CSBS

State Regulators SAFE Act Settlements with Mortgage Loan Originators:
A Background Document
Jan. 18, 2022

Q: Why have the states taken enforcement action against the mortgage loan originators (MLOs)?

A: The mortgage loan originators deceptively claimed to have completed annual continuing education as required for licensure under state and federal law.

Q: What are the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) requirements for MLOs?

A: The SAFE Act is a federal law designed to enhance consumer protection and reduce fraud through the setting of minimum standards for the licensing and registration of state-licensed mortgage loan originators. Every state has enacted its own version of the SAFE Act that requires MLOs licensed in their state to pass a written qualified test, to complete pre-licensure education courses and to take annual continuing education courses.

The SAFE Act also requires all MLOs to submit fingerprints to the Nationwide Multistate Licensing System (NMLS) for submission to the FBI for a criminal background check and to provide authorization for NMLS to obtain an independent credit report.

Q: How was this identified?

A: In December 2020, a verification technology discovered that hundreds of mortgage loan originators across the nation had not taken the courses they claimed to have completed, as described under the consent orders that the MLOs signed.

The MLOs all had in common Real Estate Educational Services (REES), a former NMLS education provider located in Carlsbad, Calif., owned by Danny Yen. Mr. Yen was authorized to offer one eight-hour SAFE Act course in Westminster, Calif.

The states' investigation revealed that Mr. Yen conducted two education fraud schemes during the years of 2017 to 2020. Under the first scheme, Yen completed online education on behalf of mortgage loan originators. Under the second scheme, Yen granted course credit to mortgage loan originators who had enrolled in his approved course but who neither attended the course nor completed the required coursework necessary to receive course credit.

Q: Has any action been taken against REES or Danny Yen?

A: State agencies in California, Maryland, and Oregon have taken administrative action against REES and members of the Yen family.

Q: How does the discovery relate to this enforcement action?

A: Upon initial discovery, an investigation was turned over to a Multistate Investigation Taskforce led by the California Department of Financial Protection and Innovation that pursued action with the mortgage loan originators who had participated in the education schemes offered by REES.

Twenty-six state agencies participated in the investigation taskforce. Ultimately, 44 agencies from 42 states joined to participate in the enforcement phase of the investigation by signing the consent orders with the MLOs.

Q: What are the key provisions of the settlement agreement?

- ***License Surrender*** – Note: this is NOT a suspension of the license
- ***Three-Month (92-day) Cooling-off Period*** – after surrendering the license, the MLO will not be eligible to petition or reapply for an MLO endorsement or license with a state mortgage regulator(s) for a period of 92 days (or three months) from the effective date of the settlement agreement
- ***Pre-licensing and Continuing Education*** – MLO will be required to retake 20 hours of pre-license education and eight hours of continuing education prior to petitioning or reapplying for an MLO endorsement or license. The courses may not be taken in an online self-study format
- ***Payment of Administrative Penalty*** – MLO must pay an administrative penalty of $1,000 to each state in which he or she is licensed and that is a signatory to the consent order

***Q:* How can consumers or mortgage employers identify if an MLO has consented to this settlement?**

A: NMLS Consumer Access is a free, fully searchable website that allows the public to view administrative and licensing information concerning state-licensed companies, branches and individuals licensed and registered through NMLS.

Q: ***Are there MLOs implicated in this investigation that did not settle with the participating states?***

A: Yes. The states retain the right to seek to discipline the MLOs that did not settle, and they may face license revocation based upon any evidence obtained by the states during their investigation. The Multistate Investigation Taskforce will refer all MLOs in this investigation who did not settle to the appropriate state agencies to take any action against their MLO licenses.

Q: Are the companies that employed the MLOs implicated?

A: No. The consent orders associated with this case address the conduct of the individual MLOs, not the companies employing the MLOs. However, there are sole owners of companies who, as MLOs, participated in these schemes. The regulator taskforce for this case does not intend to pursue enforcement against the company licenses at this time.

Q: Are loans made by these MLOs during that period impacted in any way?

A: No. The loans originated by these MLOs are valid loans.

Q: What will happen to the mortgages in process when these MLOs are barred from working?

A: Each loan application in process presents a unique set of circumstances. The Multistate Investigation Taskforce recommends that the company contact the appropriate state regulator based on the location of the property associated with the mortgage loan.

Q: What is the timeline for this enforcement action?

A: REES MLO Settlement Process Timeline:

- July 2021 – 608 MLOs implicated in the investigation were surveyed to provided information regarding their involvement with REES and whether they would like to settle with their regulators to resolve the matter
- November 2021 – 452 MLOs who responded to the investigation team requesting the settlement terms received a settlement offer
- December 2021 – Consent orders to settle with the MLOs were issued with a January 7 deadline
- January 2022 – 441 MLOs entered into consent orders with the taskforce and were levied fines totaling $1.2 million

All MLOs implicated in the REES investigation who did not sign a consent order will be referred to the appropriate state financial regulators for further disciplinary action against their MLO licenses. The states have already commenced disciplinary actions against 14 MLOs that refused to settle with the taskforce. It is anticipated that additional actions will be filed in the coming months.

Q: How many state agencies are part of the agreement?

A: A total of 44 state agencies from 42 states are participating in the multi-state settlement process.

- Alabama Banking Department
- Alaska Banking and Securities
- Arizona Department of Insurance and Financial Institutions

- Arkansas Securities Department
- California Department of Financial Protection and Innovation
- California Department of Real Estate
- Connecticut Department of Banking
- District of Columbia Department of Insurance, Securities and Banking
- Florida Office of Financial Regulation
- Hawaii Division of Financial Institutions
- Idaho Department of Finance
- Illinois Department of Financial and Professional Regulation
- Indiana Department of Financial Institutions
- Iowa Division of Banking
- Kentucky Department of Financial Institutions
- Maine Bureau of Consumer Credit Protection
- Maryland Office of the Commissioner of Financial Regulation
- Massachusetts Division of Banks
- Michigan Department of Insurance and Financial Services
- Minnesota Department of Commerce
- Mississippi Department of Banking and Consumer Finance
- Missouri Division of Finance
- Montana Division of Banking and Financial Institutions
- Nebraska Department of Banking and Finance
- Nevada Division of Mortgage Lending
- New Hampshire Banking Department
- New Jersey Department of Banking and Insurance
- New Mexico Regulation and Licensing, Financial Institutions Division
- North Carolina Office of the Commissioner of Banks
- North Dakota Department of Financial Institutions
- Ohio Department of Commerce
- Oklahoma Department of Consumer Credit
- Oregon Department of Consumer and Business Services, Division of Financial Regulation
- Pennsylvania Department of Banking and Securities
- Rhode Island Department of Business Regulation Division of Banking
- South Carolina Department of Consumer Affairs
- South Carolina Board of Financial Institutions
- South Dakota Division of Banking
- Texas Department of Savings and Mortgage Lending
- Virginia State Corporation Commission
- Washington Department of Financial Institutions
- West Virginia Division of Financial Institutions
- Wisconsin Department of Financial Institutions
- Wyoming Division of Banking