

**To: Commissioners, Deputies, and Accreditation Points-of-Contact**  
**From: CSBS Performance Standards Committee**  
**Subject: 60-Month Mortgage Examination Frequency Requirement & Criteria for Complying with 60-Month Mortgage Examination Requirements**

## **PSC Guidance Letter GL 2016-1**

### **Background Information**

Questions arise periodically regarding accreditation standards, best practices, scoring criteria and processes that require clarification by the CSBS Performance Standards Committee (PSC). To help all state banking and mortgage agencies better understand the requirements of the program, the PSC will begin communicating key responses and clarifications rendered via Guidance Letters (GL). The GL will be sent to agency Commissioners, Deputies, and Accreditation Points-of-Contacts (POCs) and posted to the CSBS Accreditation website (link to site). Please share the GL with others in your agency as needed.

This PSC Guidance does not replace but will supplement the current accreditation standards and best practices. This Guidance is subject to amendment if Best Practices or standards are revised in the future.

### **Purpose of This GL**

This GL is being issued in response to requests received from both the states and the Accreditation Review Team asking for clarification on:

1. The 60-month examination frequency requirement for mortgage accreditation,
2. The reason for the PSC's decision to keep the 60-month examination frequency requirement, and,
3. The criteria that must be met for an examination to satisfy the 60-month examination frequency requirement.

### **PSC Response**

#### **1. 60-Month Examination Frequency Requirement (Mortgage Accreditation)**

Currently, one of the standards that **MUST** be met for mortgage accreditation is:

The agency **must** have the ability to conduct examinations of all mortgage companies conducting business in their state on a 60-month schedule. **This standard must be met to obtain accreditation.**

For initial accreditation, the agency must have demonstrated the ability to examine their licensees within this timeframe (the Review Team will look at the prior 12 months to determine if examinations were completed for an average of 20% of licensees conducting business in the state). The agency may also provide a **viable** plan to examine their licensees within the 60-month schedule.

For re-accreditation, the agency must have a proven track record that demonstrates they have examined their licensees doing business in the state within this timeframe.

After considerable discussion and consideration, the PSC has decided to leave the 60-month examination frequency requirement as a minimum requirement for accreditation.

## **2. The reason for the PSC’s decision to keep the 60-month examination frequency requirement**

The PSC considered if the 60-month requirement was too onerous on state mortgage regulatory agencies. The PSC received input from state agencies that felt the current requirement does not encourage the use of risk-based examination techniques. . The PSC also received feedback from states that indicated 60 months can be too long a timeframe and allows for a licensee to conduct non-compliant activity for several years before being addressed by the state agency. Many states have a three year, or 36-month examination requirement.

Therefore, the PSC agreed that a 60-month exam frequency was a sufficient standard for the purpose of accreditation. The PSC identified the opportunity to provide additional clarification to the states regarding major questions in how the standard will be evaluated. The rest of this letter is designed to address those questions.

## **3. The criteria that must be met for an examination to satisfy the 60-month examination frequency requirement**

### **a. What constitutes an examination?**

The Best Practices (Section IV-a (A) state an examination is defined as “any **substantive**<sup>1</sup> review of the licensee’s files, must include at least one of the following: an on-site examination, an off-site examination, a risk-focused examination, an examination based on analytical software, or an examination performed by other states but accepted by the state under accreditation review pursuant to the Multistate Agreement and Protocol for Mortgage Supervision.”

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<sup>1</sup> Discretion is given to the Review Team to determine if the file review is substantive, but does not need to include a review of all five areas as outlined in IV-b.

Any of the types of examinations listed above would count towards the 60-month requirement, as long as they include at least a limited review of loan files. If the Review Team feels any of the examinations are insufficient, this would be addressed in Section IV-b ratings and comments.

**b. What licensees should the agency be required to examine? All licensees conducting business in their state, or any licensee licensed in their state, regardless of their business activity?**

At a minimum, the agency must examine all state-licensed mortgage entities that are conducting activity within their state within a 60-month timeframe. This includes residential mortgage lenders, mortgage brokers, and mortgage servicers, if and to the extent the state has the statutory authority to examine those entities.

**c. What is required in accepting an examination from another state or the MMC?**

When accepting examinations from other states, multi-state examinations, or examinations by the MMC, the agency must conduct their own review of the examination report for compliance with their state laws and agency requirements. To be able to count another state or multi-state examination, a memo or letter must be sent to the licensee no later than 60 days following the state's receipt and review of the examination, communicating that the exam was accepted by that state. If the agency under accreditation review participated on a multi-state or MMC examination, an additional review of that licensee is not required.

If a state has accepted an examination from another state or multiple states, any response or follow-up that is required must be provided to the state accepting that examination report. Note: This would be evaluated under the Best Practices, but not evaluated as a "pass/fail" for accreditation.

**d. What percentage of examinations can be accepted from other state agencies to meet the 60-month frequency requirement? And can the agency accept reports from non-accredited states?**

A state needs to demonstrate an ability to examine its lender, broker, and servicer licensees conducting business in their state, as authorized by state statute. A majority of the examinations must be conducted by the agency seeking accreditation. The intention of the PSC is to allow states to supplement their examination program by accepting other states' examination reports.

The agency can accept reports from non-accredited states, as long as the examination meets the standards described above in **“What is required in accepting an examination from another state or the MMC?”**

- e. How long of a track record is needed for an agency to demonstrate its examination work product is adequate?**

If an agency implements a new or revised examination program, at least six months of work papers and examination reports will be used to determine if the examinations are being adequately conducted under the new program.

- f. If an agency has an overall passing score, and passes the examination sections, can the Review Team recommend the agency not be accredited?**

Currently it is possible for an agency to get an overall passing score with deficiencies in the examination area. The PSC will allow the Review Team the option of not recommending the agency for accreditation if the Review Team determines that the agency does not meet the minimum requirements or standards for accreditation. The Review Team can also suggest the decision for accreditation be postponed to allow the agency to correct deficiencies. The final decision for postponement or denial rests with the PSC, and is not based solely on the scores.

- g. If a state licenses mortgage servicers, what is the examination requirement for servicers? Do they count towards the total count of mortgage licensees in calculating the 60-months?**

Exams conducted under the Multistate Mortgage Committee and by the CFPB include servicing. Therefore, the PSC has determined examination of servicers need to be performed and included in the 60-month calculation if the state has been granted statutory authority to examine servicers.