<u>CSBS ACCREDITATION - GENERAL</u>

Frequently Asked Questions (FAQ's)

<u>Q</u>: Why is it important to be accredited?

<u>A</u>: Accreditation provides an independent validation that the accredited agency's personnel, policies, and processes meet the high standards required of accredited agencies. Accreditation involves a comprehensive review of the agency's operations, including administration and finance, personnel, training, examination, supervision and legislative powers. State agencies that meet these standards are setting themselves apart and improving their reputation in the regulatory arena. Stakeholders, including the general public, other state and federal regulatory agencies, state legislators and congressional leaders, gain greater confidence in dealings with accredited agencies. Similarly, accreditation provides documentation that may help agencies obtain the resources from state decision-makers necessary to assure the safety and soundness of the entities they license and regulate.

Q: Where can I find general information about accreditation?

A: A summary with general information is available on the Department Accreditation page of the CSBS website.

Q: What are the costs?

A: Costs vary depending on the number of specialty programs accredited.

PROGRAMS OFFERED:
CSBS Bank Accreditation
AARMR/CSBS Mortgage Accreditation

ORIGINATION FEE: There is a one-time accreditation origination fee of $10,000 for Bank Accreditation and a one-time accreditation origination fee of $5,000 for Mortgage Accreditation. The Mortgage Accreditation fees have been set by CSBS and AARMR.

MAINTANCE FEE: There is an annual maintenance fee charged to cover marketing of the program, Performance Standards Committee Meetings including Strategic Planning, Mortgage Accreditation Subcommittee Meetings, Program Review Meetings, Bank and Mortgage Annual Review Meetings and Overhead for CSBS Staff involved directly and indirectly in the Accreditation process. These fees are subject to change.

Current Annual Maintenance Fee for first program	$4,000
Current Annual Maintenance Fee for second program	$2,000

COST OF ON-SITE REVIEW: Each accredited department/agency is subject to re-accreditation on a five year basis with exceptions up to seven years with approval of the Performance Standards Committee. The average costs for the bank on-site review ranges from $10,000 to $15,000 depending on airfare, hotel costs and meals. Costs for bank and mortgage portions of a consolidated review (bank, mortgage, NASCUS or a combination of any of the three with other non-depository areas included as applicable) will depend on the number of active regulators on the Review or Audit Teams also.

Q: Who sets the standards for accreditation?

A: The Performance Standards Committee (PSC) sets the standards for accreditation. The PSC accepts recommendations for changes to the standards from the PSC members, other CSBS committees, accredited agencies, CSBS staff and Review Team Members. The PSC meets annually in person and quarterly by conference call to discuss proposed changes to the standards for accreditation. Recommendations to change the standards require a majority vote of the PSC. Changes to the standards require a phase-in period, so that agencies that have already begun the accreditation or reaccreditation process will not be held to a new higher standard until after this phase-in period.

Q: How do I make a recommendation for change to the SEQ or Best Practices?

A: Send a recommendation to the Chairman of the PSC by email.

Q: What is the Performance Standards Committee (PSC)?

A: The PSC is a committee of the CSBS Education Foundation (EF). The Chairman of the PSC is appointed by the Chairman of the Education Foundation. The American Association of Residential Mortgage Regulators, or AARMR, appoints two members and the PSC Chairman appoints the rest. Prospective member's background, CSBS district, and accreditation status are considered. Members typically represent all the CSBS districts and come from state agencies that received higher ratings during their last accreditation review. PSC members serve terms of four years, with the PSC Chairman serving for two years as Chairman. Click here for a current list of the PSC members.

Q: Who are Review Team Members?

A: The group of individuals who perform the on-site review of an agency during the accreditation process is called the Review Team. The Review Team is selected from a pool of individuals who have been approved to serve on the Review Teams by the PSC. The Review Team typically consists of three individuals who have extensive experience, either in banking or mortgage regulation, and are qualified to assess the capabilities of the agency seeking accreditation. Review Team members are typically retired or former state or federal regulators. Team members can serve a term of up to five years from the date of their last regulatory experience with an option of one five-year extension.

Q: What is an Audit Team and what purpose does it serve?

A: The Audit Team reviews the findings from the Review Team to ensure that the findings are fair and consistent with the accreditation standards. The Audit Team typically consists of two to three members chosen from the same pool of Review Team members described above. However, an Audit Team member cannot review the work product of a Review Team where he/she served as a member. In some instances a PSC member may serve as an Audit Team member.

Q: What are the accreditation standards and where can I find them?

A: The standards are located in the respective sections of the Banking or Mortgage Self-Evaluation Questionnaire, or SEQ. Please see either of the following website links:

Bank Only SEQ
Mortgage Only SEQ
Bank and Mortgage SEQ

The SEQ is split into six sections:

- Section I – Administration and Finance
- Section 2 – Personnel
- Section 3 – Training
- Section 4 – Examination
- Section 5 – Licensing, Supervision and Enforcement
- Section 6 - Legislative

Specific areas of assessment are described under each section with best practices, if any, listed immediately thereafter. The minimum passing score is described in the SEQ. The organization of the SEQ is designed to allow the agency to independently rate its own performance and project an estimated score. This allows an agency to estimate beforehand whether their agency can meet the requirements of accreditation and determine what areas need additional improvement.

When the Best Practice states “must”, the agency will be required to fully comply with the Best Practice to obtain the highest rating. If the Best Practice states “should”, the Review Team is given greater discretion in determining if the agency has earned the highest rating.

Q: When does the SEQ need to be submitted?

A: The completed SEQ should be submitted approximately 45 days before the on-site review so that the Review Team members can assess the questionnaire and attachments for compliance with the standards.

Q: How long will the accreditation process take?

A: Completion of the SEQ is the most time consuming part of the accreditation process, and agencies should allow ample time to prepare the SEQ and gather the attachments that provide support to each area of the SEQ. Once the agency's staff has completed the SEQ and provided all of the attachments to the VP of Accreditation, then the process moves quickly. As mentioned previously, the SEQ should be submitted at least 45 days before the expected on-site review. After the on-site review, a letter of determination is typically mailed to the agency's commissioner within 60 days.

The Review Team will usually conduct a two and a half day review on-site to look at work products and interview agency personnel including examiners, investigators, licensing individuals, complaint processors, supervisors and various administrative staff. A wrap-up meeting will be held with the head of the banking or mortgage area. The on-site review will conclude with an exit meeting with the commissioner. The Review Team assigns ratings.

The report is written and after approval by all Review Team members, it is presented to an Audit Team to review for consistency. Once approved by the Audit Team, the report is presented to the Performance Standards Committee for final vote. After the PSC has voted, a letter is mailed to the agency, usually within 30 days of the PSC's vote, to let the agency's commissioner know about the results. After the agency has been accredited or reaccredited, the agency must provide information on an annual basis to an Annual Review Team.

Q: Will the review team need to meet with any of our staff members while they are onsite?

A: Yes.

Q: Will my accreditation rating remain confidential?

A: Yes, the individual scores are confidential. In addition, the Review Team members, Audit Team members, Education Foundation and PSC members sign confidentiality agreements. However, if the agency requests an extension of time for re-accreditation or a delay in payment of the accreditation fees, the PSC may discuss these issues with the Education Foundation members.

Q: What happens if an agency doesn't meet the standards for accreditation?

A: If an agency does not meet the accreditation standards, a letter will be sent by the PSC Chairman requesting any new documentation. Once the additional documentation, if any, is received, the PSC will reconsider the ratings in collaboration with the Review Team that was onsite. If the PSC votes to deny the accreditation, a letter will be sent by the PSC Chairman to the agency's commissioner conveying the final determination. This final determination may be appealed to the Education Foundation.

Q: How often must an agency be reaccredited?

A: An agency must undergo re-accreditation every five years in order to maintain its status as an accredited agency. The PSC may grant extensions if they deem circumstances warrant. However, re-accreditation must occur within seven years of the last re-accreditation.

Q: What is the difference between probation and de-accreditation?

A: Probation – An agency may be placed on probation if the annual review or onsite review indicates that the agency no longer meets the standards for accreditation. An agency may also be placed on probation if it has been more than five years since the agency was last accredited. If the PSC votes to place an agency on probation, this determination may be appealed to the Education Foundation. Probation determinations are not made public.

A: Denial of re-accreditation – If the PSC determines that a previously accredited agency no longer meets the standards for accreditation and the agency is not able to improve the areas of identified weakness, then the state agency will no longer be accredited. This determination will be supported by an assessment by a Review Team. The determination by the PSC can be appealed to the Education Foundation. A denial of re-accreditation determination will be made public.

<u>BANK ACCREDITATION ONLY</u>

Q: What are the most common areas where agencies fall short of the best practices?

A:

- <u>Salaries</u> – Many agencies do not meet the best practices for staff salaries, which require that periodic compensation studies be conducted to assure that employee compensation remains competitive.
- <u>Daily Backup</u> – Many agencies do not require their examination staff to perform a daily backup of their current examination work product to prevent a loss of valuable data.
- <u>Specialty Examinations</u> – If the agency does not perform holding company, trust, IT or compliance examinations, they will not meet the best practices.

MORTGAGE ACCREDITATION ONLY

Q: What are the most common areas where agencies fall short of the best practices?

- Exam Frequency – Agencies must examine each of their licensed entities within a 60 month interval.
- 6-Month Compliance Check – A documented compliance check must be performed within the first 6 months of being licensed or beginning business and a formal review performed within 18 months of being granted a license or beginning business.
- Financial Statement Analysis – Agencies must perform a financial statement analysis, not just a compliance check.

Q: If a new examination policy is adopted, how many examinations should be done before the agency applies for accreditation?

A: The agency needs to perform examinations under the new procedures for at least six months so the agency can demonstrate for each licensee type that the agency can meet the projected 60-month requirement.

Q: Can exams be performed off-site?

A: Yes. MMC Examinations can also be counted in meeting the frequency requirement. A report must be generated with a statement of areas reviewed and a rating of the licensee assigned.

- Ratings range from satisfactory to unsatisfactory to ratings per area with a composite from 1 to 5.
- Some reports are written while others are internal.
- A transmittal letter is suggested asking for acknowledgement of the report and responses if no enforcement action or refund is required.

Q: What types of examinations are required for new licensees under the Best Practice?

A: Targeted Initial Examination for new licensees within six months of beginning business.
Compliance review – ask for 5 to 10 files to review, report must be generated, may be letter form report.

A: Full Scope Examination within 18 months of beginning business.

Must cover all 5 areas included in the examination area of the questionnaire.

Q: For mortgage accreditation, what are the Best Practices with regard to licensing?

A: Licensing process must include a review of:

- Criminal records history on controlling individuals
- Regulatory action disclosure

- Business plans
- Financial performance
- Business Entity Structure
- Internal controls
- Company policy and procedures.

The best practice requires a documented review within the first six months of being granted a license or beginning business to insure that the licensed mortgage entity is in compliance with applicable consumer protection laws and regulations