MMC MULTI-STATE

Uniform Report of Examination

COMPANY

ADDRESS

NMLS Entity ID: XXXX

DATE

***THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL***

*Notice*

This is a duly authenticated copy of a report of examination entered under the protocols established by CSBS/AARMR Nationwide Cooperative Agreement for Mortgage Supervision and is made by an Examiner selected or approved by the Multi-State Mortgage Committee (MMC).

The information contained within this report is considered confidential supervisory information and is furnished to the institution examined for its confidential use. Under no circumstances shall the institution or any of its directors or trustees, or officers or employees disclose or make public in any manner to anyone including outside accountants the report or any portion thereof without the permission of the MMC.

The information contained in this report is based upon the books and records of the institution, upon statements made to the Examiners by directors or trustees, officers, and employees, and upon information obtained from other sources believed to be reliable and presumed by the Examiners to be correct.

Each director or trustee in keeping with his/her responsibilities should become fully informed regarding the contents of this report. In conducting this review, it should be kept in mind that an examination is not the same as an audit, and that this report should not be considered to be an audit report.

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| NameTitleAgency Name |
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##

## Nationwide Cooperative Protocol and Agreement for Mortgage Supervision

State Regulators have independent and individual responsibility for the supervision of Multi-State Mortgage Entities (MMEs), and the best way to fulfill those responsibilities with respect to MMEs is through a coordinated supervision process.

On December 5, 2007[[1]](#footnote-2), the State Regulators[[2]](#footnote-3) adopted the Nationwide Cooperative Protocol and Agreement for Mortgage Supervision (the “Protocol and Agreement”), which establish the supervisory structure for MMEs. The Protocol and Agreement were designed to assist state mortgage regulators by outlining a basic framework for the coordination and supervision of MMEs.

The States’ objectives are to: (a) protect consumers; (b) ensure the safety and soundness of MMEs; (c) identify and prevent mortgage fraud; (d) supervise and examine in a seamless, flexible and risk-focused manner; (e) minimize regulatory burden and expense; and (f) foster consistency, coordination and communication among the State Regulators.

## MMC Role

The Multi-State Mortgage Committee (MMC) is the state representative body responsible for overseeing multi-state examinations. The role of the MMC is to provide supervisory and administrative support to the examination of MMEs. This includes scheduling exams of identified MMEs, identifying participating states and their respective examiners, reviewing preliminary results, and approving the final report of examination (Report). Additionally, the MMC coordinates any necessary negotiations regarding corrective action and multi-state settlements.

## Examination Scope

The MMC conducted a full-scope mortgage origination examination of <INSTITUTION NAME>. The review period for this examination was <SCOPE BEGINNING DATE> through <SCOPE ENDING DATE>. The on-site portion of the examination took place <ON-SITE START DATE> through <ON-SITE END DATE> at the Institution’s office in <CITY, STATE>.

The Examination Team consisted of <NUMBER of EXAMINERS> examiners from <NUMBER OF STATES> which included <LIST STATES>. The Examiner-in-Charge (EIC) was <NAME>, <TITLE> for the <STATE AGENCY>. The Single Point of Contact (SPOC) was <NAME>, <TITLE> for the <STATE AGENCY>.

The Examination Team evaluated the Institution in respect to:

* Financial Condition
* Board and Management Oversight
* Information Technology and Cybersecurity
* Compliance Program
* Violations of Law and Consumer Harm

The Examination Team used the examination procedures outlined in the MMC Examination Manual and the State Examination System (SES).

## Institution Profile

<INSTITUTION NAME> is a <medium or large> residential mortgage lender. The Institution maintains <XX> licenses while conducting business in all <NUMBER> states and <LIST DISTRICT OF COLUMBIA OR US TERRITORIES>. <INSTITUTION NAME> is a <PUBLICLY OR PRIVATELY> held <ENTITY TYPE> that is headquartered in <CITY, STATE>. <INSTITUTION NAME> operates with <NOTE NUMBER OF ACTIVE BRANCHES AND ANY KEY BRANCH OFFICES THAT ARE CRITICAL TO LENDING OPERATIONS.>

Founded in <YEAR>, <INSTITUTION NAME> is <NUMBER> percent owned by <OWNERS>. The ultimate parent and indirect owner of <INSTITUTION NAME> is <INSTITUTION PARENT>. COMPANY has been in business since <YEAR>. Current senior management consists of:

**Table x** – **Senior Management**

|  |  |  |
| --- | --- | --- |
|  | **Name** | **Title** |
| 1 |  |  |
| 2 |  |  |
| 3 |  |  |
| 4 |  |  |

*<Briefly describe the institution’s loan origination activities. Note the characteristics of the loans it originates (i.e., loan type, rate type, etc.). What types of business line does the company use for origination (retail, wholesale, etc.)? Is there risk with the loan products used in originations? Are there any recent growth trends with origination volume and hiring of MLOs?>*

## Electronic Loan Portfolio Compliance Analysis

Consistent with the examination team’s request, <Institution> submitted electronic loan portfolio data for compliance analysis using ComplianceAnalyzer® by ComplianceEase®. The software analyzed all loans originated by <Institution> for the loan portfolio and transaction information review period of <date> to date> for compliance with state and federal mortgage laws, rules, and regulations. <Institution> utilized <Institution’s Loan Origination Software Provider> as its Loan Origination System (LOS) during this loan portfolio and transaction information review period.

***<Remove section if an electronic loan portfolio compliance analysis***

***was not conducted on this exam.>***

*<Briefly describe whether the LEF submission was successful or whether it presented challenges which were not able to be resolved. Below is some sample language used in prior MMC exams.>*

*Example…*

*<Institution> utilized <Institution’s Loan Origination Software Provider> as its Loan Origination System (LOS) during this loan portfolio and transaction information review period, which was found to provide mostly accurate loan portfolio data mapping into the ComplianceAnalyzer® software.*

*Example…*

*The results of this analysis were inconclusive. <Institution> uploaded files as requested, but the files did not contain adequate validations from ComplianceAnalyzer, thus creating incomplete files/validations/LEFs/etc. Therefore, due to time constraints prior to going onsite, the MMC Exam Team requested and received the random selected loan files in an electronic format from <Institution>.*

Example…

*The Company was unable to submit complete electronic loan portfolio data for compliance analysis using ComplianceAnalyzer® by ComplianceEase®. <Institution> stated that it did not have the capacity or time needed to meet our request along with the other examinations occurring at the same time. Only final closing disclosure data was included with the upload. The software was unable to analyze all loans originated by the Company during the period examined for the seven origination states for compliance with state and federal lending laws and regulations.*

*<Institution>’s proprietary loan origination system was not compatible with ComplianceEase® and <Institution>, concerned about the data integrity, was manually verifying/uploading the data. The Company was able to provide three loans for two states where data was manually input to create a complete upload that included the initial loan estimate (LE), changed circumstance LEs, initial closing disclosure (CD), and final CD. The examiners were unable to use the electronic process to review the loan files.*

*The incomplete LEF submission to Regulator Connect by the Company was invalid. The following are a sample, but not all of the incomplete data fields, along with a brief explanation:*

|  |  |
| --- | --- |
| *Data field* | *Explanation* |
| *TotalProposedJHousing expense* | *Virtual field; made up of several calculated fields* |
| *ProposedMortgageInsurancePayment* | *Virtual Field* |
| *TotalOtherExpenses* | *Virtual field, made up of several calculated fields* |
| *DisclosedFinanceCharge* | *Virtual field* |
| *BranchNMLSID* | *Not required per CFPB* |

## Summary of Examination Findings

*<Customize to reflect examination findings using the following as an example.> Regulatory Compliance was found to be satisfactory as examiners identified a low level of violations of federal and state mortgage lending laws. Management was found to need improvement, as its ability to respond and fulfill information requests subsequent to the on-site examination was less than satisfactory. Financial condition was satisfactory with net worth at appropriate levels. Financial management was less than satisfactory with the inability to provide financial models, plans, or procedures to ensure a secure future financial foundation.*

## Composite Examination Rating

<INSTITUTION NAME> is assigned a composite rating of <NUMERICAL RATING 1-5> by the EIC in consultation with the Multi-State Mortgage Committee. For institutions in this category…<USE KEY ATTRIBUTES ASSOCIATED WITH RATINGS BELOW. THE CONTENT PAIRED WITH THE ASSIGNED RATING MUST BE CUSTOMIZED TO DESCRIBE THE ASSESSMENT OF THIS INSTITUTION. THE CONTENT BELOW IS A STARTING POINT BUT WILL LIKELY NEED TO BE MODIFIED TO ACCURATELY REFLECT THE INSTITUTION’S OVERALL RATING.>

*The highest rating of 1 is assigned to a financial institution that maintains a strong Compliance Management System (CMS) and takes action to prevent violations of law and consumer harm. Financial condition is strong in all areas.*

*A rating of 2 is assigned to a financial institution that maintains a CMS that is satisfactory at managing consumer compliance risk in the institution’s products and services and at substantially limiting violations of law and consumer harm. This rating indicates that the institution maintains a satisfactory state of financial condition.*

*A rating of 3 reflects a CMS deficient at managing consumer compliance risk in the institution’s products and services and at limiting violations of law and consumer harm. This rating is an indicator that the institution’s financial condition is deficient.*

*A rating of 4 reflects a CMS seriously deficient at managing consumer compliance risk in the institution’s products and services and/or at preventing violations of law and consumer harm. “Seriously deficient” indicates fundamental and persistent weaknesses in crucial CMS elements and severe inadequacies in core compliance areas necessary to operate within the scope of statutory and regulatory consumer protection requirements and to prevent consumer harm. This rating indicates that financial condition is seriously deficient.*

*A rating of 5 reflects a CMS critically deficient at managing consumer compliance risk in the institution’s products and services and/or at preventing violations of law and consumer harm. “Critically deficient” indicates an absence of crucial CMS elements and a demonstrated lack of willingness or capability to take the appropriate steps necessary to operate within the scope of statutory and regulatory consumer protection requirements and to prevent consumer harm.* This rating indicates financial condition is critically deficient.

## Meetings with Management

The on-site examination commenced on <DATE>, at the <INSTITUTION NAME> office in <CITY, STATE>. An introductory meeting was held the same day between the MMC and <IF APPLICABLE…CFPB> examination teams, and <INSTITUTION NAME> management.

The final exit meeting was held <on-site or via teleconference> on <DATE>. The Examination Team was represented by the EIC, SPOC, and examiners from the Participating States. The Institution was represented during the exit meeting by <LIST INSTITUTION EMPLOYEES>.

## Financial Condition Scope of Review

The Examination Team has assessed the Institution’s financial condition based upon the adequacy of earnings, capital, liquidity, asset quality, and level of sensitivity to market risk. Additional factors that are considered include trends, stability of and threats to future performance, adequacy of projections, and quality of risk management.

The Examination Team used the financial condition examination procedures as outlined in the MMC Examination Manual which includes:

* Earnings
* Capital
* Liquidity
* Asset Quality
* Sensitivity to Market Risk
* Servicing and Loan Ownership Transfer

The financial condition review covered the consolidated financial statements for the years ending <YEAR> and <YEAR>. <THIRD PARTY AUDITOR> provided an <TYPE OF OPINION E.G. UNQUALIFIED> opinion on the financial statements.

## Financial Condition Component Rating

The <INSTITUTION’S NAME> financial condition rating is a <NUMERICAL RATING 1-5> *Use the ratings below as a guide to help establish the rating. Describe the financial condition of the company and identify an appropriate rating.*

*A rating of “1” indicates strong liquidity levels, excellent earnings, and well-developed and practiced funds management policy. Such institutions demonstrate reliable access to sufficient sources of funds on favorable terms to meet present and anticipated liquidity needs. Capital levels and asset quality are strong. Additionally, such institutions have strong mechanisms for controlling sensitivity to market risk.*

*A rating of “2” indicates satisfactory sources of funds on acceptable terms to meet present and anticipated liquidity needs; satisfactory capital and earnings, modest weaknesses from funds management practices, satisfactory asset quality, and sufficient interest rate risk mechanisms.*

*A rating of “3” indicates deficient liquidity management, relatively low levels of capital or decreasing earnings. Such an institution may lack ready access to funds on reasonable terms or may evidence significant weaknesses in funds management practices. Asset quality needs improvement. Additionally, interest rate risk mechanisms may be subpar.*

*A rating of “4” indicates the institution is operating at a loss in an accelerated basis, liquidity levels are deficient, or capital is inadequate. The institution may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet liquidity needs. Asset quality is deficient. Sensitivity to market risk may be high and uncontrolled.*

*A rating of “5” indicates the institution has critically deficient liquidity practices. Capital has deteriorated to a critical level or earnings are non-existent. The continued viability of the institution is threatened and requires immediate external financial assistance to meet funding obligations. Asset quality is poor. The potential for a break down in operations due to extreme sensitivity to market risk may also be present.*

## Financial Ratios

|  |  |  |
| --- | --- | --- |
| **Earnings** | Period Ended<Year> | Period Ended <Year> |
| Return on Assets |  |  |
| Return on Equity |  |  |
| Provision Expense |  |  |

|  |  |  |
| --- | --- | --- |
| **Capital** | Period Ended <Year> | Period Ended <Year> |
| Tangible Net Worth to Total Assets |  |  |
| Total Equity to Total Assets |  |  |
| Payout Ratio |  |  |

|  |  |  |
| --- | --- | --- |
| **Liquidity** | Period Ended <YEAR> | Period Ended <YEAR> |
| Cash to Total Assets | % | % |
| Current Ratio | x | x |
| Total Assets to Total Liabilities | % | % |
| Debt to Total Equity | % | % |
| Adjusted Debt to Total Equity | % | % |
| # Lines of Credit | # | # |
| % Credit Available | % | % |

|  |  |  |
| --- | --- | --- |
| **Asset Quality** | Period Ended <YEAR> | Period Ended <YEAR> |
| Total Assets |  |  |
| Real Estate Owned to Total Assets |  |  |
| Mortgage Servicing Rights to Total Equity |  |  |
| Other Assets Other to Total Assets |  |  |

## Financial Condition – Matters Requiring Attention

*Identify all MRAs relating to the Financial Condition. This should correlate to the MRAs in SES.*

The Examination Team identified the following Matters Requiring Attention related to the Institution’s Financial Condition.

**Matter Requiring Attention ##**:

*Or*

The Examination Team did not identify any matters requiring attention.

## Board Oversight and Management Scope of Review

The Examination Team has assessed the Institution’s board of directors and management, as appropriate for their respective roles and responsibilities, based upon the following assessment factors:

* oversight of and commitment to the institution’s Compliance Management System;
* effectiveness of the institution’s change management processes, including responding timely and satisfactorily to any variety of change, internal or external, to the institution;
* comprehension, identification, and management of risks arising from the institution’s products, services, or activities; and
* self-identification of consumer compliance issues and corrective action undertaken as such issues are identified.

The Examination Team used the following examination procedures as outlined in the MMC Examination Manual:

* Board and Management Oversight
* Information Sharing and Privacy
* Service Provider Oversight
* Affiliates and Related Organizations
* Management and Board
* Business Model and Organizational Structure

## Board Oversight and Management Component Rating

<INSTITUTION NAME> has been assigned a rating of <NUMERICAL RATING 1-5> for board oversight and management. *Use the ratings below as a guide to help establish the rating. Provide a specific description of board and management practices that resulted in the chosen rating; see the example below.*

***<Example write up****: Board and Management Oversight is overall satisfactory with continued improvements recommended in Information Technology and Vendor Management. In general, the Board has been monitoring improvements to its compliance management system, and BSA/AML requirements are being fulfilled. The IT Department should ensure that the risk assessment program and information security programs are approved annually by the Board of Directors. Although Vendor Management currently operates satisfactorily, due to COVID-19 Pandemic concerns, it is recommended that the Company establish a staffing contingency plan to ensure adequate coverage within the team. Vendor Management should also enhance its due diligence and monitoring of offshore vendors to ensure effective risk management and oversight.****>***

*A rating of “1” indicates strong performance by management and the board of directors and strong risk management practices relative to the institution’s size, complexity, and risk profile. Board and management demonstrate strong commitment and oversight to the financial institution’s CMS. Substantial compliance resources are provided, including systems, capital, and human resources commensurate with the financial institution’s size, complexity, and risk profile. Staff is knowledgeable, empowered and held accountable for compliance with consumer laws and regulations. Management conducts comprehensive and ongoing due diligence and oversight of third parties consistent with agency expectations to ensure that the financial institution complies with consumer protection laws, and exercises strong oversight of third parties’ policies, procedures, internal controls, and training to ensure consistent oversight of compliance responsibilities.*

*Management anticipates and responds promptly to changes in applicable laws and regulations, market conditions and products and services offered by evaluating the change and implementing responses across impacted lines of business. Management conducts due diligence in advance of product changes, considers the entire life cycle of a product or service in implementing change, and reviews the change after implementation to determine that actions taken have achieved planned results.*

*Management has a solid comprehension of and effectively identifies compliance risks, including emerging risks, in the financial institution’s products, services, and other activities. Management actively engages in managing those risks, including through comprehensive self- assessments. Management proactively identifies issues and promptly responds to compliance risk management deficiencies and any violations of laws or regulations, including remediation.*

*A rating of “2” indicates that the board and management provide satisfactory oversight of the financial institution’s CMS. Compliance resources are adequate, and staff is generally able to ensure the financial institution is in compliance with consumer laws and regulations. Management conducts adequate and ongoing due diligence and oversight of third parties to ensure that the financial institution complies with consumer protection laws, and adequately oversees third parties’ policies, procedures, internal controls, and training to ensure appropriate oversight of compliance responsibilities. Management responds timely and adequately to changes in applicable laws and regulations, market conditions, products and services offered by evaluating the change and implementing responses across impacted lines of business. Management evaluates product changes before and after implementing the change. Management comprehends and adequately identifies compliance risks, including emerging risks, in the financial institution’s products, services, and other activities. Management adequately manages those risks, including through self- assessments. Management adequately responds to and corrects deficiencies and/or violations, including adequate remediation, in the normal course of business.*

*A rating of “3” indicates that board and management oversight of the financial institution’s CMS is deficient. Compliance resources and staff are inadequate to ensure the financial institution is in compliance with consumer laws and regulations. Management does not adequately conduct due diligence and oversight of third parties to ensure that the financial institution complies with consumer protection laws, nor does it adequately oversee third parties’ policies, procedures, internal controls, and training to ensure appropriate oversight of compliance responsibilities. Management does not respond adequately and/or timely in adjusting to changes in applicable laws and regulations, market conditions, and products and services offered. Management has an inadequate comprehension of and ability to identify compliance risks, including emerging risks, in the financial institution’s products, services, and other activities. Management does not adequately respond to compliance deficiencies and violations including those related to remediation.*

*A rating of “4” indicates that board and management oversight, resources, and attention to the CMS are seriously deficient. Compliance resources and staff are seriously deficient and are ineffective at ensuring the financial institution’s compliance with consumer laws and regulations. Management oversight and due diligence over third-party performance, as well as management’s ability to adequately identify, measure, monitor, or manage compliance risks, is seriously deficient. Management’s response to changes in applicable laws and regulations, market conditions, or products and services offered is seriously deficient. Management exhibits a seriously deficient comprehension of and ability to identify compliance risks, including emerging risks, in the financial institution. Management response to deficiencies, violations and examination findings is seriously deficient.*

*A rating of “5” indicates board and management oversight, resources, and attention to the CMS are critically deficient. Compliance resources are critically deficient in supporting the financial institution’s compliance with consumer laws and regulations, and management and staff are unwilling or incapable of operating within the scope of consumer protection laws and regulations. Management oversight and due diligence of third- party performance is critically deficient. Management fails to monitor and respond to changes in applicable laws and regulations, market conditions, or products and services offered. Management does not comprehend nor identify compliance risks, including emerging risks, in the financial institution. Management is incapable, unwilling and/or fails to respond to deficiencies, violations, or examination findings.*

## Board Oversight and Management – Matters Requiring Attention

*Identify all MRAs relating to Board Oversight and Management. This should correlate to the MRAs in SES.*

The Examination Team identified the following Matters Requiring Attention related to the Institution’s Board Oversight and Management.

***<Example Matter Requiring Attention 1:*** *Per Board minutes dated December 5, 2019, the Board reviewed IT systems and cybersecurity initiatives. On September 12, 2019, the Board reviewed the cyber risk report. It is recommended that the risk assessment program and information security program be approved annually by the Board.>*

***Matter Requiring Attention ##****:*

*Or*

The Examination Team did not identify any matters requiring attention.

## Information Technology and Cybersecurity Scope of Review

The Examination Team assessed the effectiveness of the Institution’s information technology and cybersecurity program based on a review of the following factors:

* IT audit coverage;
* management policies and oversight;
* controls in development and acquisition of hardware and software;
* cybersecurity preparedness;
* third-party (vendor) risk management program;
* business continuity/disaster recovery planning and testing.

The Examination Team used the Federal Financial Institutions Examination Council (FFIEC) guidelines and the Uniform Rating System for Information Technology (URSIT) as well as the Baseline Nonbank Cybersecurity Exam Workprogram.

## Information Technology and Cybersecurity Component Rating

<INSTITUTION NAME> has been assigned a rating of <NUMERICAL RATING 1-5> for information technology and cybersecurity. *Use the ratings below as a guide to help establish the rating. Provide a specific description of the Institution’s information technology and cybersecurity program that resulted in the chosen rating.*

*Financial institutions rated composite 1 exhibit strong performance in every respect and generally have components rated 1 or 2. Weaknesses in IT are minor in nature and are easily corrected during the normal course of business. Risk management processes provide a comprehensive program to identify and monitor risk relative to the size, complexity, and risk profile of the entity. Strategic plans are well defined and fully integrated throughout the organization. This allows management to quickly adapt to changing market, business, and technology needs of the entity. Management identifies weaknesses promptly and takes appropriate corrective action to resolve audit and regulatory concerns. The financial condition of the service provider is strong and overall performance shows no cause for supervisory concern.

Financial institutions rated composite 2 exhibit safe and sound performance but may demonstrate modest weaknesses in operating performance, monitoring, management processes, or system development. Generally, senior management corrects weaknesses in the normal course of business. Risk management processes adequately identify and monitor risk relative to the size, complexity, and risk profile of the entity. Strategic plans are defined but may require clarification, better coordination, or improved communication throughout the organization. As a result, management anticipates, but responds less quickly, to changes in market, business, and technological needs of the entity. Management normally identifies weaknesses and takes appropriate corrective action. However, greater reliance is placed on audit and regulatory intervention to identify and resolve concerns. The financial condition of the service provider is acceptable and while internal control weaknesses may exist, there are no significant supervisory concerns. As a result, supervisory action is informal and limited.

Financial institutions rated composite 3 exhibits some degree of supervisory concern due to a combination of weaknesses that may range from moderate to severe. If weaknesses persist, further deterioration in the condition and performance of the institution or service provider is likely. Risk management processes may not effectively identify risks and may not be appropriate for the size, complexity, or risk profile of the entity. Strategic plans are vaguely defined and may not provide adequate direction for IT initiatives. As a result, management often has difficulty responding to changes in business, market, and technological needs of the entity. Self-assessment practices are weak and are generally reactive to audit and regulatory exceptions. Repeat concerns may exist indicating that management may lack the ability or willingness to resolve concerns. The financial condition of the service provider may be weak and/or negative trends may be evident. While financial or operational failure is unlikely, increased supervision is necessary. Formal or informal supervisory action may be necessary to secure corrective action.

Financial institutions rated composite 4 operate in an unsafe and unsound environment that may impair the future viability of the entity. Operating weaknesses are indicative of serious managerial deficiencies. Risk management processes inadequately identify and monitor risk, and practices are not appropriate given the size, complexity, and risk profile of the entity. Strategic plans are poorly defined and not coordinated or communicated throughout the organization. As a result, management and the board are not committed to, or may be incapable of ensuring, that technological needs are met. Management does not perform self-assessments and demonstrates an inability or unwillingness to correct audit and regulatory concerns. The financial condition of the service provider is severely impaired or deteriorating. Failure of the financial institution or service provider may be likely unless IT problems are remedied. Close supervisory attention is necessary, and, in most cases, formal enforcement action is warranted.

Financial institutions rated composite 5 exhibit critically deficient operating performances and are in need of immediate remedial action. Operational problems and serious weaknesses may exist throughout the organization. Risk management processes are severely deficient and provide management little or no perception of risk relative to the size, complexity, and risk profile of the entity. Strategic plans do not exist or are ineffective, and management and the board provide little or no direction for IT initiatives. As a result, management is unaware of, or inattentive to, technological needs of the entity. Management is unwilling or incapable of correcting audit and regulatory concerns. The financial condition of the service provider is poor, and failure is highly probable due to poor operating performance or financial instability. Ongoing supervisory attention is necessary.*

## Information Technology and Cybersecurity – Matters Requiring Attention

*Identify all MRAs relating to Information Technology and Cybersecurity. This should correlate to the MRAs in SES.*

The Examination Team identified the following Matters Requiring Attention related to the Institution’s information technology and cybersecurity program.

***Matter Requiring Attention ##****:*

*Or*

The Examination Team did not identify any matters requiring attention.

## Compliance Program Scope of Review

A Compliance Program is an integral component of an institution’s operations. The Examination Team has assessed the effectiveness of the Compliance Program based on the following assessment factors:

* whether the institution’s policies and procedures are appropriate to the risk in the products, services, and activities of the institution;
* the degree to which compliance training is current and tailored to risk and staff responsibilities;
* the sufficiency of the monitoring and, if applicable, audit to encompass compliance risks throughout the institution; and
* the responsiveness and effectiveness of the consumer complaint resolution process.

The Examination Team used the following compliance program examination procedures as outlined in the MMC Examination Manual:

* Policies and procedures
* Advertising and Marketing
* Appraisals
* BSA/AML, OFAC
* Complaints
* Compliance and Internal Routines and Controls
* Error Resolution and Consumer Inquiries
* Mortgage Loan Originators
* Origination Activity
* Policies and Procedures
* Training Program
* Underwriting

## Compliance Program Component Rating

<INSTITUTION NAME> has been assigned a rating of <NUMERICAL RATING 1-5> for its compliance management system. *Use the ratings below as a guide to help establish the rating. Provide a specific description of the compliance program practices that resulted in the chosen rating.*

***<Example write up:*** *The Institution’s Compliance Program is overall satisfactory; however, it must enhance its training program. The Institution’s policies and procedures are sound, sufficient, and appropriately cover its lending and servicing activities. Monitoring and/or audit is also satisfactory with ongoing internal QC audits, as well as continuous compliance monitoring by the internal audit department, that prepares a risk-based audit plan on an annual basis. The Institution has also created an adequate consumer complaints response program. However, the Institution’s training program needs enhancement to ensure training is appropriately tracked.*>

*The highest rating of 1 reflects that compliance policies and procedures and third-party relationship management programs are strong, comprehensive and provide standards to effectively manage compliance risk in the products, services, and activities of the financial institution. Compliance training is comprehensive, timely, and specifically tailored to the particular responsibilities of the staff receiving it, including those responsible for product development, marketing, and customer service. The compliance training program is updated proactively in advance of the introduction of new products or new consumer protection laws and regulations to ensure that all staff are aware of compliance responsibilities before rolled out. Compliance monitoring practices, management information systems, reporting, compliance audit, and internal control systems are comprehensive, timely, and successful at identifying and measuring material compliance risk management throughout the financial institution. Programs are monitored proactively to identify procedural or training weaknesses to preclude regulatory violations. Program modifications are made expeditiously to minimize compliance risk. Processes and procedures for addressing consumer complaints are strong. Consumer complaint investigations and responses are prompt and thorough. Management monitors consumer complaints to identify risks of potential consumer harm, program deficiencies, and customer service issues and takes appropriate action.*

*A rating of 2 reflects that compliance policies and procedures and third-party relationship management programs are adequate to manage the compliance risk in the products, services, and activities of the financial institution. Compliance training outlining staff responsibilities is adequate and provided timely to appropriate staff. The compliance training program is updated to encompass new products and to comply with changes to consumer protection laws and regulations. Compliance monitoring practices, management information systems, reporting, compliance audit, and internal control systems adequately address compliance risks throughout the financial institution. Processes and procedures for addressing consumer complaints are adequate. Consumer complaint investigations and responses are generally prompt and thorough. Management adequately monitors consumer complaints and responds to issues identified.*

*A rating of 3 reflects that compliance policies and procedures and third-party relationship management programs are inadequate at managing the compliance risk in the products, services, and activities of the financial institution. Compliance training is not adequately comprehensive, timely, updated, or appropriately tailored to the particular responsibilities of the staff. Compliance monitoring practices, management information systems, reporting, compliance audit, and internal control systems do not adequately address risks involving products, services or other activities including, timing and scope. Processes and procedures for addressing consumer complaints are inadequate. Consumer complaint investigations and responses are not thorough or timely. Management does not adequately monitor consumer complaints.*

*A rating of 4 reflects that compliance policies and procedures and third-party relationship management programs are seriously deficient at managing compliance risk in the products, services, and activities of the financial institution. Compliance training is seriously deficient in its comprehensiveness, timeliness, or relevance to staff with compliance responsibilities, or has numerous major inaccuracies. Compliance monitoring practices, management information systems, reporting, compliance audit, and internal controls are seriously deficient in addressing risks involving products, services, or other activities. Processes and procedures for addressing consumer complaints and consumer complaint investigations are seriously deficient. Management monitoring of consumer complaints is seriously deficient.*

*A rating of 5 reflects that compliance policies and procedures and third-party relationship management programs are critically absent. Compliance training is critically absent. Compliance monitoring practices, management information systems, reporting, compliance audit, or internal controls are critically absent. Processes and procedures for addressing consumer complaints are critically absent. Meaningful investigations and responses are absent. Management exhibits a disregard for complaints or preventing consumer harm.*

## Compliance Program Comments and Conclusion

*Identify all MRAs relating to the Compliance Program. This should correlate to the MRAs in SES.*

The Examination Team identified the following Matters Requiring Attention related to the Institution’s Compliance Program.

<***Example Matter Requiring Attention 2:*** *The Institution does not adequately track employee training. All training is delivered through an internal LMS; however, documentation provided was insufficient for examiners to determine if new hire and annual trainings were completed timely. The Institution must develop adequate tracking and reporting to demonstrate employees timely complete assigned training.>*

***Matter Requiring Attention ##****:*

*Or*

The Examination Team did not identify any matters requiring attention.

## Violations of Law and Consumer Harm Scope of Review

The Examination Team reviewed <INSTITUTION NAME>’s mortgage origination activities for compliance with applicable state law and certain requirements of the following Federal consumer financial laws:

*<Insert applicable federal laws. Use list below as a starting point.>*

* Dodd-Frank Wall Street Reform and Consumer Protection Act
* Electronic Fund Transfer Act (EFTA) – Regulation E
* Equal Credit Opportunity Act (ECOA) – Regulation B
* Fair Credit Reporting Act (FCRA) – Regulation V
* Gramm-Leach-Bliley Act – Regulation P
* Home Mortgage Disclosure Act – Regulation C
* Mortgage Acts and Practices – Regulation N
* Fair Debt Collection Practices Act (FDCPA) – Regulation F
* Homeowners Protection Act (HPA)
* Real Estate Settlement Procedures Act (RESPA) – Regulation X
* Secure and Fair Enforcement for Mortgage Licensing Act of 2008 – Regulation H
* Truth in Lending Act (TILA) – Regulation Z

## Violations of Law and Consumer Harm Component Rating

<INSTITUTION NAME> is assigned a rating of <NUMERICAL RATING 1-5> for Regulatory Compliance. *Use the ratings below as a guide to help establish the rating. Provide a specific description of board and management practices that resulted in the chosen rating.*

*A rating of “1” indicates that violations are the result of minor weaknesses, if any, in the compliance risk management system. The type of consumer harm, if any, resulting from the violations would have a minimal impact on consumers. The violations and resulting consumer harm, if any, occurred over a brief period of time. The violations and resulting consumer harm, if any, are isolated in number.*

*A rating of “2” indicates that violations are the result of modest weaknesses in the compliance risk management system. The type of consumer harm resulting from the violations would have a limited impact on consumers. The violations and resulting consumer harm, if any, occurred over a limited period of time. The violations and resulting consumer harm, if any, are limited in number.*

*A rating of “3” indicates that violations are the result of material weaknesses in the compliance risk management system. The type of consumer harm resulting from the violations would have a considerable impact on consumers. The violations and resulting consumer harm, if any, occurred over an extended period of time. The violations and resulting consumer harm, if any, are numerous.*

*A rating of “4” indicates violations are the result of serious deficiencies in the compliance risk management system. The type of consumer harm resulting from the violations would have a serious impact on consumers. The violations and resulting consumer harm, if any, have been long-standing or repeated. The violations and resulting consumer harm, if any, are widespread or in multiple products or services.*

*A rating of “5” indicates that violations are the result of critical deficiencies in the compliance risk management system. The type of consumer harm resulting from the violations would have a serious impact on consumers. The violations and resulting consumer harm, if any, have been long-standing or repeated. The violations and resulting consumer harm, if any, are widespread or in multiple products or services.*

## Violations of Law and Consumer Harm Examination Findings

The Examination Team has analyzed the federal and state-specific findings in respect to the following assessment factors:

* the root cause, or causes, of any violations of law identified during the examination;
* the severity of any consumer harm resulting from violations;
* the duration of time over which the violations occurred; and
* the pervasiveness of the violations.

The violations listed in this section are based on the review of a sample of COMPANY loan records. As a result, other violations may exist. If stipulated in the Report, COMPANY is obligated to conduct a self-examination to identify and make refunds on all transactions that violate federal and state law, not just those violations cited by the examiner. Copies of the self-examination report, refund check(s), and transmittal letter(s) are to be forwarded as instructed within each finding.

## Federal Regulatory Compliance

[EIC note: The number of loans with violations listed in the tables below are subjective. When significant numbers exist, the EIC may wish to use an example list of loans.]

[EIC note: Identify each state in which the violation was found.]

**Finding ##: RESPA Disclosures not provided within three days:**

A lender shall provide all applicants for a federally related mortgage loan with a loan estimate (LE) of the amount of or range of charges for the specific settlement services the borrower is likely to incur in connection with the settlement within three days from the date of the loan application. § 1024.7(a) and § 1026.19(a).

Additionally, United States Code requires that “each person who makes a federally related mortgage loan shall disclose to each person who applies for the loan, at the time of application for the loan, whether the servicing of the loan may be assigned, sold or transferred to any other person at any other time while the loan is outstanding”.

§ 1024.33(a)

The examiners identified four loans listed in Table XX, where the files did not contain adequate evidence to show that LE’s or Servicing Disclosures were provided to borrowers within three days from the date of the loan application. This represents XX percent of the loan file review sample (optional language).

The compliance analysis software identified XX loans (XX percent of loans submitted) where disclosures were not provided to borrowers within three days from the date of the loan application.

 **Table XX – Loans Reviewed violating § 1024.7(a), § 1024.21 (b) and § 1026.19(a)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **State** | **Loan Number** | **Borrower Initials** |  |  |  |
| 1 |  | xxxxxx | XX | xx/xx/xxxx | xx/xx/xxxx | xx/xx/xxxx |
| 2 |  | xxxxxx | XX | xx/xx/xxxx | xx/xx/xxxx | xx/xx/xxxx |
| 3 |  | xxxxxx | XX | xx/xx/xxxx | xx/xx/xxxx | xx/xx/xxxx |
| 4 |  | xxxxxx | XX | xx/xx/xxxx | xx/xx/xxxx | xx/xx/xxxx |

**[EIC Note: Use this section if appropriate. If matters have not been discussed with management, do not include.] ABC’s Initial Response and Proposed Corrective Action:**

*This finding was discussed with ABC Mortgage (if significant you can include the individuals name and title) during the examination and the company indicated that they will immediately implement procedures and controls to ensure that disclosures are provided timely. ABC Mortgage will also provide an explanation of the finding in their response to the ROE.*

**Recommendation OR Observation OR MRA ##**: Institution should review all accounts, with a payoff request, to determine if a fee was charged for the payoff statement and make the appropriate refunds. A list of refunds made should be attached to the response to the ROE.

## State Regulatory Compliance - <STATE>

**Finding ##: Payoff Statement Fees**

Regulation 155-2-2-10(5) of the Alabama Consumer Credit Act requires a licensee to provide pay-off information in writing to the borrower without charge.

The examiners identified three loans (Table XX) where ABC collected pay-off statement fees. This practice was confirmed by the Licensee’s response to question 64 on the Servicing Information Request. This is a prohibited act in violation of Regulation155-2-2-10(5).

 **Table XX – Loans reviewed violating Regulation 155-2-2-10(5):**

|  | **Loan Number** | **Borrower Initials** | **Date Charged** | **Refund Due** |
| --- | --- | --- | --- | --- |
| 1 | xxxxxxx | XX | mm/dd/yyyy | $xx.xx |
| 2 | xxxxxxx | XX | mm/dd/yyyy | $xx.xx |
| 3 | xxxxxxx | XX | mm/dd/yyyy | $xx.xx |

**Recommendation OR Observation OR MRA ##**: ABC should review all Alabama accounts, with a payoff request, to determine if a fee was charged for the payoff statement and make the appropriate refunds. A list of refunds made should be attached to the response to the ROE.

**Finding ##: Records to be Maintained**

Regulation 155-2-2-.10 of the Alabama Consumer Credit Act requires licensees to maintain adequate files containing all information necessary to verify compliance with the Act**.** The examiners identified two loans that were missing the documentation listed below in Table XX.

 **Table XX – Loans reviewed violating Regulation 155-2-2-10:**

|  | **Loan Number** | **Document Missing** |
| --- | --- | --- |
| 1 | xxxxxxx | **Initial Application (1003)** |
| 2 | xxxxxxx | **Loan Estimate** |

**Recommendation OR Observation OR MRA ##**: ABC should maintain all records as required under the Alabama Consumer Credit Act.

1. Amended May 1, 2009. [↑](#footnote-ref-2)
2. State Regulators means the 49 states plus D.C. and Puerto Rico signed to the Nationwide Cooperative Agreement for Mortgage Supervision. [↑](#footnote-ref-3)