



**AMERICAN ASSOCIATION OF  
RESIDENTIAL MORTGAGE REGULATORS  
&  
CONFERENCE OF STATE BANK SUPERVISORS**

**MORTGAGE  
ACCREDITATION PROGRAM SUMMARY**

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# **THE AARMR/CSBS MORTGAGE ACCREDITATION PROGRAM**

## **Introduction**

The mission of the American Association of Residential Mortgage Regulators (AARMR) and the Conference of State Bank Supervisors (CSBS) 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 citizens. In support of that mission AARMR and CSBS sponsor a comprehensive Mortgage Accreditation Program to enhance the professionalism of State Banking Department's Mortgage Divisions and their personnel. The Mortgage Accreditation Program is also available to other State Agencies which regulate mortgage providers.

The Mortgage Accreditation Program involves a comprehensive review of the critical elements that assure a mortgage regulator's ability to discharge its responsibilities through an investigation of its administration and finances, personnel policies and practices, training programs, examination policies and practices, supervisory procedures, and statutory powers. In setting high standards, AARMR and CSBS are supporting public interest goals by identifying highly competent mortgage regulators and strengthening the capabilities of all agencies. The AARMR.CSBS Mortgage Accreditation Program is voluntary and not required for membership in CSBS or for participation in CSBS activities.

## **Goals of the Mortgage Accreditation Program**

It is the goal of the AARMR/CSBS Mortgage Accreditation Program to encourage state mortgage regulatory agencies to enhance their capability to promote excellence in mortgage regulation with a minimum of regulatory burden and cost, and to assist them in achieving that capability.

Specific goals of the Program include:

1. To provide guidance and assistance to state mortgage regulators through self-evaluation and self-improvement.
2. To provide independent evidence of the capability of an accredited state mortgage regulator, in view of the interstate mortgage provider environment.
3. To assist each agency by providing documentation that may help it to obtain the resources necessary to assure the effectiveness of state mortgage regulation.
4. To strengthen the mortgage regulation system by demonstrating to Congress, the federal regulatory agencies, other state regulatory agencies and the public, the high level of capability of each accredited state mortgage regulator.
5. To share ideas and processes on state regulation as identified during the accreditation reviews.

## **Accreditation Standards**

To achieve accreditation, a state mortgage regulatory agency must test itself against the criteria in the Self-Evaluation Questionnaire and achieve a total overall score of not less than 80% and 75% on the two Examination Sections and the Licensing/Supervisory/Enforcement Section; and not less than 70% on all other sections. This score incorporates the standards noted below:

- A. The legal authority to license, examine, supervise and regulate all state-licensed mortgage

providers consistent with basic principles of safety and soundness and protection of the public interest.

- B. The demonstrated capability to conduct examinations of state-licensed mortgage providers within acceptable time limits. This capability should be supported by a combination of active monitoring, acceptable complaint processing procedures, review of applicable federal reports and other methods in a manner consistent with state statutes, consumer protection and safety and soundness.
- C. Specialized capabilities as required in each state to assure safety and soundness of all state-licensed providers and full compliance with both state and federal statutes.
- D. Adequate qualified staff with expertise to license, examine, supervise and regulate all state-licensed mortgage providers and to perform other agency functions and responsibilities.
- E. A policy or statutory authority, which requires focused examinations on a frequency basis at least once every 60 months on all mortgage providers and the ability to meet the frequency policy.
- F. Adequate statutory authority for the agency to carry out its duties and responsibilities independently, including authority to take formal enforcement action in addition to revocation of a license.
- G. Adequate funding to achieve all above-mentioned criteria.

### **Steps in the Accreditation Program**

The following steps comprise the accreditation process:

1. The mortgage regulatory agency completes the Self-Evaluation Questionnaire.
2. The agency submits a request for accreditation review to the CSBS Performance Standards Committee (PSC). The request includes:
  - a) The agency's completed Self-Evaluation Questionnaire and related documents.
  - b) A contract, including attachments, stating legal considerations between CSBS and the agency.
3. The PSC Staff person assembles a Review Team to conduct an on-site evaluation. The Team evaluates and scores the same Self-Evaluation Questionnaire as the agency and determines, by whatever means it deems appropriate, whether the state's self-ratings are justified. The Review Team then issues a report and recommendations.
  - a) The methods used may include staff interviews, document verification and reviews of policies and procedures. Perhaps the most important task during the on-site evaluation is the examination of the agency's work product (e.g., examination reports, enforcement actions, and correspondence). At the conclusion of the on-site review, the Review Team will conduct an Exit Interview with the head of the agency and/or his or her designee to discuss the Team's findings and tentative conclusions and to afford the agency an opportunity to respond.
  - b) The agency may also present any additional information to the Audit Team or the Performance Standards Committee prior to the final decision on accreditation.
4. The PSC Staff person assembles an Audit Team. The Audit Team reviews and considers the findings and recommendation made by the Review Team, plus any additional information presented by the agency if applicable, assuring consistency between different Review Teams and generally assuring that each accreditation exercise meets the standards and requirements of the PSC.
5. The Review Team and Audit Team submit their findings in written reports to the PSC.

6. The PSC members analyze the Review Team report and the Audit Team findings plus any additional information presented by the agency, if applicable, to make a final decision on accreditation.
7. If the PSC members vote to accredit the agency, the PSC Chairman officially notifies the agency that it is accredited, contingent upon:
  - a) the successful completion of periodic reviews acceptable to the PSC, and
  - b) reaccreditation by the PSC not more than seven years from the initial accreditation. The steps to achieve re-accreditation are the same as those for an initial accreditation.
8. Decisions made by the Performance Standards Committee may be further appealed to the CSBS Education Foundation Board of Trustees.

AARMR and CSBS handle each application and the entire accreditation process in strict confidence up to the announcement of an agency's accreditation, unless the state mortgage supervisor elects otherwise.

### **Self-Evaluation Questionnaire: Purposes, Benefits and Uses**

The Self-Evaluation Questionnaire is a multi-purpose tool to help achieve the goals of the AARMR/CSBS Mortgage Accreditation Program as set forth above. It is used by:

1. State mortgage regulatory agencies for self-improvement through a detailed self assessment.
2. State mortgage regulatory agencies to document needs for additional resources from their respective states.
3. Newly appointed state mortgage supervisors to "inventory" agency capabilities and needs.
4. State mortgage regulatory agencies beginning the strategic planning process.
5. State mortgage regulatory agencies to determine if they are ready for accreditation review by the PSC.
6. State mortgage regulatory agencies to document and defend applications for AARMR/CSBS accreditation.
7. Accreditation Review and Audit Teams to evaluate the agency in a disciplined and organized manner.

### **The Role of Key Groups in the Mortgage Accreditation Program**

In order to promote consistent and disciplined decisions, the Accreditation Program involves actions or decisions by several different groups. These groups include:

1. American Association of Residential Mortgage Regulators and the Conference of State Bank Supervisors

AARMR is the national organization representing state residential mortgage regulators. AARMR's mission is to (a) promote the exchange of information between and among the executives and employees of the various states who are charged with the responsibility, pursuant to the laws of the individual states for the administration and regulation of residential mortgage lending, servicing and brokering; (b) assist in resolving conflicts of jurisdiction in relation to mortgage lending, servicing and brokering; (c) promote a better understanding of mortgage regulation; (d) develop model legislation applicable to the administration and regulation of mortgage lending, servicing and brokering; (e) increase the knowledge and ability of those engaged in mortgage lending, servicing and brokering by organizing and sponsoring lectures, seminars and training programs and by providing a forum for the exchange of information; and (f) do everything necessary, proper, advisable or convenient for the accomplishment of the corporation's purposes and goals.

The Conference of State Banks Supervisors (CSBS) is the professional organization of those public officials who charter, regulate and supervise the state-chartered commercial and savings banks of the nation. Many of those bank supervisors also regulate mortgage providers. Established in 1902 as a clearinghouse for the ideas of the state bank supervisors, CSBS has evolved into the most significant source of education and research services aimed at strengthening state regulators. The Conference provides the majority of the technical training needs of the state regulatory agencies. CSBS established the Performance Standards Committee to conduct its Accreditation Program and supports the functions and decisions of the Committee.

## 2. The CSBS Education Foundation Board of Trustees

The CSBS Education Foundation is a 501 (c) (3) affiliated with CSBS through common control. The CSBS Education Foundation Board of Trustees oversees the Professional Development Programs including the Accreditation Program. Final decisions of the PSC may be appealed to the CSBS Education Foundation Board of Trustees.

## 3. The Performance Standards Committee

The Performance Standards Committee (PSC) is a committee of the CSBS Education Foundation. Its membership has included current and former state and federal regulators, members of Congress, and bankers with extensive knowledge of bank regulation and, in a consulting role during the program's development, a representative of the Government Accounting Office. The PSC has an assigned staff Director.

The PSC encourages and recognizes high levels of capability and performance by state banking regulators which include regulation of mortgage providers. The PSC offers the Self-Evaluation Questionnaire to help agencies examine and improve themselves even if they do not currently seek accreditation. The PSC reviews the Accreditation Program format, content and procedures and revises the Program as necessary. The PSC establishes the Review and Audit Teams to carry out the Accreditation Program and determines the duties and functions of these teams. The PSC staff person provides clerical support and consistency for the teams. The PSC votes on all the reports and findings of its Review and Audit Teams on the accreditation of a state mortgage regulatory agency. Two members of the PSC shall be appointed by AARMR.

Once the PSC makes a decision regarding accreditation of an agency, it will notify the agency in writing as promptly as possible. The forms of possible PSC action are:

### Initial Accreditation:

1. Granting of initial accreditation.
2. Deferral on the decision to grant initial accreditation for a specified period of time.
  - ⇒ Show Cause
  - ⇒ Denial of Initial Accreditation.
3. Denial of initial accreditation.

### Continued Accreditation (based on Annual Review or On-Site Review):

1. Continue accreditation.

2. Probation for a specified period of time

⇒Show Cause

⇒Terminate accreditation.

3. Denial of continued accreditation.

#### Re-Accreditation:

1. Re-Accredit.

2. Probation for a specified period of time

⇒Show Cause

⇒Terminate Accreditation.

3. Denial of re-accreditation.

NOTE: Regulatory Reporting Requirements may be set by the PSC resulting in Probation or Denial of Accreditation as situations arise.

#### 4. Accreditation Review Team

A Review Team consists of two or three people whose experience in mortgage regulation allows them to assess the capabilities of a state mortgage regulatory agency accurately. Review Teams will typically include active and former state mortgage regulators. Former regulatory team members will serve a five year term from the date of their last regulatory experience with an option of one five year extension.

Each Review Team evaluates the capability of an agency to establish and maintain a competently-run regulatory program, to produce a high quality examination, and to enforce all relevant statutes. The Review Team examines the agency's enabling legislation and the legal framework in which the regulation takes place. The Team assesses the agency's success in obtaining an adequate budget and necessary personnel, in training, and in adequately managing its resources. The Team judges how well the agency meets the goals of highly professional, competent and consistent regulation. The Review Team places great weight on the current and probable future reliability of the agency's work product.

Prior to beginning an accreditation review, the Review Team members examine the written submissions of the agency. The Self-Evaluation forms the basis for the Team's initial questions. The process of verification of the material submitted by the state helps answer questions concerning the quality of a state's regulatory program.

Among the Review Team's most important tasks are to examine the agency's strategic plan, examination reports, monitoring systems, work-sheets, and enforcement actions. The Team makes random checks of examination reports and reviews other files and documents, including historical budget information, approved staff levels, personnel procedures, salaries, turnover rates, and training. Organizational charts, methods of regulation and supervision, including review of the agency's rules and statements of policy, targeting of mortgage providers, scheduling of examination and format of the report of examination are investigated. The Team also interviews agency personnel. The on-site review typically lasts three days.

After completing staff interviews and examination of the agency's work product, the Review Team rates the agency on each of the Self-Evaluation questions. The Team then conducts an exit interview with the state mortgage supervisor and/or his or her designee during which the Team summarizes its findings. Lastly, the Review Team writes a report recommending whether or not to accredit or reaccredit, including the strengths and weaknesses observed leading to that conclusion. This report includes recommendations and suggestions to help the agency make improvements.

The Review Team does not perform a full scale management audit of the agency, nor does the Team perform a detailed financial audit.

#### 5. Audit Team

The Audit Team reviews the report and recommendations of the Review Team for consistency and professionalism in measuring the performance and capabilities of state mortgage regulatory agencies. The Audit Team reports its findings to the PSC.

The Audit Team typically consists of two to three members from an approved cadre who are current or former regulators from state agencies. In some instances a PSC member may serve on the Audit Team.

#### 6. Mortgage Accreditation Subcommittee (MAS)

The CSBS Education Foundation will form a subcommittee of its Professional Standards Committee (PSC) to be known as the Mortgage Accreditation Subcommittee (MAS). The MAS is authorized and empowered to recommend standards and procedures pursuant to which AARMR, CSBS and the CSBS Education Foundation will accredit state mortgage regulators to regulate the mortgage industry and is further authorized and empowered to oversee the conduct of such mortgage accreditation program and address any other related issues. The MAS will be constituted of an equal number of members appointed by both AARMR and either CSBS or the CSBS Education Foundation with the chair of the committee rotating annually between members of the MAS appointed by AARMR and either CSBS or the CSBS Education Foundation. Mortgage accreditation standards developed by the MAS, as well as any other action taken by the MAS, must be approved by a majority vote of all members of the MAS and must receive the approval of the PSC. The PSC may disapprove any mortgage accreditation standard recommended by the MAS or any other action taken by the MAS. However, any mortgage accreditation standard set by AARMR, CSBS and EFSBS or other action taken by AARMR, CSBS and the CSBS Education Foundation related to mortgage accreditation for state mortgage regulators, except for material changes to the fees and expenses related to the mortgage accreditation program, must be approved by a majority vote of all members of the MAS and by such vote of the PSC as the PSC shall determine to be appropriate.