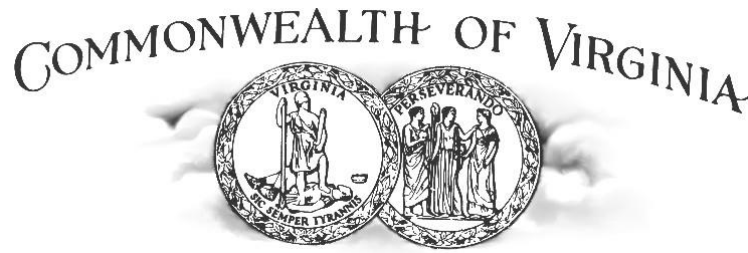


E. J. FACE, JR.  
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**STATE CORPORATION COMMISSION  
BUREAU OF FINANCIAL INSTITUTIONS**

June 28, 2022

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

The Honorable Kathy J. Byron, Chair,  
House Committee on Commerce and  
Energy

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

Sincerely,

A handwritten signature in black ink, appearing to be "E. J. Face, Jr.", written in a cursive style.

E. J. Face, Jr.

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



# **Report on the Operations of State Regulatory Registry LLC and the Nationwide Multistate Licensing System and Registry**

**Prepared by the  
Bureau of Financial Institutions  
State Corporation Commission**

**June 28, 2022**

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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:

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

On behalf of the Commission, its Bureau of Financial Institutions ("Bureau") is pleased to submit this report on the 2021 operations of the State Regulatory Registry LLC ("SRR") and the Nationwide Multistate Licensing System and Registry ("NMLS") (the "Registry").

SRR was formed in 2006 and is a non-profit corporation based in Washington, D.C. SRR is a 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. SRR is directed by a board of managers consisting of state regulators. SRR owns and operates NMLS on behalf of state financial services regulatory agencies and carries out mortgage loan originator ("MLO") testing and education requirements under Title V of the *Housing and Economic Recovery Act of 2008* – specifically, the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 ("SAFE Act").

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<sup>1</sup> Code § 6.2-1700 defines "Nationwide Multistate Licensing System and Registry" or "Registry" as "a mortgage licensing system developed and maintained by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators for the licensing and registration of mortgage loan originators."

NMLS was initiated by state mortgage regulators in 2008 in response to the increased volume and variety of residential MLOs. 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. Through NMLS, SRR supports the strategic goals of the CSBS members, assisting state agencies in consumer protections and supervision of non-depository financial service industries by providing technological resources and information on a nationwide basis.

State regulators are the primary licensing authority for nonbank financial services companies. Nonbank financial services companies include, but are not limited to, mortgage providers, money services businesses and consumer finance companies. There are over 579,000 MLOs in the United States – all are licensed or registered in NMLS. In 2021:

- state-licensed mortgage companies originated \$2.6 trillion in loans, accounting for 63% of mortgage originations in the United States;
- over 93,000 MLO National Multistate Licensing System Loan Officer exams ("National Tests") were administered by SRR;
- 11,584 individuals applied to become licensed as MLOs in the Commonwealth after taking and passing the test; and
- the Bureau's Commissioner of Financial Institutions approved 10,610 licenses.

SRR did not experience any material issues related to NMLS security, privacy, or information breach in 2021, nor was it subject to any significant litigation in 2021.

## INTRODUCTION

In accordance with § 6.2-1720 D of the Code, the Bureau offers the following Report of its review of SRR and NMLS for 2021.

## BACKGROUND

NMLS is a web-based application which enables mortgage lenders, mortgage brokers, MLOs, and other various non-depository entities, including, but not limited to, money service businesses (money transmitters and money order sellers) and qualified education loan servicers, 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 online public access/inquiry resource via NMLS Consumer Access, which discloses financial 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 testing for new license applications and the processing of license 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, administering the National Test, 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. The SAFE Act mandates that all MLOs either be federally registered or state licensed through NMLS. As of December 31, 2021, Virginia had 24,552 MLO licensees

in the approved status and 1,394 MLO licensees in the approved-inactive status through NMLS, as well as 526 mortgage lender licensees, 866 mortgage broker licensees, and 3,499 branch licenses.

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 the 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. Additionally, the CFPB acquired responsibility for the NMLS development contract between SRR and the federal agencies for use of the NMLS to register depository MLOs.

The NMLS program includes an extensive set of support services that enable state regulators, state licensees, federal registrants, and federal agencies to use the system, benefit from ongoing training, and more. The NMLS program also includes the NMLS Annual Conference and Training, which draws nearly 1,000 regulator and industry attendees each year.

#### NMLS ACTIVITY IN 2021

As of December 31, 2021, all 50 states, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands used NMLS to license mortgage companies, branches, and MLOs. In 2021, Virginia used NMLS to manage licensing for: MLOs, mortgage lenders, mortgage brokers, money transmitters, money order sellers, and, most recently, qualified education loan servicers.

From January through December 2021, the NMLS was used by nearly 640,000 companies and individuals nationwide to manage their business licensing or registration. These companies and individuals spanned the mortgage, consumer finance, debt, and money services business industries—with the mortgage industry accounting for more than 80% of NMLS use.

The NMLS renewal period runs November through December of each year. In November 2021, almost 40% more licensees were eligible to renew their licenses than in 2020. This increased volume, driven by a greater number of MLOs working in the market, created both challenges and opportunities for NMLS, including opportunities for improvement.

The CSBS is working to develop a next generation nationwide multistate licensing and supervisory technology system to anticipate and accommodate the evolving needs of the state system of financial regulation. The goal is to build a new system to streamline the license application process, create an optimized user experience, and promote efficient operations and networked supervision among regulators.

### EDUCATION AND TESTING

The SAFE Act established many educational 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 National 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.

The following chart provides National Test with Uniform State Content pass rate data from January 1, 2020 through December 31, 2021.



<b>National Test with Uniform State Content            Pass Rates by Attempt            January 1, 2020 through December 31, 2021</b>			
<b>Tests Taken</b>		<b>Tests Passed</b>	<b>Pass Rate %</b>
First Time	112,232	62,178	55
Subsequent Attempts	49,092	21,314	43
Overall	161,324	83,492	52

In 2021, 28% more National Tests were administered than in 2020 and approximately 25% of test candidates used the Online Proctored Testing option implemented in response to the COVID-19 pandemic. In addition, 2021 was the first year that candidates had the option to take the National Test at an onsite test center or online. NMLS course providers delivered over 2.4 million hours of pre-licensure education and 1.9 million hours of continuing education. The Bureau has no demographic information relating to the National Test results.

SECURING AND SAFEGUARDING INFORMATION

In 2021, NMLS continued to comply with the Federal Information Security Management Act of 2002, National Institute of Standards and Technology ("NIST") best practices, Office of Management and Budget Circular A-130, and all applicable laws, directives, policies and directed actions per SRR's contract with the 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.

## FINANCIAL STATEMENTS, BUDGET AND NMLS FEES

As of December 31, 2021, SRR reported total assets of \$217.1 million (compared to \$190.4 million at the end of 2020), owner's equity of \$197.6 million (compared to \$170.2 million at the end of 2020), and net income of \$27.4 million (compared to \$11.9 million for 2020). CSBS and SRR audited financial statements for the year ending December 31, 2021 have been prepared and presented to the CSBS for approval at the next CSBS Board of Directors meeting. 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.

To fulfill SAFE Act obligations, NMLS charges various fees for the services provided. The Bureau has reviewed the NMLS-related fees and the fee revenue as reported in the SRR financial statements. For the year ending December 31, 2021, NMLS license processing revenue (which includes license processing fees, credit card service fees and subscription revenue) was \$69.98 million (compared to \$56.53 million in 2020). NMLS license processing fees are fixed amounts charged by SRR to facilitate the obtainment and renewal of licenses through the NMLS. Credit card service fees are fixed amounts charged by SRR to process customer credit card 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. NMLS subscription revenue consists of two-factor authentication subscriptions used to meet NMLS security requirements (\$55 per user/per year) and business-to-business subscriptions, which provide access to various resources and data online for a selected period. For the period ending December 31, 2021, subscription revenue was \$3.5 million (compared to \$2.9 million for 2020).

This concludes the Commission's Report on the operations of the SRR and NMLS.