 18,201,784</u> | <u>\$ 15,004,438</u> |

Note 5. Property and Equipment

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

| | 2019 | 2018 |
|---|----------------------|----------------------|
| NMLS development | \$ 73,779,241 | \$ 57,509,165 |
| NMLS capitalized test development costs | 869,961 | 1,009,641 |
| Cogent Background Check Automation System | 505,838 | 505,838 |
| | <u>75,155,040</u> | <u>59,024,644</u> |
| Less accumulated amortization | (45,092,143) | (42,424,423) |
| Total property and equipment, net | <u>\$ 30,062,897</u> | <u>\$ 16,600,221</u> |

Note 6. 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 total member's equity less investments in items such as NMLS development costs and capitalized test development costs. Thus, the reserve balance at December 31, 2019 and 2018 was \$128,030,441 and \$126,927,705, respectively.

Note 7. Liquidity

SRR strives to maintain liquid financial assets sufficient to cover general expenditures anticipated within one year. Financial assets in excess of daily cash requirements are invested in overnight treasury sweep accounts with commercial banks, mutual funds and exchange-traded funds (ETFs).

State Regulatory Registry LLC

Notes to the Financial Statements

Note 7. Liquidity (Continued)

The following table reflects SRR's financial assets that are available to meet general expenditures within one year of the statement of financial position date. Amounts not available are primarily board-designated funds as determined under SRR's Reserve Policy and Liquidity Policy. Continuing development and enhancement of the NMLS licensing database is the largest anticipated future need. In the event the need arises to utilize the board-restricted funds for liquidity purposes, the reserves could be drawn upon through board resolution.

| | 2019 | 2018 |
|---|-----------------------|----------------------|
| Cash and cash equivalents | \$ 75,276,535 | \$ 75,182,380 |
| Investments | 63,169,603 | 57,787,313 |
| Accounts receivable | 545,267 | 856,265 |
| Total financial assets | <u>138,991,405</u> | <u>133,825,958</u> |
| Board-designated funds for future development | <u>(38,428,402)</u> | <u>(34,171,226)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 100,563,003</u> | <u>\$ 99,654,732</u> |

Note 8. Commitments and Contingencies

Vendor relationship: The development of NMLS and its update releases is performed by the Financial Industry Regulatory Authority (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 contract was subsequently terminated during 2018 when the Boards and management of SRR and CSBS decided to take the project in a different direction. The process to choose a new vendor is underway and a new vendor is expected to be selected in July 2020.

Budgeted expenditures range between \$50 million and \$90 million and the project is expected to be completed over several years.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 9. Functional Presentation of Expenses

The schedule of functional expense at December 31, 2019 and 2018, respectively, was as follows:

| | Program Services NMLS | Management and General | Total |
|--|-----------------------------|---------------------------|----------------------|
| Expenses: | | | |
| NMLS system operations | \$ 12,839,875 | \$ - | \$ 12,839,875 |
| NMLS professional services | 810,979 | - | 810,979 |
| NMLS – call center | 4,738,830 | - | 4,738,830 |
| Professional services – legal, audit and other | 1,646,248 | 2,965,988 | 4,612,236 |
| Staff, board and member travel/meetings | 1,028,890 | 327,516 | 1,356,406 |
| Grants to CSBS and Education Foundation | 3,210,004 | - | 3,210,004 |
| Salaries and benefits | 15,450,586 | 6,577,033 | 22,027,619 |
| Technology and general office | 1,337,031 | 3,026,842 | 4,363,873 |
| Rent and occupancy | 1,743,406 | 209,209 | 1,952,615 |
| Total 2019 expenses by nature and function | <u>\$ 42,805,849</u> | <u>\$ 13,106,588</u> | <u>\$ 55,912,437</u> |
| | | | |
| | Program Services NMLS | Management and General | Total |
| Expenses: | | | |
| NMLS system operations | \$ 11,967,375 | \$ - | \$ 11,967,375 |
| NMLS professional services | 1,057,991 | - | 1,057,991 |
| NMLS – call center | 4,629,532 | - | 4,629,532 |
| Professional services – legal, audit and other | 5,305,298 | 1,501,676 | 6,806,974 |
| Staff, board and member travel/meetings | 1,111,615 | 283,480 | 1,395,095 |
| Grants to CSBS and Education Foundation | 2,220,000 | - | 2,220,000 |
| Salaries and benefits | 13,092,870 | 5,547,111 | 18,639,981 |
| Technology and general office | 1,238,924 | 2,551,031 | 3,789,955 |
| Rent and occupancy | 1,757,283 | 242,384 | 1,999,667 |
| Total 2018 expenses by nature and function | <u>\$ 42,380,888</u> | <u>\$ 10,125,682</u> | <u>\$ 52,506,570</u> |