

# 8 HOUR SAFE COMPREHENSIVE CE HMDA, AML, ARMS & THE NEW 1003 PLUS CA 1 HR.

CLASSROOM



MEC Mortgage Educators and Compliance



## Rules of Conduct for NMLS Approved Pre-Licensure (PE) and Continuing Education (CE) Courses

The Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) requires that state-licensed MLOs complete pre-licensing (PE) and continuing education (CE) courses as a condition to be licensed. The SAFE Act also requires that all education completed as a condition for state licensure be NMLS approved. Since 2009 NMLS has established course design, approval, and delivery standards which NMLS approved course providers are required to meet. To further ensure students meet the education requirements of the SAFE Act, NMLS has established a Rules of Conduct (ROC). The ROC, which have been approved by the NMLS Mortgage Testing & Education Board, and the NMLS Policy Committee, both of which are comprised of state regulators, are intended to stress that NMLS approved education be delivered and completed with integrity.

### Rules of Conduct

As an individual completing either pre-licensure education (PE) or continuing education (CE), I agree to abide by the following rules of conduct:

1. I attest that I am the person who I say I am and that all my course registration information is accurate.
2. I acknowledge that I will be required to show a current government issued form of identification prior to, and during the course, and/or be required to answer questions that are intended to verify/validate my identity prior to, and during the course.
3. I understand that the SAFE Act and state laws require me to spend a specific amount of time in specific subject areas. Accordingly, I will not attempt to circumvent the requirements of any NMLS approved course.
4. I will not divulge my login ID or password or other login credential(s) to another individual for any online course.
5. I will not seek or attempt to seek outside assistance to complete the course.
6. I will not give or attempt to give assistance to any person who is registered to take an NMLS approved pre-licensure or continuing education course.
7. I will not engage in any conduct that creates a disturbance or interferes with the administration of the course or other students' learning.
8. I will not engage in any conduct that would be contrary to good character or reputation, or engage in any behavior that would cause the public to believe that I would not operate in the mortgage loan business lawfully, honestly or fairly.
9. I will not engage in any conduct that is dishonest, fraudulent, or would adversely impact the integrity of the course(s) I am completing and the conditions for which I am seeking licensure or renewal of licensure.

I understand that NMLS approved course providers are not authorized by NMLS to grant exceptions to these rules and that I alone am responsible for my conduct under these rules. I also understand that these rules are in addition to whatever applicable rules my course provider may have.

I understand that the course provider or others may report any alleged violations to NMLS and that NMLS may conduct an investigation into alleged violations and that it may report alleged violations to the state(s) in which I am seeking licensure or maintain licenses, or to other states.

I further understand that the results of any investigation into my alleged violation(s) may subject me to disciplinary actions by the state(s) or the State Regulatory Registry (SRR) including removal of any course from my NMLS record, and/or denial or revocation of my license(s).

Course Number(s)

Signature

Date (mm/dd/yyyy)

Print Name

NMLS ID (if known)

ROC for NMLS approved PE and CE Courses V1.1 (2/24)

Page 1 of 1

## Rules of Conduct for NMLS Approved Courses.



Your signature acknowledges your acceptance of these rules.

If you have concerns related to these rules, please direct them to the NMLS.

MEC Mortgage Educators and Compliance

#### Rules of Conduct

As an individual completing either pre-licensure education (PE) or continuing education (CE), I agree to abide by the following rules of conduct:

1. I attest that I am the person who I say I am and that all my course registration information is accurate.
2. I acknowledge that I will be required to show a current government issued form of identification prior to, and during the course, and/or be required to answer questions that are intended to verify/validate my identity prior to, and during the course.
3. I understand that the SAFE Act and state laws require me to spend a specific amount of time in specific subject areas. Accordingly, I will not attempt to circumvent the requirements of any NMLS approved course. 
4. I will not divulge my login ID or password or other login credential(s) to another individual for any online course.
5. I will not seek or attempt to seek outside assistance to complete the course.
6. I will not give or attempt to give assistance to any person who is registered to take an NMLS approved pre-licensure or continuing education course.
7. I will not engage in any conduct that creates a disturbance or interferes with the administration of the course or other students' learning. 
8. I will not engage in any conduct that would be contrary to good character or reputation, or engage in any behavior that would cause the public to believe that I would not operate in the mortgage loan business lawfully, honestly or fairly.
9. I will not engage in any conduct that is dishonest, fraudulent, or would adversely impact the integrity of the course(s) I am completing and the conditions for which I am seeking licensure or renewal of licensure.

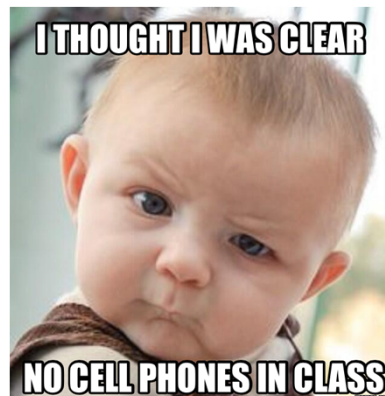
I understand that NMLS approved course providers are not authorized by NMLS to grant exceptions to these rules and that I alone am responsible for my conduct under these rules. I also understand that these rules are in addition to whatever applicable rules my course provider may have.

I understand that the course provider or others may report any alleged violations to NMLS and that NMLS may conduct an investigation into alleged violations and that it may report alleged violations to the state(s) in which I am seeking licensure or maintain licenses, or to other states.

I further understand that the results of any investigation into my alleged violation(s) may subject me to disciplinary actions by the state(s) or the State Regulatory Registry (SRR), including removal of any course from my NMLS record, and/or denial or revocation of my license(s).

## NEW NMLS RULES

- Please make sure you signed in today for credit
- We must check IDs before we start and after big breaks (Lunch)
- For breaks over 10 minutes you must re-initial the sign in sheet
- Remember the number on your sign in sheet it speeds things up
- Returning late from breaks could jeopardies your CE credit
- Phones must by muted, off or on vibrate only





© Mortgage Educators and Compliance, 2017

## INTRODUCTION



*Let me tell you  
a little about  
myself...*

**MEC** Mortgage Educators  
and Compliance



### Today's Class:

1. Home Ready vs. Home Possible
2. Adjustable Rate Mortgages
3. The New HMDA Mortgage Disclosure Rule
4. New Uniform Residential Loan Application (1003)
5. Fair Lending, Fraud, Consumer Protection
6. End of Course Assessment: Jeopardy

### WHY DOES THE NMLS/SAFE ACT REQUIRE WHAT WE LEARN?



Chuck A Rama Buffet in Utah

We can't take the same class every year.

Continuing Education is like a buffet.

What's the point of a buffet if we always ate the exact same thing every time.

## IF YOU ONLY HAD A HAMMER

- Could you change a light bulb?
- Could you change your oil?
- Would you be a great dentist?
- **What about loan officers that only know or use one loan?**



## FANNIE MAE'S HOMEREDDY VS. FREDDIE MAC'S HOME POSSIBLE

## FANNIE MAE HOME READY QUICK GUIDELINES

### Borrower benefits

- **Low down payment** with up to 97% LTV financing for home purchases
- **Competitive pricing** meets or beats our standard loan pricing
- **Flexible sources of funds** with no minimum contribution requirement from borrower's own funds (1-unit properties)
- **Rental and boarder income** may be considered for qualifying
- **CLTV up to 105%** for loans with an eligible Community Seconds® transaction
- **Expanded DTI ratio** when using additional household income from non-borrowers
- **Non-borrower household income** is not counted toward income eligibility limits
- **Cancellable private mortgage insurance** per *Servicing Guide* policy
- **Reduced MI** coverage requirements for LTVs above 90% (up to 97%)
- **Homeownership education and advising** options empower borrowers to become successful homeowners

[https://www.fanniemae.com/content/fact\\_sheet/homeready-loan-officer-facts.pdf](https://www.fanniemae.com/content/fact_sheet/homeready-loan-officer-facts.pdf)

**M|E|C** Mortgage Educators and Compliance

## FANNIE MAE HOMEReady

First Time Home Buyer (FTHB)	No FTHB Requirement
Income Limits	General income limit - 100% of area median income or no income limit (for low-income census tracts)
Non-borrower household income from relative or non-relative	Permitted as compensating factor in DU only to allow a DTI > 45% up to 50%
Rental Income – Accessory Unit	Rental income considered for qualifying
Boarder Income	Allowed

Questions

Answers

**M|E|C** Mortgage Educators and Compliance

## FANNIE MAE HOMEREDY

Borrower Contribution From Own Funds	None required
Reserves	Determined by DU
CLTV	105% if Community Seconds Loan
Loan Programs	Fixed- term 30 years; 3-2-1 buydown allowed
Occupancy	Primary residence – all borrowers must occupy (non-occupant borrower allowed at 95% LTV or lower)
Property Type	Manufactured ineligible

## FANNIE MAE HOMEREDY

Number of Units	1 (one)
Submission	DU only (manual allowed at 95% LTV or lower)
Manual Underwrite	Not allowed above 95% LTV
Minimum Mortgage Insurance Coverage	25% or 18% + Minimum MI Loan-Level Price Adjustment
Homebuyer Education	Required for at least 1 borrower
Eligible Homebuyer Education	Framework Homeownership, LLC - \$75



# Discover the Possibilities

---

with Home Possible®

© Mortgage Educators and Compliance, 2017

## BUYING A HOME?

Secure your funds for your home purchase. There is up to **\$15,000 available** to First Time Home Buyers! Utah Home Grants can help cover your down payment or closing costs. Sign up now to receive more information about Utah Grants.

### UTAH HOME GRANTS AVAILABLE IN YOUR AREA:

Salt Lake County	Utah County	Cache County
Sandy - \$10,000	Provo City - \$5,000	Logan - \$7,500
Kearns - \$10,000	Other Cities - \$15,000	<b>Davis County</b>
Magna - \$10,000	<b>Weber County</b>	All Cities - \$2,000
Midvale - \$5,000	Ogden City - \$5,000	Clearfield - \$5,000
Murray - \$7,500	Other Cities - \$5,000	<b>Tooele County</b>
Salt Lake City - \$5,000		All Cities - \$2,000
West Valley - \$5,000		
West Jordan - \$5,000		

## FREDDIE MAC HOME POSSIBLE - PURCHASE

First Time Home Buyer (FTHB)	No FTHB requirement
Income Limits	Qualifying income must not exceed 100% of area median income or income multipliers in designed areas. No income limits apply if mortgaged premises is located in an underserved area
Non-borrower household income from relative or non-relative	Not addressed
Rental Income – Accessory Unit	Not addressed

## FREDDIE MAC HOME POSSIBLE - PURCHASE

Boarder Income	Allowed
Borrower Contribution From Own Funds	None Required
Reserves	None Required
CLTV	105%; secondary financing must be an Affordable Seconds
Loan Programs	Fixed - term to 30 years; 3-2-1 buydown allowed
Occupancy	Primary Residence- All borrowers must occupy

## FREDDIE MAC HOME POSSIBLE - PURCHASE

Property Type	Ineligible: Manufactured
Number of Units	1 (one)
Submission	LP and Manual
Manual Underwrite	Maximum 43% DTI; minimum 660 FICO
Minimum Mortgage Insurance Coverage	25% or 18% + Custom MI Fee
GSE must be owner of existing loan	Not applicable

## FREDDIE MAC HOME POSSIBLE - PURCHASE

Homebuyer education	At least one borrower must participate in FTHB education when all borrowers are FTHBs
Eligible Homebuyer Education	MGIC or as required by Freddie Mac

## FREDDIE MAC HOME POSSIBLE – NO CASH OUT REFINANCE

Income Limits	Qualifying income must not exceed 100% of area median income or income multipliers in designed areas. No income limits apply if mortgaged premises is located in an underserved area
Non-borrower household income from relative or non-relative	Not addressed
Rental Income – Accessory Unit	Not addressed

## FREDDIE MAC HOME POSSIBLE – NO CASH OUT REFINANCE

Boarder Income	Allowed
Borrower Contribution From Own Funds	None Required
Reserves	None Required
CLTV	105%; secondary financing must be an Affordable Seconds
Loan Programs	Fixed- term to 30 years; 3-2-1 buydown allowed



## **FREDDIE MAC HOME POSSIBLE – NO CASH OUT REFINANCE**

Occupancy	Primary Residence- All borrowers must occupy
Property Type	Ineligible: Manufactured
Number of Units	1 (one)
Submission	LP and Manual (no LTV limits)
Manual Underwrite	Maximum 43% DTI; minimum 660 FICO
Minimum Mortgage Insurance Coverage	25% or 18% + Custom MI Fee

## **FREDDIE MAC HOME POSSIBLE – NO CASH OUT REFINANCE**

GSE must be owner of existing loan	Not applicable
Homebuyer education	At least one borrower must participate in FTHB education when all borrowers are FTHBs
Eligible Homebuyer Education	MGIC or as required by Freddie Mac



© Mortgage Educators and Compliance, 2017

## QUALIFICATION

Does your borrower qualify for HomeReady?

- <https://homeready-eligibility.fanniemae.com/homeready/>
- Enter borrower's address
- Click search

M|E|C Mortgage Educators  
and Compliance

## HomeReady® Income Eligibility Lookup Tool Tips

The [HomeReady Income Eligibility Lookup tool](#) provides lenders and other housing professionals with a quick and easy way to look up HomeReady income eligibility by property address or by Federal Information Processing Standards (FIPS) code.

Effective July 16, 2016, HomeReady income eligibility requirements were simplified to 100% of AMI or no income limit (for low-income census tracts). In addition, the area median incomes (AMIs) used in determining income eligibility were updated. The tool reflects both the simplified income eligibility structure and the new HomeReady AMIs.

### What's displayed on the map?

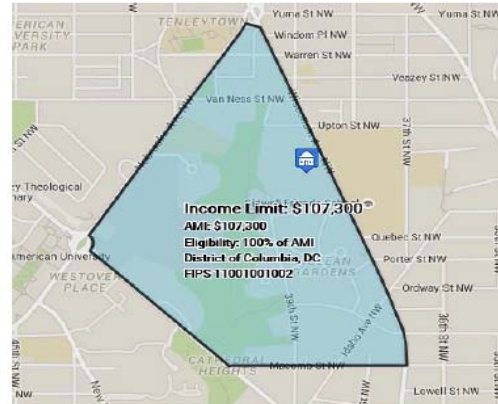
**Income Limit:** The income limit a borrower must not exceed to be potentially eligible for HomeReady within that census tract. Note: In low-income census tracts, the Income Limit will read "None."

**AMI:** HomeReady area median income.

**Eligibility:** Either 100% of AMI or no income limit for low-income census tracts.

**City/County, State:** City or county and state where the property is located.

**FIPS:** A unique code assigned to all geographic areas. The first two digits denote the state; the next three, the county; and the last six denote the census tract number. For example, the FIPS code for 3900 Wisconsin Ave. NW, Washington, DC, is 11001001002 (State code 11, county code 001, and census tract 001002).



© Mortgage Educators and Compliance, 2017

FreddieMac

Single-Family Business

Single-Family

Become a Freddie Mac Seller/Service

Originate and Underwrite

Sell and Deliver

Affordable Lending

Loan Advisor Suite

Uniform Mortgage Data Program (UMDP)

Mortgage Products

Home Possible Income & Property Eligibility

How to Read Your Results

Home Possible Income & Property Requirements

Servicing

The Guide and Forms

Single-Family News Center

Subscription Center

The Learning Center

Housing Professionals

Credit Risk Offerings

Home Possible Income & Property Eligibility

For best results, enter the complete property street address to see if a borrower can qualify for a Freddie Mac Home Possible® mortgage based on the property location and the borrower's income.

Note: Search by County or Zip will return results for the most centrally located address. These results may not be the same as the relevant property.

1234 S Main St, Salt Lake Cty, L

2017 Home Possible Income Limits by City

1234 S Main St, Salt Lake Cty, UT, 84101, USA

See if this property qualifies for Down Payment Assistance

FIPS Code 49035102900

Home Possible Income Limit: No Limit

No Income Limit reason: Low-Income, Minority tract

100% Median Income: \$75,400

80% Area Median Income: \$60,320

50% Area Median Income: \$37,700

Zoom to

1234 S Main St, Salt Lake Cty, L

2017 Home Possible Income Limits by City

1234 S Main St, Salt Lake Cty, UT, 84101, USA

See if this property qualifies for Down Payment Assistance

FIPS Code 49035102900

Home Possible Income Limit: No Limit

No Income Limit reason: Low-Income, Minority tract

100% Median Income: \$75,400

80% Area Median Income: \$60,320

50% Area Median Income: \$37,700

Zoom to

M|E|C

Mortgage Educators and Compliance

15



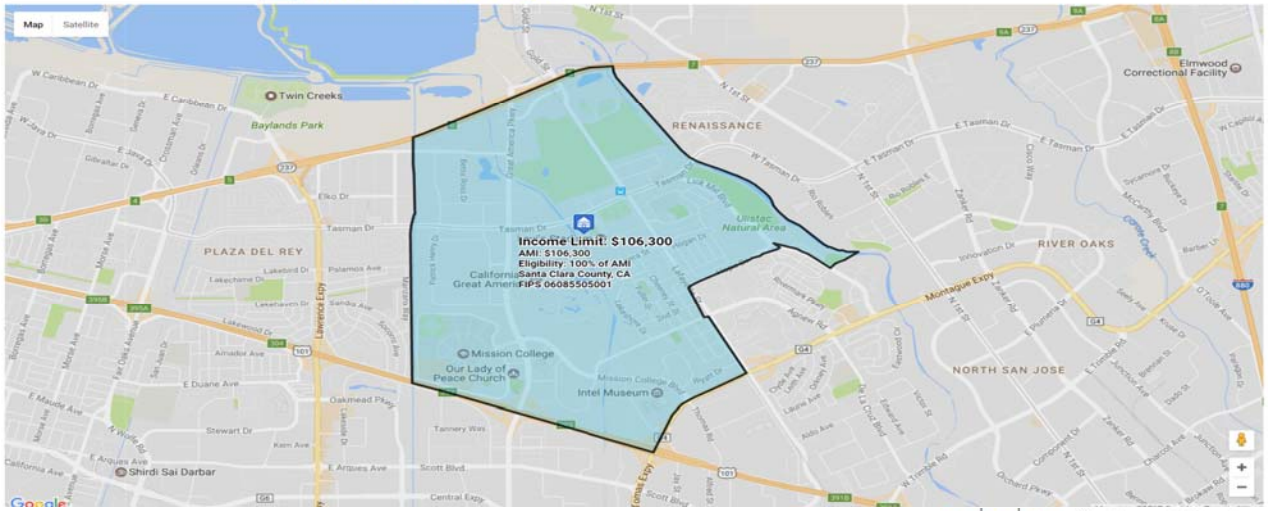
This service is provided for the sole purpose of showing potential eligibility for HomeReady loans, and not for any other purpose; and is subject to change. Lenders must determine borrower loan eligibility in accordance with Selling Guide policy. In the event of any conflict with this document, the Selling Guide and/or DU findings will govern.

Tool Tips

Fannie Mae  
INNOVATION LAB

4900 Marie P. DeBartolo Way Santa Clara

Income Limit: \$106,300



MEC Mortgage Educators and Compliance



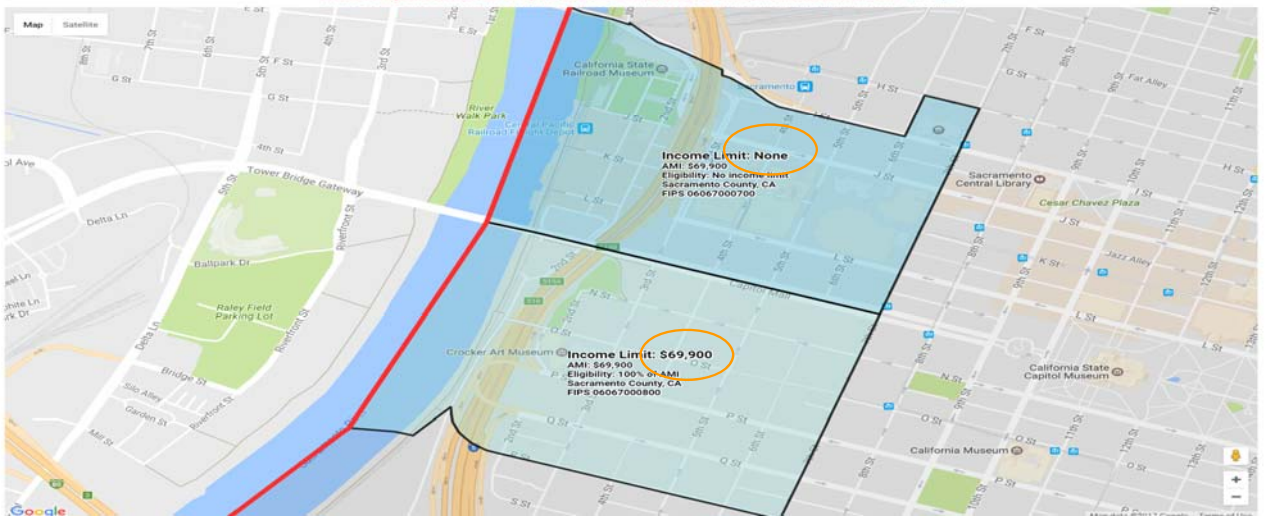
This service is provided for the sole purpose of showing potential eligibility for HomeReady loans, and not for any other purpose; and is subject to change. Lenders must determine borrower loan eligibility in accordance with Selling Guide policy. In the event of any conflict with this document, the Selling Guide and/or DU findings will govern.

Tool Tips

Fannie Mae  
INNOVATION LAB

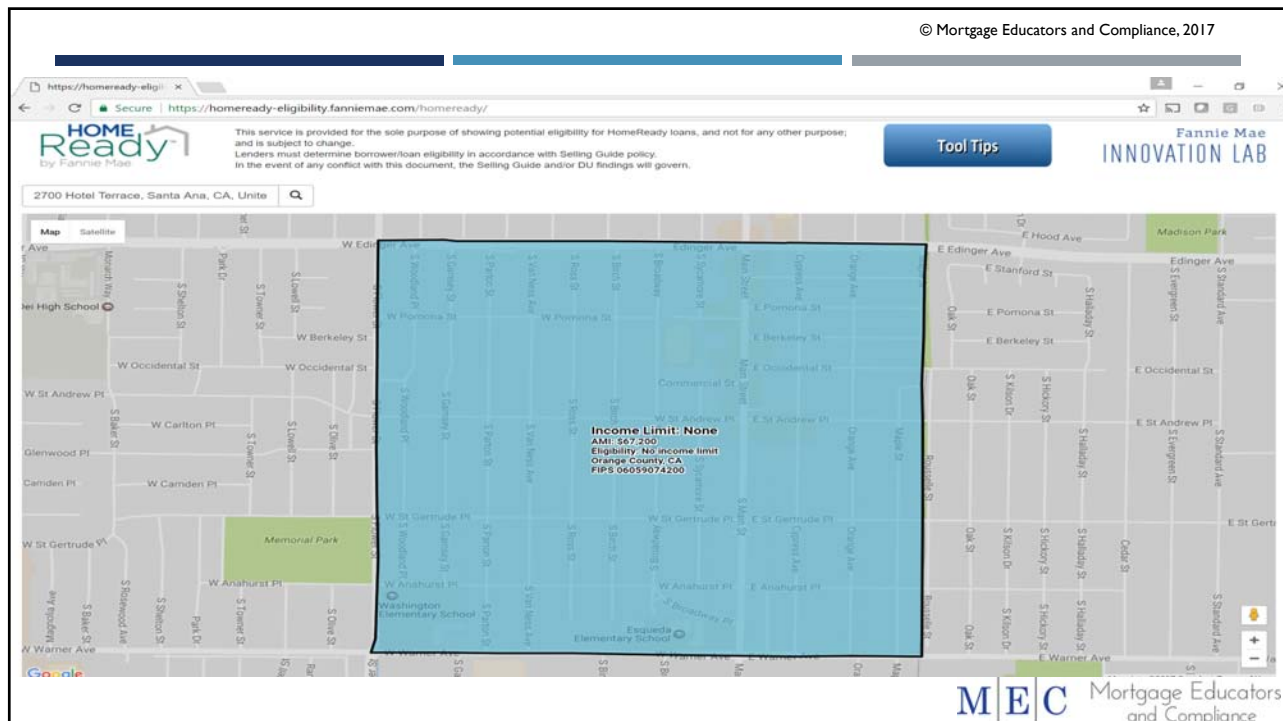
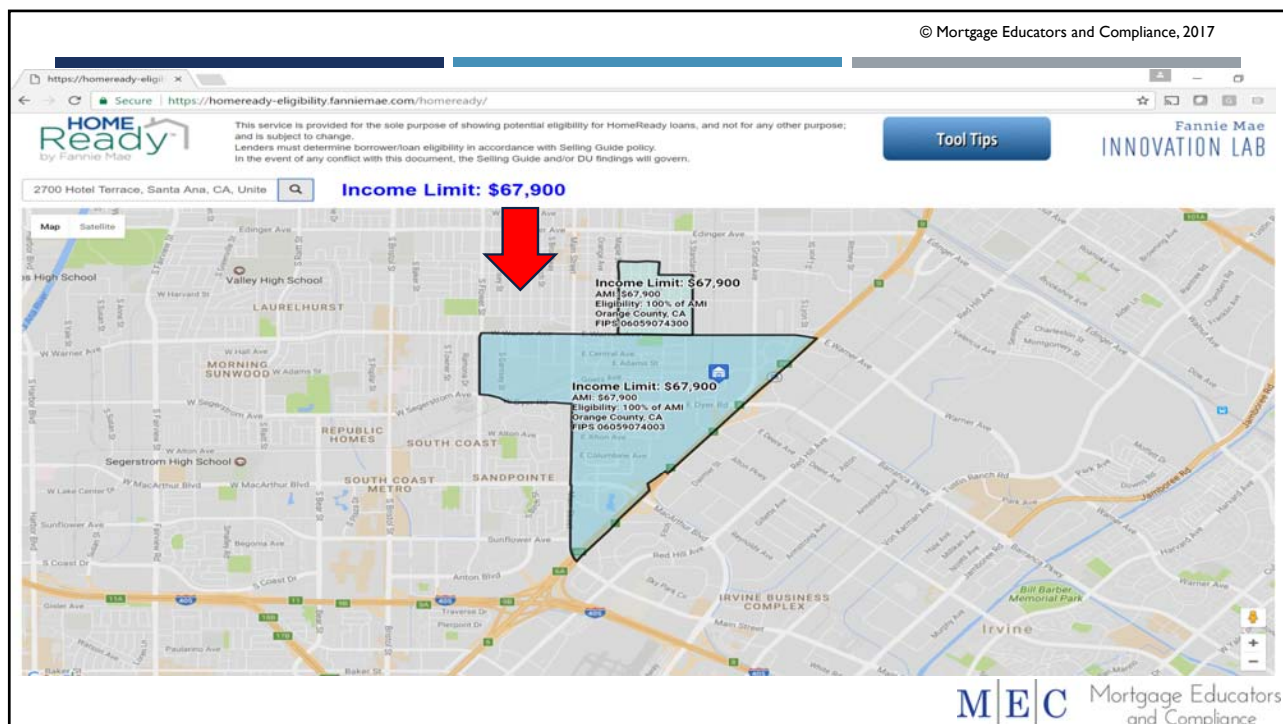
500 David J Stern Walk Sacramento, CA

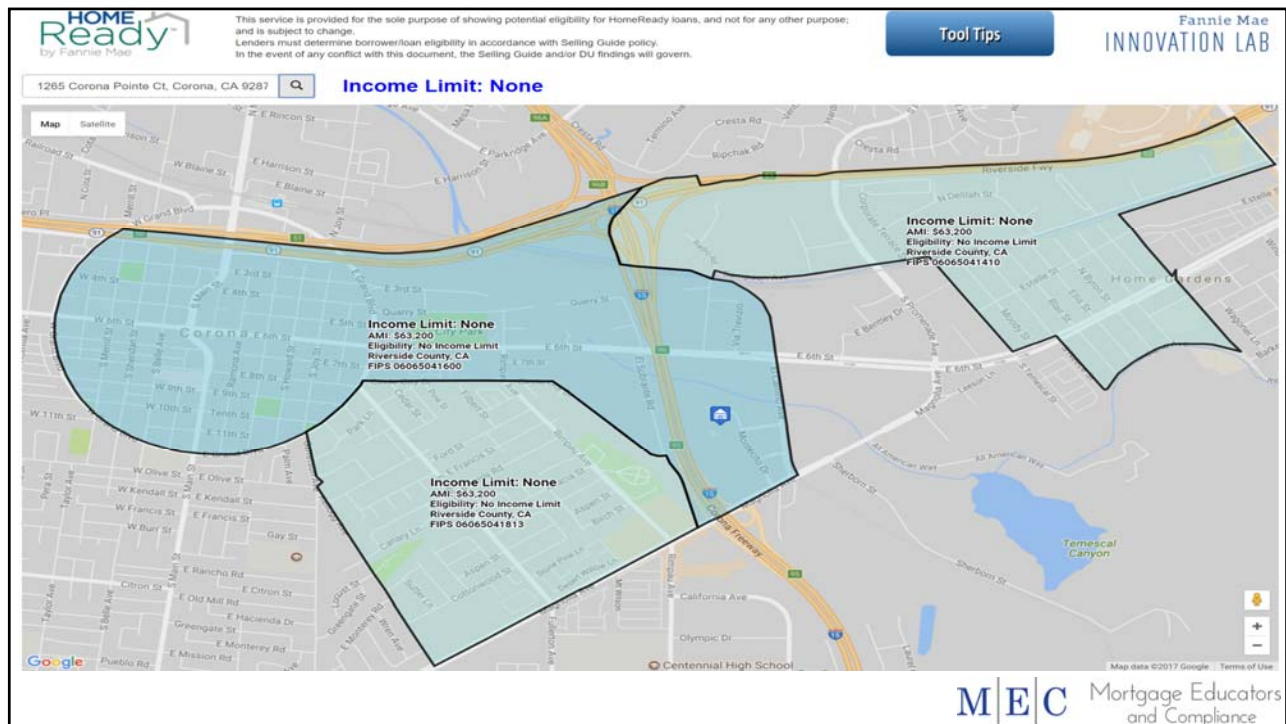
A precise geocoded location was not found. Information displayed may provide general guidance about the area in which the property is located. Please verify and re-enter the complete address or FIPS code. For more information, refer to the Tool Tips.



MEC Mortgage Educators and Compliance







© Mortgage Educators and Compliance, 2017

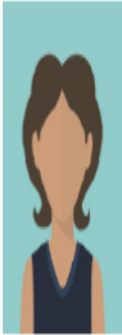
## HOMEReady: NON-BORROWER HOUSEHOLD INCOME

One of the things that make the HomeReady loan unique is that the borrower can use non-borrower household income as a contributing factor.

**Fannie Mae** has asserted that extended-housing living arrangements are more common among underserved populations, including low-to-moderate income, minority and immigrant households. This often limits their ability to obtain credit. **Let's look at an example:**

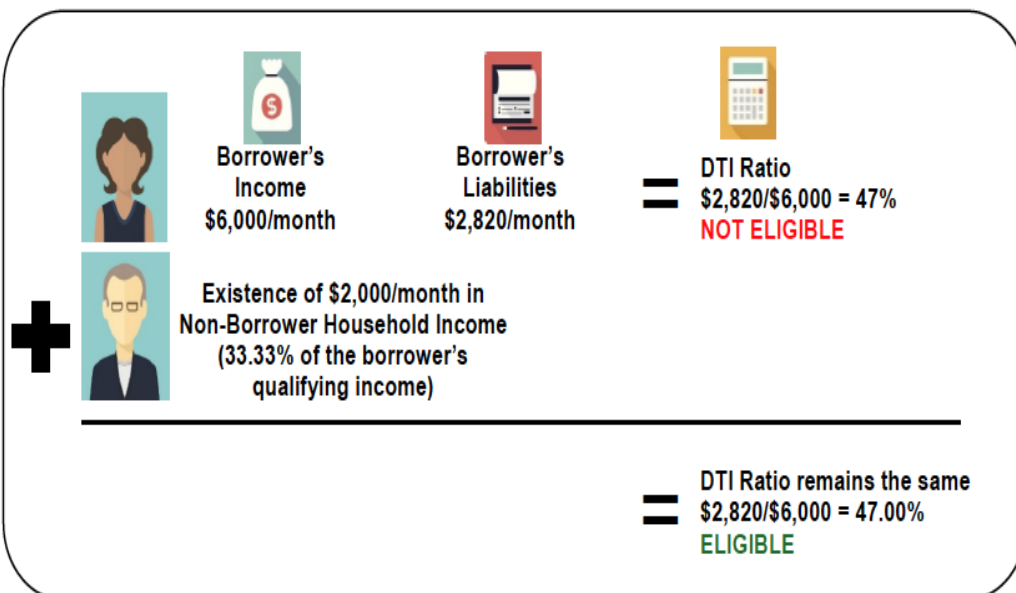
MEC Mortgage Educators and Compliance

## Sample scenario: Non-borrower household income\*



A single woman with children is looking to buy a larger home, so her father can move in with her. Her father has monthly income and, although he will not pay rent to his daughter, he may contribute to household expenses periodically.

The father's income is **not** considered as qualifying income; therefore, there is no change to the borrower's DTI ratio of 47%. The existence of the father's income, however, is considered the compensating factor that allows the borrower to have a DTI ratio greater than 45%.



## HOME POSSIBLE: UNIQUE FEATURES - RESERVES

Fannie Mae HomeReady mortgages allow for DU to determine whether the borrower is required to have reserves while Freddie Mac has indicated that Home Possible Mortgages do not require reserves.

They also allow for more eligible sources of funds for down payment and closing costs including gifts from related persons or other sources of funds.

## HOME POSSIBLE: UNIQUE FEATURES

Freddie Mac also **allows** Home Possible Advantage mortgages to be manually underwritten in specific instances where as Fannie Mae **does not allow** for manual underwriting unless the LTV is below 95%.



## NON-TRADITIONAL MORTGAGE



## ADJUSTABLE RATE MORTGAGES



## INTRODUCTION TO ADJUSTABLE RATE MORTGAGES



M|E|C Mortgage Educators and Compliance

What does the first number mean?

What does A.R.M. mean?

# 3/1 ARM

What does the second number mean?

ARMs have two moving parts until locked. What are they?

Margin and Index

M|E|C Mortgage Educators and Compliance



Margin equals profit.  
This amount can  
move until the  
rate/loan is locked.  
After the loan is  
locked this amount  
does not change.

## EXAMPLES OF INDEXES

- Cost of Funds Index 11th District (COFI)
- Constant Maturity Treasury Rate (CMT)
- Treasury Bills (T-Bills)
- 12-Month Treasury Average (12 MTA)
- London Interbank Offered Rate (LIBOR) Going away 2021
- What other “Indexes” are out there?

## INTEREST RATES

- Fully Indexed Interest Rates:
  - Margin + Index
  - The borrower's starting interest rate is made up of these two numbers.

## AN EXAMPLE

For example, if the margin is 2 points and the index is 2-1/4 points, adding these together equals 4 1/4 points or 4.25%.

Margin	2.00%
Index	+ <u>2.25%</u>
Fully Indexed Interest Rate	4.25%

## Questions:



WHAT'S THE INITIAL INTEREST RATE OR START RATE?  
HOW LONG WILL IT REMAIN CONSTANT?

## ADJUSTED INTEREST RATE

- After the fixed rate period expires, the initial rate will adjust on the first day of the month following the consummation (closing) anniversary date.
- Question: When would a 10/1 ARM adjust?
- How often will it adjust after the first adjustment?



## DISCOUNTED INTEREST RATE

Initial interest rate = 3% (margin 3% + index 3% - 3% discount)

Fully indexed interest rate = 6% (margin 3% + index 3%)

Initial interest rate difference = - 3%



## CARRYOVER INTEREST POINTS

- If the fully indexed interest rate is more than the capped rate, then the capped rate prevails.

## CARRYOVER INTEREST POINTS

- If the adjusted rate is less than the fully indexed rate, the difference is called "carryover." A lender may carryover until the next adjustment period. If the index is static or has declined between adjustment periods, the lender may apply the carryover to the interest rate. Although the index may remain the same or decline, the interest rate, and consequently the mortgage payment may stay the same or increase.

## INTEREST RATE ADJUSTMENT LOOKBACKS

- As an adjustment period approaches, by law, the consumer must be notified of the newly adjusted rate. The date used to calculate the adjustment is determined by counting backward **45 days** from the anniversary date of the consummation. This is called a "lookback." Many adjustment errors occur because of mistakes made calculating the lookback.

## CONVERSIONS

- Some ARMs have clauses allowing the loan to be converted from an adjustable to a fixed-rate loan. This is usually available on the first-anniversary date of the loan.
- Some consumers choose to refinance rather than convert if the refinance interest rate is lower than the conversion rate.

## TYPES OF ARMS – WHAT ARE THE DIFFERENCES?

- Conventional ARMs
- Conventional Hybrid ARMs
- Government ARMs
- Interest Only ARMs
- Payment Option ARMs



## INTEREST RATE CAPS

### Caps

- Initial;
- Periodic; and
- Lifetime of the loan.



M|E|C Mortgage Educators  
and Compliance

## INTEREST RATE CAPS

- Examples: **3/1 ARM with 3/6 caps, first adjustment, fourth year of the loan. Initial interest rate is 3 percent = Margin 3 percent and starting Index 3 percent with 3 percent discount.**
- What is the Interest Rate Cap?
- What is the Lifetime Cap?
- What are the Carryover Interest Points?

M|E|C Mortgage Educators  
and Compliance

## HYBRID ADJUSTABLE RATE MORTGAGES

- An adjustable rate mortgage that has some characteristics of a fixed rate mortgage and some characteristics of an adjustable rate mortgage
- 3/1, 5/1, 7/1 and 10/1 ARMs
- What is the most popular ARM product?

## EXAMPLE

- **3/1 ARM with 3/2/6 caps**
- What do each of the numbers above mean?
- Let's assume a Margin of 2% and an Index of 2%. (Fully Indexed Rate) If interest rates were going "sky high".
- What would the interest rate be after 3 years or at the first adjustment?  $4\% + 3\% = 7\%$
- After the second adjustment?  $7\% + 2\% = 9\%$
- After the third adjustment?  $9\% + 1\% = 10\%$



## CASE STUDY

- Most people are gun shy about ARMs. They received a bad reputation during the housing meltdown. At the time ARM guidelines allowed for individuals to get into loans that they probably should not have received.
- In 2005, ARMs were 38.5% of the mortgage market but in September 2015 ARMs only accounted for 5.3% of all mortgages originated.

## CASE STUDY

- A few things would need to happen if ARMs are going to make a comeback, interest rates on fixed rate mortgages would need to continue to rise.
- The second would be homes would have to become less affordable. Borrowers move to ARMs to be able to afford a home.

## CASE STUDY

- It's important that if you're trying to sell an adjustable rate mortgage to a borrower ASK does it makes sense for them financially.
- They are good products for many borrowers however the Mortgage Loan Originator and Borrower need to understand the ARM.

## MAT ISHBIA - PRESIDENT/CEO, UWM

“Our analysis at UWM has shown that the break-even point for a 7-year ARM is actually nine years. If a borrower is in a mortgage for less than nine years, they should be in a seven-year ARM rather than a 30-year fixed mortgage. Statistics show that only about 10% of homeowners stay in the same mortgage for more than nine years, for a variety of reasons, so loan officers should educate borrowers on ARMs as it is a very viable option.”



ERIC KENDELL



MEC Mortgage Educators and Compliance

## CASE STUDY

- A borrower comes in seeking information about mortgages. She is trying to decide if she should buy or rent and explains that she is only planning to be in the area for **2-3** years.
- What other questions would you want to ask before determining if an ARM is an appropriate fit?

MEC Mortgage Educators and Compliance

- She states that she is coming to the area to work with the local University in a limited duration agreement.
- She is concerned that if she doesn't purchase she will miss out on inflation and appreciation.
- She is tenured with another university across the country and plans to return there after her time in your area.

- She is adamant that she has always heard fixed rate mortgages are the best and is not interested in pursuing an ARM.
- How could you show her the advantages and drawbacks of an ARM over fixed rate mortgages for her situation?
- **Let's compare rates and programs on a \$360,000 loan:**

**ARM vs. Fixed Rate Mortgage**

**Fixed Rate Mortgage:** Monthly payment \$1,824.07 [-]

Press spacebar to hide inputs

Mortgage amount: \$360,000 \$0k \$200k \$500k \$1m

Term in years: 30 years 1 10 19 40

Interest rate: 4.5% 1% 9% 17% 25%

Report amortization: ☒ Annually ☐ Monthly

**Fully Amortizing ARM:** Initial payment \$1,718.70 [-]

Press spacebar to hide inputs

Initial interest rate: 4% 1% 9% 17% 25%

Months rate fixed: 12 1 120 240 360

Expected Adjustment: 0.25% -3% -1% 1% 3%

Interest rate cap: 12% 5% 11% 18% 25%

**Interest only ARM:** Initial payment \$1,200.00 [-]

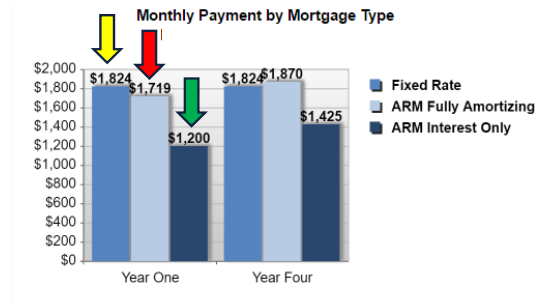
Press spacebar to hide inputs

Initial interest rate: 4% 1% 9% 17% 25%

Months rate fixed: 12 1 120 240 360

Expected Adjustment: 0.25% -3% -1% 1% 3%

Interest rate cap: 12% 5% 11% 18% 25%



<http://www.bankrate.com/calculators/mortgages/compare-arm-or-fixed-rate-calculator.aspx>

**M|E|C** Mortgage Educators and Compliance

**A Fully Amortizing ARM could save you \$105.37 per month. An Interest Only ARM could save you as much as \$624.07 per month.**

A \$360,000.00 Fixed Rate Mortgage with a term of 30 years at 4.5% has a monthly payment of \$1,824.07. If you were to finance this mortgage with a Fully Amortizing ARM at 4% the monthly payment would be \$1,718.70, saving you \$105.37 per month. An Interest Only ARM at 4% has a \$1,200.00 monthly payment. This could save you \$624.07 per month over a Fixed Rate Mortgage.

ARM vs. Fixed Rate Mortgage		
	Fully Amortizing ARM	Interest Only ARM
Initial savings on monthly payment	\$105.37	\$624.07
Payment savings first year	\$1,264.44	\$7,488.84
Payment savings for <u>four</u> years	\$1,420.80	\$24,555.36

<http://www.bankrate.com/calculators/mortgages/compare-arm-or-fixed-rate-calculator.aspx>

**M|E|C** Mortgage Educators and Compliance



## COMPARISON

- With your current assumptions, your total payments with an ARM are lower through 5 years of payments.
- If you expect to sell your home or refinance before 5 years, you may be better off with an ARM.
- This only applies to the Fully Amortizing ARM vs. Fixed Rate Mortgage.

<http://www.bankrate.com/calculators/mortgages/compare-arm-or-fixed-rate-calculator.aspx>

**M|E|C** Mortgage Educators and Compliance

Results Summary			
	Fixed Rate Mortgage	Fully Amortizing ARM	Interest Only ARM
Loan amount	\$360,000.00	\$360,000.00	\$360,000.00
Term	30 years	30 years	30 years
Interest rate	4.5%	4% Rate is fixed for 12 months and then is adjusted by 0.25% every 12 months, up to a maximum of 12%. The highest rate actually charged was 11.25%.	4% Rate is fixed for 12 months and then is adjusted by 0.25% every 12 months, up to a maximum of 12%. The highest rate actually charged was 11.25%.
Initial monthly payment	\$1,824.07	\$1,718.70	\$1,200.00
Payment after four years	<u>\$1,824.07</u>	<u>\$1,869.60</u>	\$1,425.00

**M|E|C** Mortgage Educators and Compliance

<b>First year totals:</b>			
Interest	\$16,081.18	\$14,284.63	\$14,400.00
Principal	\$5,807.66	\$6,339.77	\$0.00
Payments	\$21,888.84	\$20,624.40	\$14,400.00
<b>Four year totals:</b>			
Interest	\$62,674.34	\$60,752.78	\$63,000.00
Principal	\$24,881.02	\$25,381.78	\$0.00
Payments	\$87,555.36	\$86,134.56	\$63,000.00
<b>Total interest</b>	<b>\$296,663.08</b>	<b>\$471,431.79</b>	<b>\$823,500.00</b>
<b>Total payments</b>	<b>\$656,663.08</b>	<b>\$831,431.79</b>	<b>\$823,500.00</b>
<b>Ending balance</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$360,000.00</b>

<http://www.bankrate.com/calculators/mortgages/compare-arm-or-fixed-rate-calculator.aspx>

## CASE STUDY

- After reviewing the facts she is now considering an ARM loan.
- Is there anything else you would want to ask before continuing?
- Do you think ARMs are making a comeback or do you think they will remain a rarely used option?

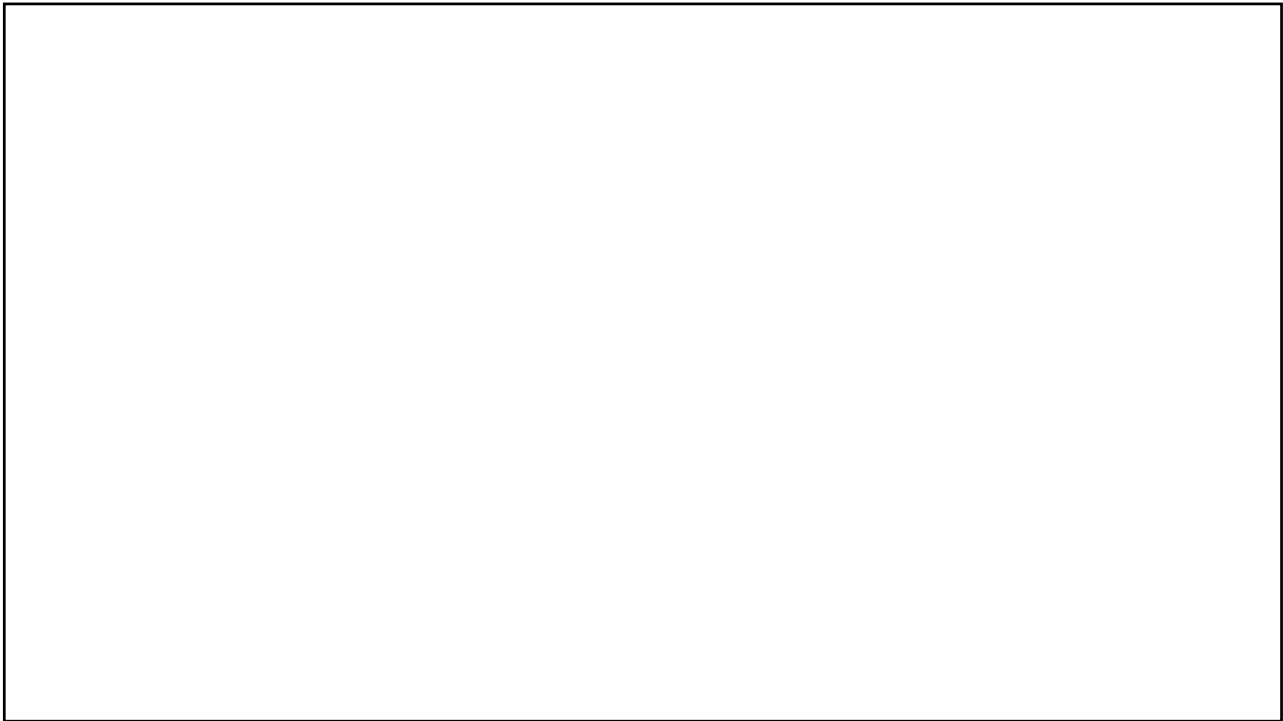
## FEDERAL LAW



## HOME MORTGAGE DISCLOSURE ACT (HMDA)

LET'S WATCH A SHORT VIDEO FROM THE CFPB EXPLAINING THE REASONS FOR HMDA DATA

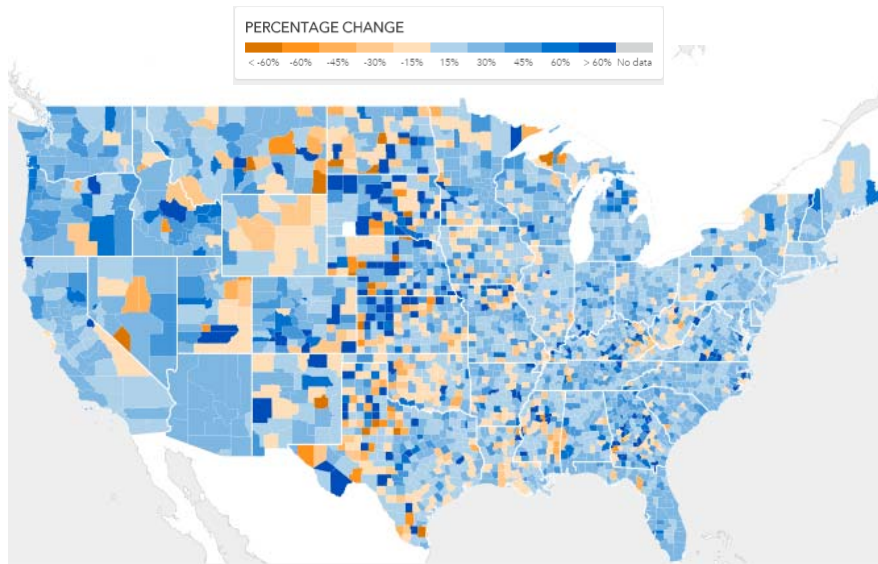




## WHAT IS HMDA?

HMDA (Regulation C) requires some institutions to collect, report, and disclose specific information about their mortgage lending activity. The information is important because it helps to show whether financial institutions are serving the housing needs of their community, assists public officials in distributing public-sector investment to attract private investment to areas where it is needed as well as assisting with the identification of possible discriminatory lending practices and patterns.

CFPB Executive Summary; [http://files.consumerfinance.gov/f/201510\\_cfpb\\_hmda-executive-summary.pdf](http://files.consumerfinance.gov/f/201510_cfpb_hmda-executive-summary.pdf)



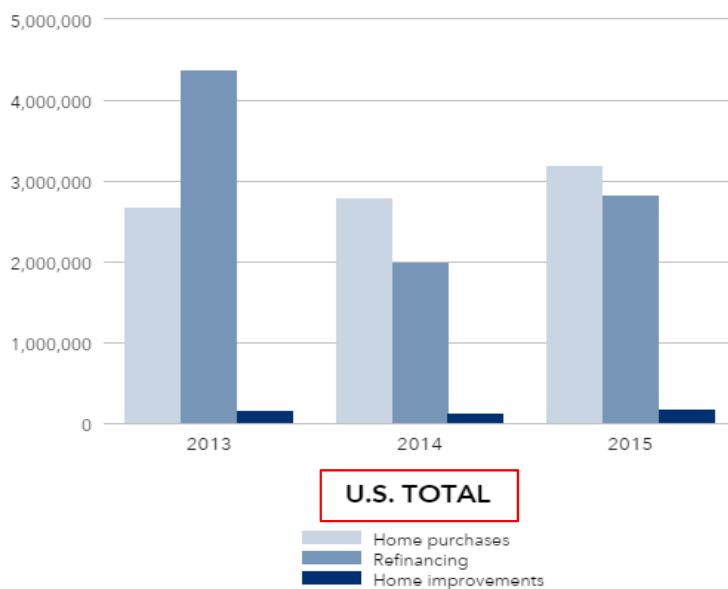
This map shows the change in mortgage originations between 2014 and 2015.

Overall more people took out mortgages to buy homes and to refinance in 2015 then 2014.

What will it look like after the 2016 numbers are published?

<http://www.consumerfinance.gov/data-research/hmda/>

M|E|C Mortgage Educators and Compliance



**Purchase** volume increased by about 14 percent overall, the third increase in three years.

**Refinances** also increased in 2015.

Again what are your thoughts about the numbers in 2016 and 2017?

<http://www.consumerfinance.gov/data-research/hmda/>

M|E|C Mortgage Educators and Compliance



## Mortgage volume

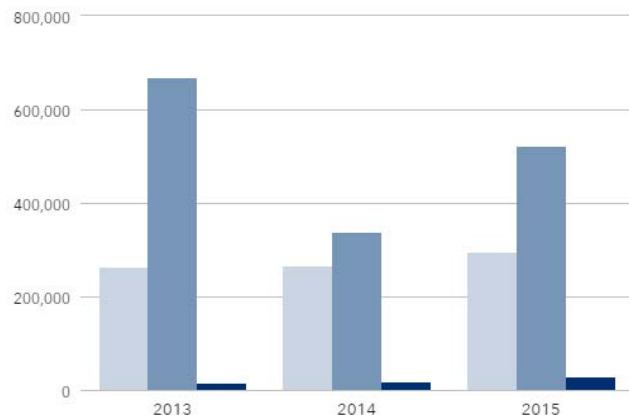
Purchase volume increased by about 14 percent overall, the third increase in three years. Refinances also increased after falling in 2014. Check out the number of mortgages in your state. [1, 2](#)

[See the underlying data >](#)

Select a U.S. State

California

State specific

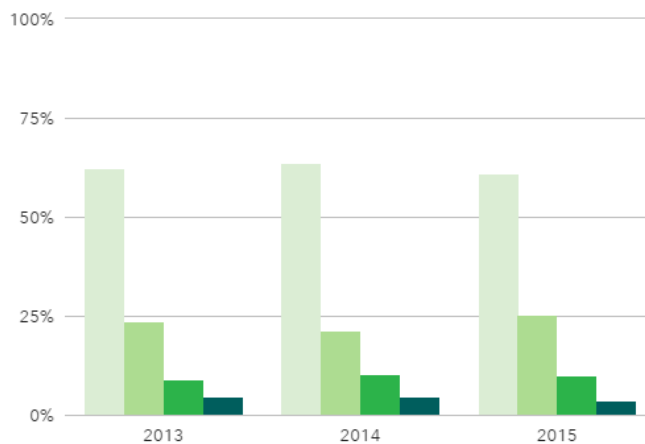


### CALIFORNIA

Home purchases  
Refinancing  
Home improvements

<http://www.consumerfinance.gov/data-research/hmda/>

M|E|C Mortgage Educators and Compliance



### U.S. TOTAL

Conventional  
VA  
FHA  
RHS/FSA

The data can be broken down by loan type  
Conventional, FHA,  
VA and RHS.

M|E|C Mortgage Educators and Compliance

### Percent of home purchases by loan type

Many loans are insured or guaranteed by government programs offered by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), or the Department of Agriculture's Rural Housing Service or Farm Service Agency (RHS/FSA). All other loans are classified as Conventional.<sup>3</sup>

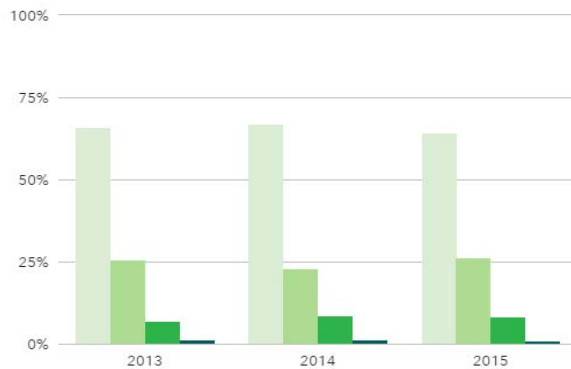
[See the underlying data >](#)

Select a U.S. State

California

Loan Type

- ☒ Conventional
- ☒ FHA
- ☒ VA
- ☒ RHS/FSA



CALIFORNIA

Conventional FHA VA RHS/FSA

Information can be searched by state and loan type.

M|E|C Mortgage Educators and Compliance

### RECENT AMENDMENTS:

- Types of **institutions** that are subject to Regulation C
- Types of **transactions** that are subject to Regulation C
- Specific information that covered institutions are required to collect, record and report
- Processes for reporting and disclosing data

CFPB Executive Summary; [http://files.consumerfinance.gov/f/201510\\_cfpb\\_hmda-executive-summary.pdf](http://files.consumerfinance.gov/f/201510_cfpb_hmda-executive-summary.pdf)

M|E|C Mortgage Educators and Compliance

## DEPOSITORY INSTITUTION COVERAGE CRITERIA (MUST MEET ALL)

- Asset-Size Threshold
- Location Test
- Loan Activity Test
- Federally Related Test
- Loan Volume Threshold



## FOR-PROFIT MORTGAGE-LENDING INSTITUTIONS

- **For-profit Mortgage-Lending Institution's** (anyone other than a bank, savings association, or credit union) is subject to Regulation C if it meets ALL of the following:
  - Location Test
  - Loan Volume or Amount Test
  - Loan Volume or Asset-Size Threshold



## LOCATION TEST

- As of December 31, 2016, the mortgage-lending institution had a home or branch office located in an MSA.
- **What is an MSA?**
- Metropolitan Statistical Area – population of 50,000

12 CFR 1003.2

M|E|C Mortgage Educators  
and Compliance

## LOAN-VOLUME OR AMOUNT TEST

- During 2016, the mortgage-lending institution either originated home purchase loans (including refinancing's of home purchase loans) that equaled at least 10% of its loan-origination volume (measured in dollars) or originated home purchase loans that equaled at least \$25 million.

12 CFR 1003.2

M|E|C Mortgage Educators  
and Compliance

## LOAN-VOLUME OR ASSET-SIZE THRESHOLD

- On December 31, 2016, the mortgage-lending institution and its parent corporation (if applicable) had assets in excess of \$10 million **or** in 2016; the mortgage-lending institution originated at least 100 home purchase loans (including refinancing's of home purchase loans).

12 CFR 1003.2

M|E|C Mortgage Educators and Compliance

**WHO MUST REPORT**  
HMDA institutional coverage

The precise criteria for whether an institution is covered by Regulation C are codified in the definition of financial institution in 12 CFR § 1003.2. These criteria are illustrated by the following diagrams.

**Coverage criteria Effective January 1 - December 31, 2017**

\*Every year, the Bureau announces the size of the asset threshold in the Federal Register. The asset threshold may change from year to year based on changes in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers.

†Some transactions are not HMDA reportable and are excluded from the coverage criteria. For more information, please see § 1003.4(a) of Regulation C.

This chart summarizes requirements under HMDA and Regulation C, and does not itself establish any binding obligations. It is intended only to aid as a quick reference and not as a substitute for the regulation or its commentary. Always consult the regulation text and official commentary for a complete understanding of the law. Version 1.0, 10/15/15

© Mortgage Educators and Compliance, 2017

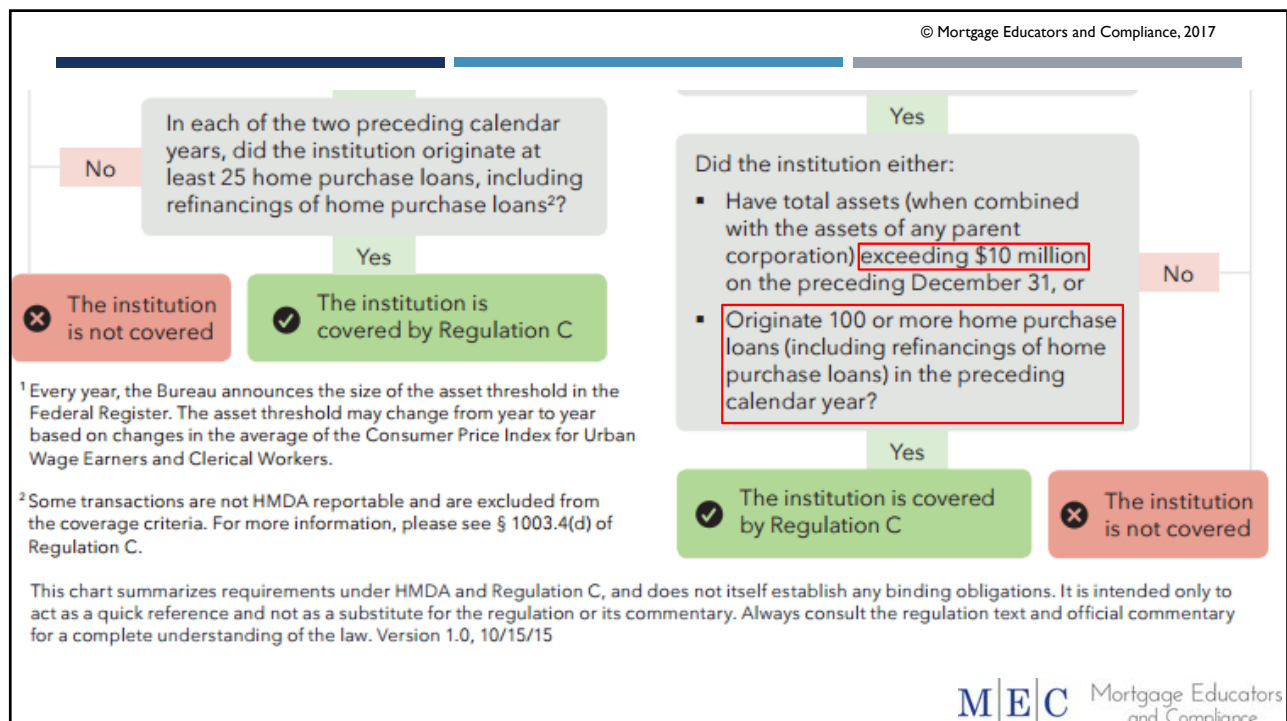
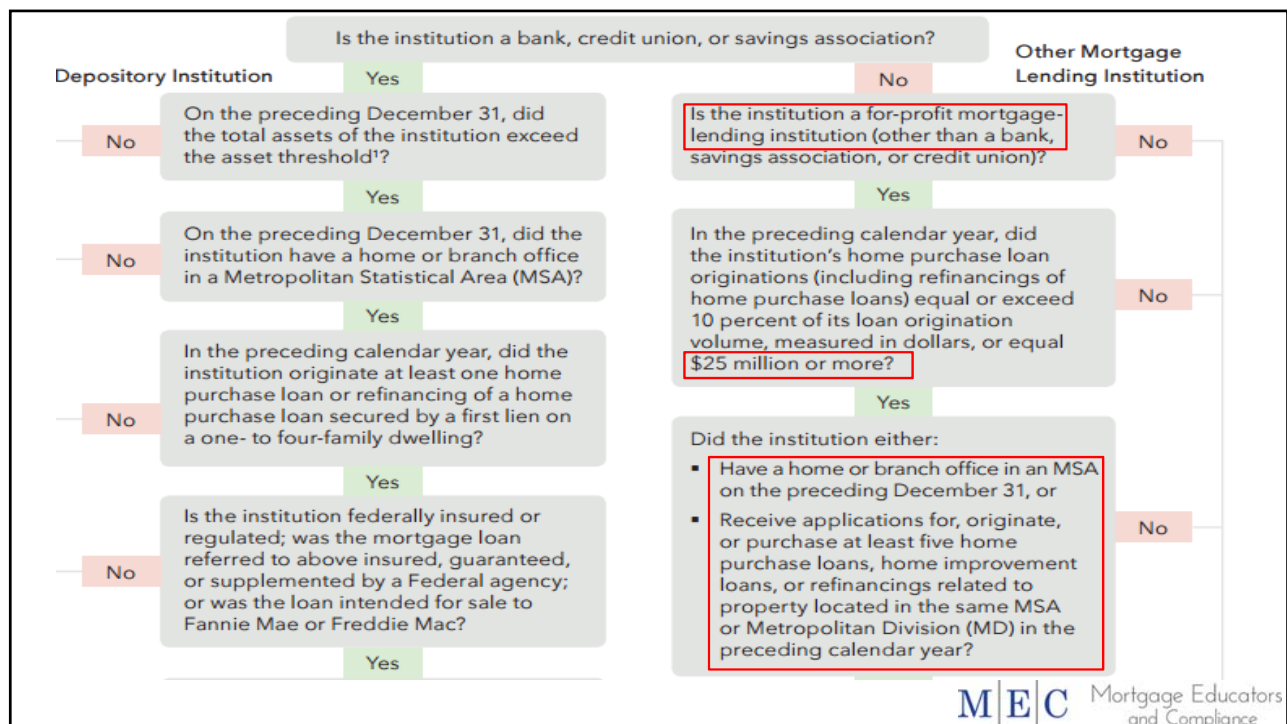
[http://files.consumerfinance.gov/f/201510\\_cfpb\\_2017-hmda-institutional-coverage.pdf](http://files.consumerfinance.gov/f/201510_cfpb_2017-hmda-institutional-coverage.pdf)

We will make it bigger in the next few slides.

- 1) For-Profit
- 2) \$25 Million\* or
- 3) Originate 100 loans

\* \$25,000,000 divided by \$168,614 (NerdWallet) divided by 12 = 12.4 loans per month.

M|E|C Mortgage Educators and Compliance



## COVERAGE CRITERIA 2018

- Beginning on January 1, 2018, the new HMDA Rule further revises the definition of "financial institution" and adds definitions for "depository financial institution" and "nondepository financial institution." As of that date, anyone subject to Regulation C falls into one of those categories.

[http://files.consumerfinance.gov/f/201510\\_cfpb\\_2018-hmda-institutional-coverage.pdf](http://files.consumerfinance.gov/f/201510_cfpb_2018-hmda-institutional-coverage.pdf)

**M|E|C** Mortgage Educators  
and Compliance

## COVERAGE CRITERIA 2018

Under the new rule, a bank, savings association or credit union is a Depository Financial Institution and is subject to Regulation C if it meets ALL of the following:

- Asset-Size Threshold
- Location Test
- Loan Activity Test
- Federally Related Test

[http://files.consumerfinance.gov/f/201510\\_cfpb\\_2018-hmda-institutional-coverage.pdf](http://files.consumerfinance.gov/f/201510_cfpb_2018-hmda-institutional-coverage.pdf)

**M|E|C** Mortgage Educators  
and Compliance



## COVERAGE CRITERIA 2018

Non-depository Financial Institutions are subject to Regulation C if they meet all of the following tests:

- Location Test (MSA)
- Loan Volume Test (25 closed loans or 100 HELOCs)
- As rates increase will there be a need for more HELOCs?
- Will borrowers want to pay off a low interest rate loan to get the cash they need?

[http://files.consumerfinance.gov/f/201510\\_cfpb\\_2018-hmda-institutional-coverage.pdf](http://files.consumerfinance.gov/f/201510_cfpb_2018-hmda-institutional-coverage.pdf)

M|E|C Mortgage Educators and Compliance

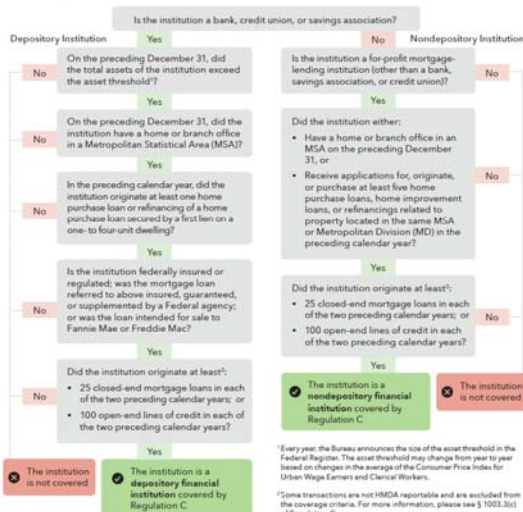
### WHO MUST REPORT

### HMDA institutional coverage



The precise criteria for whether an institution is covered by Regulation C are codified in 12 CFR § 1003.2(g). These criteria are illustrated by the following diagrams.

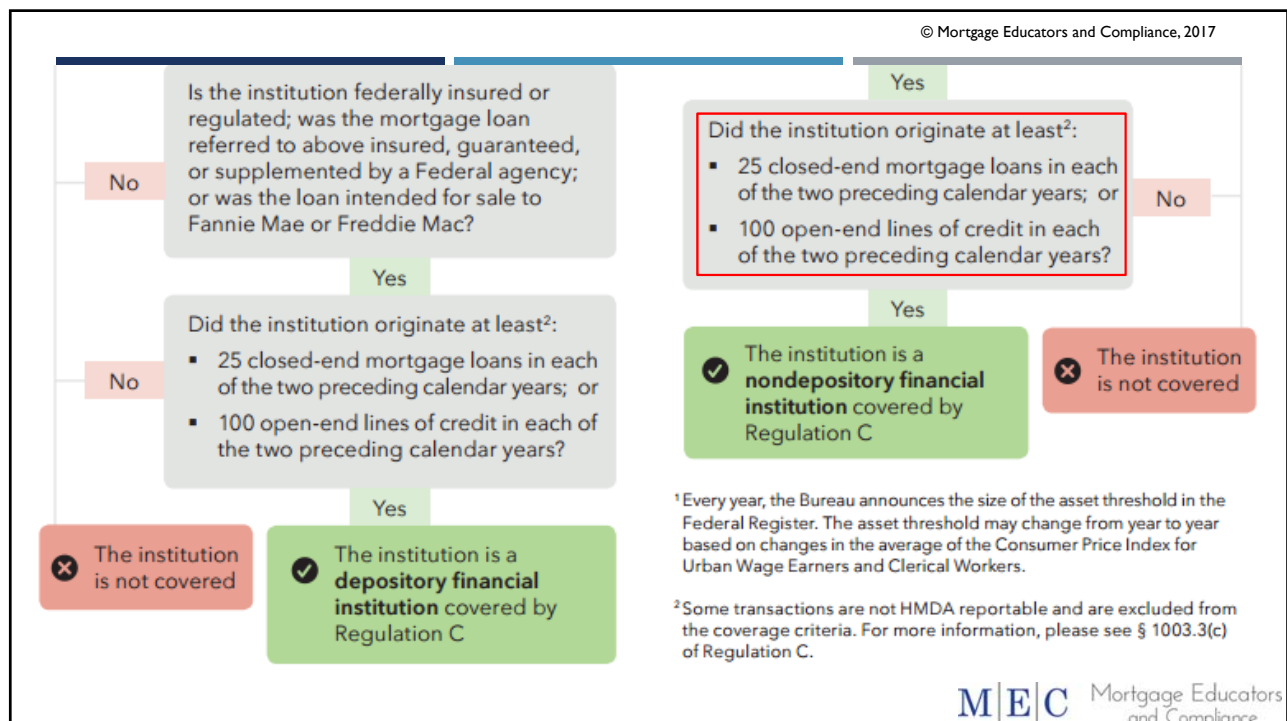
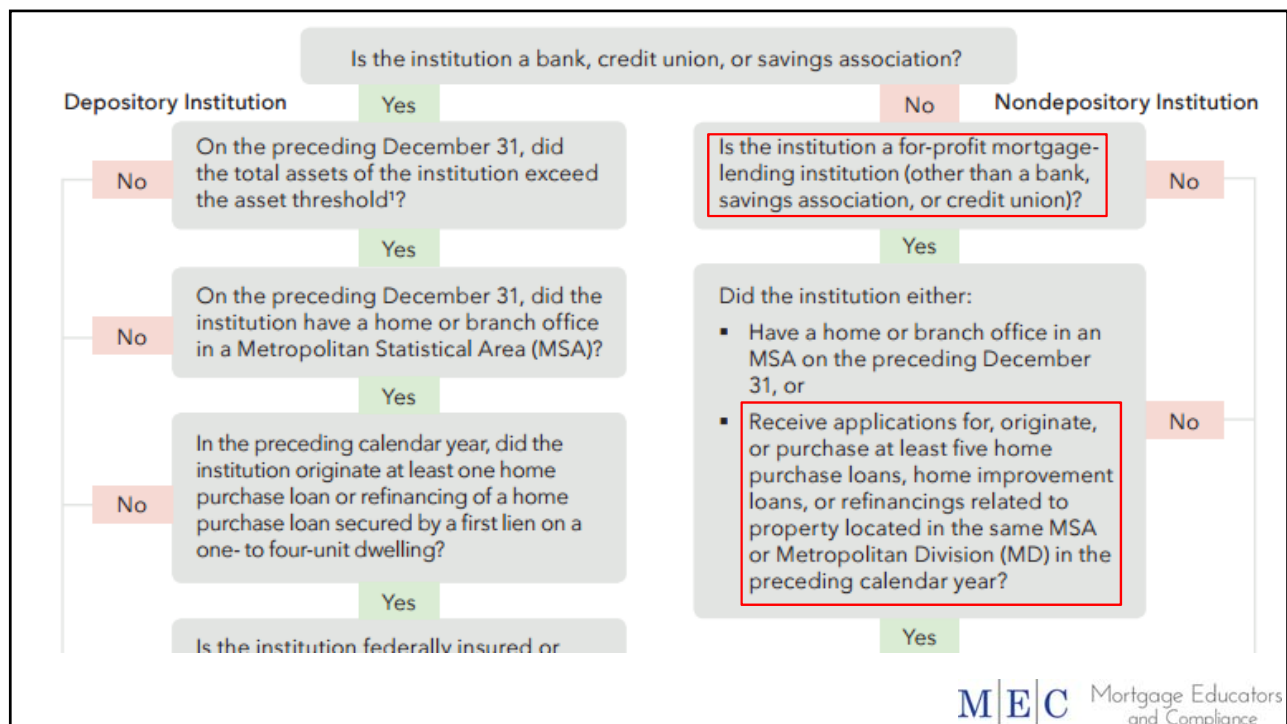
#### Coverage criteria **Effective January 1, 2018**



This chart summarizes requirements under HMDA and Regulation C, and does not itself establish any binding obligations. It is intended only to act as a quick reference and not as a substitute for the regulation or its commentary. Always consult the regulation text and official commentary for a complete understanding of the law. Version 1.0, 10/15/15

[http://files.consumerfinance.gov/f/201510\\_cfpb\\_2018-hmda-institutional-coverage.pdf](http://files.consumerfinance.gov/f/201510_cfpb_2018-hmda-institutional-coverage.pdf)

M|E|C Mortgage Educators and Compliance



## COMMENTARY TO 1003.2 (FINANCIAL INSTITUTION)

- **Originations.** HMDA coverage depends in part on whether an institution has originated home purchase loans. To determine whether activities with respect to a particular loan constitute an origination, institutions should consult, among other parts of the staff commentary, the discussion of the **broker rule** under §§ 1003.1(c) and 1003.4(a).

[http://www.consumerfinance.gov/eregulations/1003-2/2015-26607\\_20170101#1003-2-HomeEquityLineOfCredit](http://www.consumerfinance.gov/eregulations/1003-2/2015-26607_20170101#1003-2-HomeEquityLineOfCredit)

## 1003.1(C)

- **Scope.** This part applies to certain financial institutions, including banks, savings associations, credit unions, and other **mortgage lending institutions**, as defined in § 1003.2. The regulation requires an institution **to report data** to the appropriate Federal agency **about home purchase loans, home improvement loans, and refinancings that it originates or purchases, or for which it receives applications;** and to disclose certain data to the public.

[http://www.consumerfinance.gov/eregulations/1003-1/2015-26607\\_20170101#1003-1-a](http://www.consumerfinance.gov/eregulations/1003-1/2015-26607_20170101#1003-1-a)

## THE BROKER RULE

The broker rule and the meaning of “**broker**” and “**investor**.” For the purposes of the guidance given in this commentary, an institution that takes and processes a loan application and arranges for another institution to acquire the loan at or after closing is acting as a “broker,” and an institution that acquires a loan from a broker at or after closing is acting as an “investor.”

(The terms used in this commentary may have different meanings in certain parts of the mortgage lending industry, and other terms may be used in place of these terms, for example in the Federal Housing Administration mortgage insurance programs.)

[http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607\\_20170101#1003-I-Interp-I](http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607_20170101#1003-I-Interp-I)

**M|E|C** Mortgage Educators  
and Compliance

## THE BROKER RULE

- Depending on the facts, **a broker may or may not make a credit decision on an application** (and thus it may or may not have reporting responsibilities). If the broker makes a credit decision, it reports that decision; if it does not make a credit decision, it does not report. If an investor reviews an application and makes a credit decision prior to closing, the investor reports that decision.

[http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607\\_20170101#1003-I-Interp-I](http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607_20170101#1003-I-Interp-I)

**M|E|C** Mortgage Educators  
and Compliance

## THE BROKER RULE

- If the investor does not review the application prior to closing, it reports only the loans that it purchases; it does not report the loans it does not purchase.
- An institution that makes a credit decision on an application prior to closing reports that decision regardless of whose name the loan closes in.

[http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607\\_20170101#1003-I-Interp-I](http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607_20170101#1003-I-Interp-I)

## QUESTION

Let's make sure you understand.

Assume that, prior to closing, four investors receive the same application from a broker; two deny it, one approves it, and one approves it and acquires the loan. How would the reporting work for HMDA requirements?

## THE BROKER RULE

In these circumstances, the first two report denials, the third reports the transaction as approved but not accepted, and the fourth reports an origination (whether the loan closes in the name of the broker or the investor).

Alternatively, assume that the broker denies a loan before sending it to an investor; in this situation, the broker reports a denial.

[http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607\\_20170101#1003-I-Interp-I](http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607_20170101#1003-I-Interp-I)

**M|E|C** Mortgage Educators  
and Compliance

## THE BROKER RULE

If a broker makes a credit decision based on underwriting criteria set by an investor, but without the investor's review prior to closing, the broker has made the credit decision. The broker reports as an origination a loan that it approves and closes, and reports as a denial an application that it turns down (either because the application does not meet the investor's underwriting guidelines or for some other reason). The investor reports as purchases only those loans it purchases.

[http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607\\_20170101#1003-I-Interp-I](http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607_20170101#1003-I-Interp-I)

**M|E|C** Mortgage Educators  
and Compliance

## CREDIT DECISION OF AGENT IS DECISION OF PRINCIPAL

- If an institution approves loans through the actions of an agent, the institution must report the action taken on the application (loan originated, approved but not accepted, or denied, for example). State law determines whether one party is the agent of another.

[http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607\\_20170101#1003-I-Interp-I](http://www.consumerfinance.gov/eregulations/1003-Subpart-Interp/2015-26607_20170101#1003-I-Interp-I)

## DOES THE TRANSACTION NEED TO BE REPORTED?

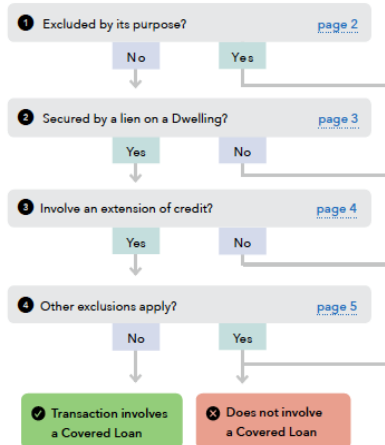


# 

Effective January 1, 2018

Under HMDA and Regulation C, a transaction is reportable only if it is an Application for, an origination of, or a purchase of a Covered Loan. These materials illustrate one approach to help determine whether a transaction involves a Covered Loan. If the transaction involves a Covered Loan, it is reported only if the institution meets the applicable loan-volume thresholds. Terms that are defined in Regulation C are capitalized in this document for ease of reference. Click on the numbers below to view the instructions for each step.

### Does the transaction involve a Covered Loan?

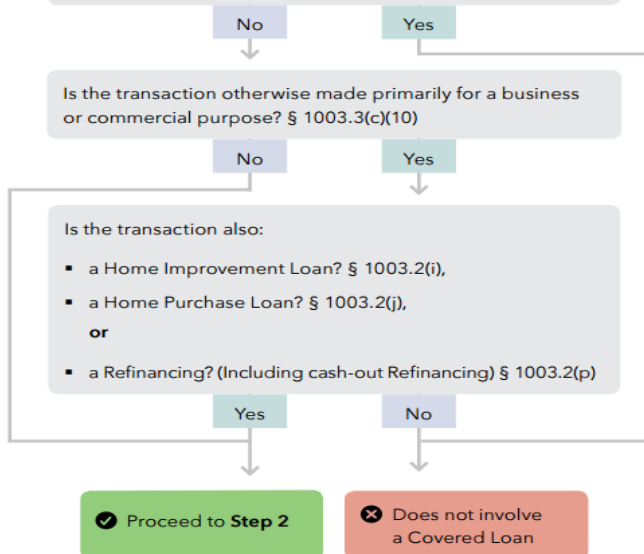


Under HMDA and Regulation C, a transaction is reportable only if it is an Application for, an Origination of, or a Purchase of a Covered Loan.

M|E|C Mortgage Educators and Compliance

### Is the transaction primarily for agricultural purposes?

NOTE: Agricultural-purpose transactions include transactions that are secured by a Dwelling that is located on real property that is used primarily for agricultural purposes. § 1003.3(c)(9)

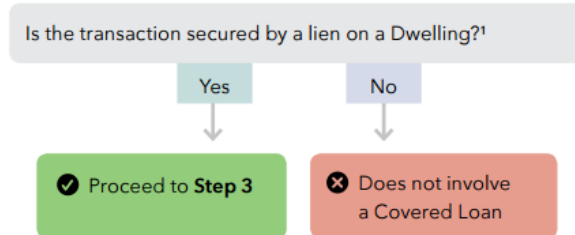


© Mortgage Educators and Compliance, 2017

[https://s3.amazonaws.com/files.consumerrfinance.gov/ff/documents/201510\\_cfpb\\_2018-hmda-transactional-coverage.pdf.pdf](https://s3.amazonaws.com/files.consumerrfinance.gov/ff/documents/201510_cfpb_2018-hmda-transactional-coverage.pdf.pdf)

M|E|C Mortgage Educators and Compliance

## 2 Is the transaction secured by a lien on a Dwelling?<sup>1</sup>



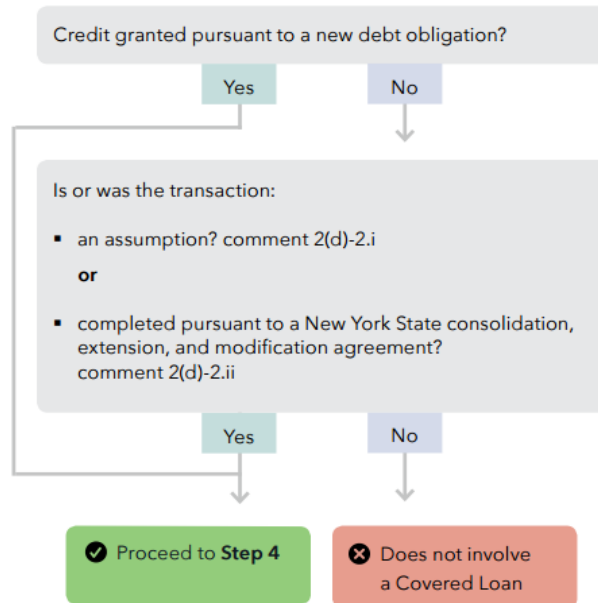
[https://s3.amazonaws.com/files.consumerrfinance.gov/ff/documents/201510\\_cfpb\\_2018-hmda-transactional-coverage.pdf](https://s3.amazonaws.com/files.consumerrfinance.gov/ff/documents/201510_cfpb_2018-hmda-transactional-coverage.pdf)

Single family structures	Multifamily structures	Mixed-use purposes	© Mortgage Educators and Compliance, 2017
Dwelling	Dwelling	Dwelling	
<ul style="list-style-type: none"> <li>Principal residences</li> <li>Second homes</li> <li>Vacation homes</li> <li>Manufactured Homes or other factory built homes</li> <li>Investment properties</li> <li>Individual condominium units</li> <li>Detached homes</li> <li>Individual cooperative units</li> </ul>	<ul style="list-style-type: none"> <li>Apartment buildings or complexes</li> <li>Manufactured home communities</li> <li>Condominium buildings or complexes</li> <li>Cooperative buildings or complexes</li> </ul>	<ul style="list-style-type: none"> <li>Mixed-use property if primary use is residential</li> <li>Properties for long-term housing and related services (such as assisted living for senior citizens or supportive housing for people with disabilities)</li> <li>Properties for long-term housing and medical care if primary use is residential</li> </ul>	
Not a Dwelling	Not a Dwelling	Not a Dwelling	
<ul style="list-style-type: none"> <li>Transitory residences</li> <li>Recreational vehicles</li> <li>Boats</li> <li>Campers</li> <li>Travel trailers</li> <li>Park model RVs</li> <li>Floating homes</li> <li>Houseboats</li> <li>Mobile homes constructed before June 15, 1976</li> </ul>	<ul style="list-style-type: none"> <li>Transitory residences</li> <li>Hotels</li> <li>Hospitals and properties used to provide medical care (such as skilled nursing, rehabilitation, or long-term medical care)</li> <li>College dormitories</li> <li>Recreational vehicle parks</li> </ul>	<ul style="list-style-type: none"> <li>Mixed-use property if primary use is not residential</li> <li>Transitory residences</li> <li>Structures originally designed as Dwellings but used exclusively for commercial purposes</li> <li>Properties for long-term housing and medical care if primary use is not residential</li> </ul>	<p><a href="https://s3.amazonaws.com/files.consumerrfinance.gov/ff/documents/201510_cfpb_2018-hmda-transactional-coverage.pdf">https://s3.amazonaws.com/files.consumerrfinance.gov/ff/documents/201510_cfpb_2018-hmda-transactional-coverage.pdf</a></p> <p><b>M E C</b> Mortgage Educators and Compliance</p>

<sup>1</sup>Dwelling means a residential structure, whether or not attached to real property. § 1003.2(f) and comments 2(f)-1 through -5.

### 3 Does the transaction involve an extension of credit?<sup>2</sup>

© Mortgage Educators and Compliance, 2017



[https://s3.amazonaws.com/files.consumerrfinance.gov/ff/documents/201510\\_cfpb\\_2018-hmda-transactional-coverage.pdf](https://s3.amazonaws.com/files.consumerrfinance.gov/ff/documents/201510_cfpb_2018-hmda-transactional-coverage.pdf)

M|E|C Mortgage Educators and Compliance

Is or was the transaction:

- originated or purchased by the Financial Institution acting in a fiduciary capacity?
- secured by a lien on unimproved land?
- temporary financing designed to be replaced by permanent financing at a later time?
- the purchase of an interest in a pool of otherwise Covered Loans, such as mortgage-participation certificates, mortgage-backed securities, or real estate mortgage investment conduits?
- the purchase solely of the right to service an otherwise Covered Loan?
- a purchase as part of a merger or acquisition, or as part of the acquisition of all of the assets and liabilities of a branch office?
- for a total dollar amount that is less than \$500?
- a purchase of a partial interest in an otherwise Covered Loan?

If NO to all of the questions

If YES to any of the questions

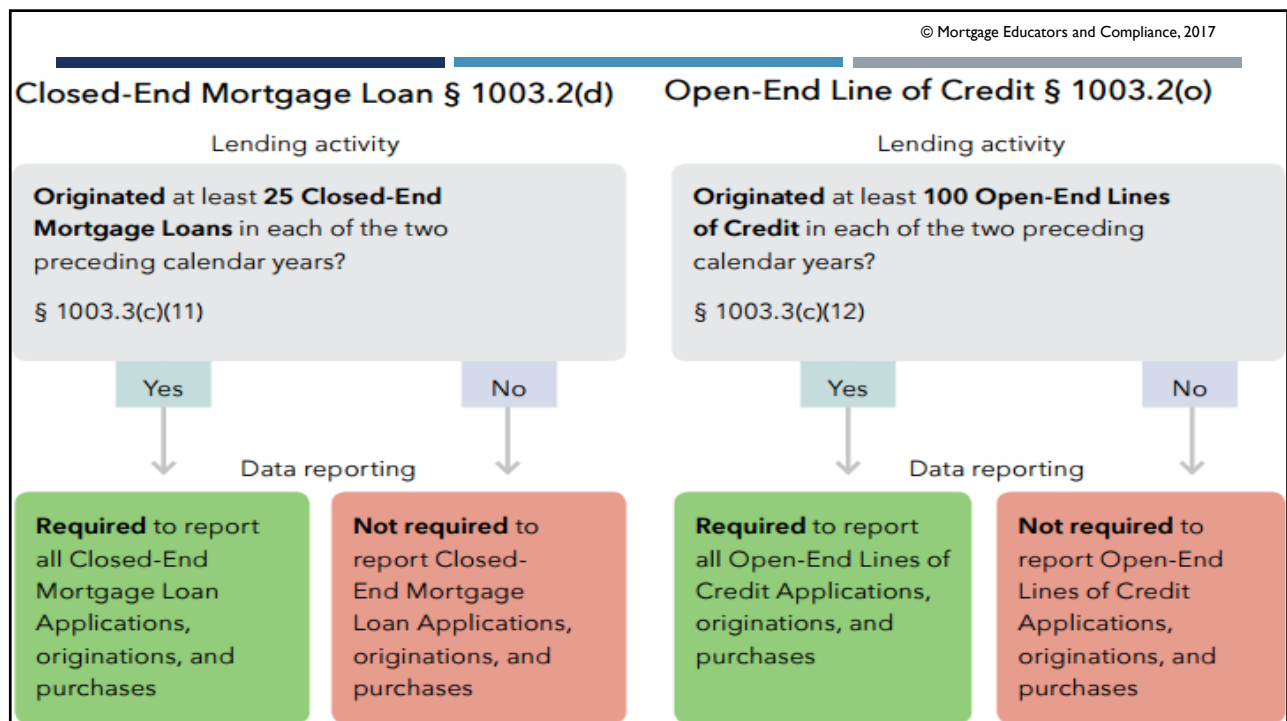
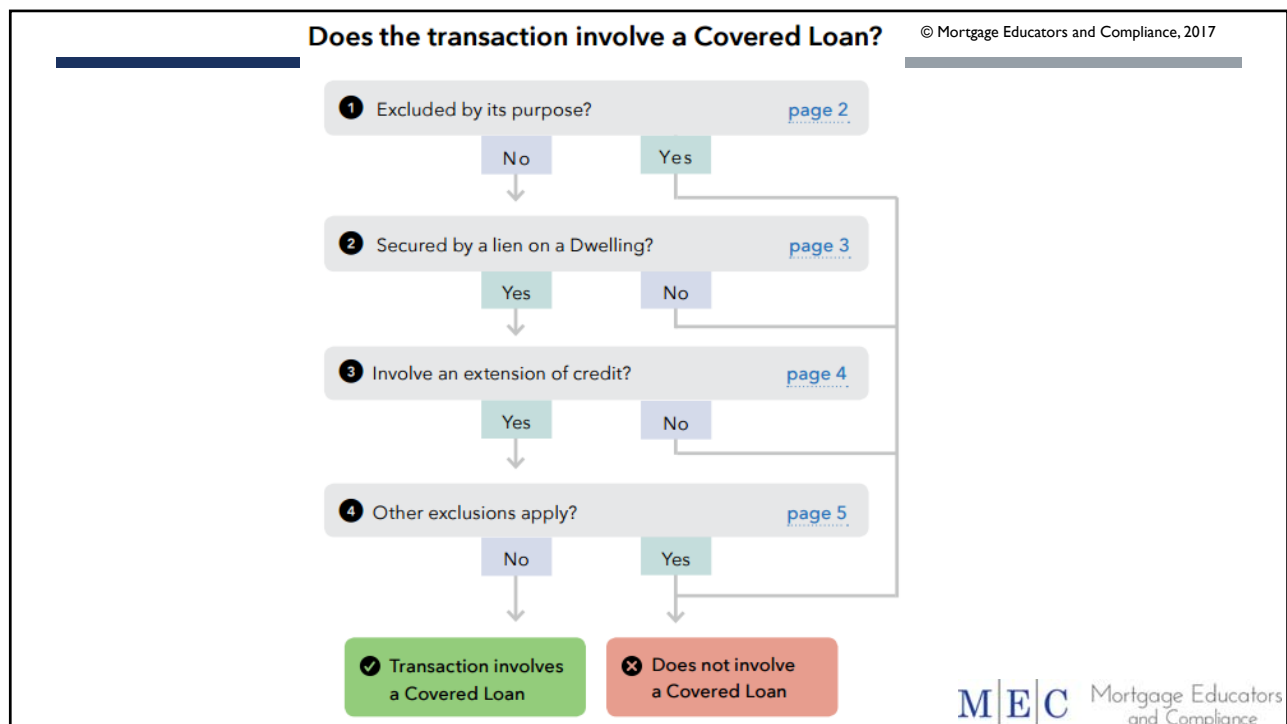
✓ Transaction involves a Covered Loan

✗ Does not involve a Covered Loan

© Mortgage Educators and Compliance, 2017

[https://s3.amazonaws.com/files.consumerrfinance.gov/ff/documents/201510\\_cfpb\\_2018-hmda-transactional-coverage.pdf](https://s3.amazonaws.com/files.consumerrfinance.gov/ff/documents/201510_cfpb_2018-hmda-transactional-coverage.pdf)

M|E|C Mortgage Educators and Compliance



## NEW REPORTABLE HMDA DATA

The 2015 HMDA Rule changes the data that must be collected, recorded, and reported for Covered Loans and Applications. Effective January 1, 2018, financial institutions must begin collecting those new data points.

If a financial institution receives an application in 2017 but does not take final action on it until 2018, it is required to collect, record and report the new and modified data points

## THE DATA POINTS

THE CHANGES ARE EITHER MODIFIED, EXISTING OR NEW.

- David, this is the first I've heard about all these changes why have we not heard of these things before now!
- Well think back to what we were all working on October 2015

TRID!

Current HMDA reported Data Points - 23	23
(Of the current 23 Data Points 20 will be <b>modified</b> )	
We will have 25 New Data Points	+25
For a total of 48 Data Points	<hr/> 48

One data point may involve **numerous data fields**  
For example: Gender/Sex -  
Adds reporting option of "Applicant selected both male and female"

## DODD-FRANK

- In July of 2014, the CFPB proposed amendments to Regulation C for the purpose of implementing the required changes included in Dodd-Frank. The changes made affect the collection, recording and reporting of additional information for the purpose of furthering HMDA's purposes to modernize how covered institutions report HMDA data. The new rule amends Regulation C in the following ways:

Data Point	Status <sup>b</sup>	Description	Regulation C References
(1) Legal Entity Identifier (LEI)	Modified	Identifier issued to the financial institution (FI) by a utility endorsed by the Global LEI Foundation or LEI Regulatory Oversight Committee	§ 1003.4(a)(1)(i)(A)
(2) Universal Loan Identifier (ULI)	Modified	Identifier assigned to identify and retrieve a loan or application that contains the FI's LEI, an internally generated sequence of characters, and a check digit	§ 1003.4(a)(1)(i), Comments 4(a)(1)(i)-1 through -5, and appendix C
(3) Application Date	Existing	Date the application was received or the date on the application form	§ 1003.4(a)(1)(ii), Comments 4(a)(1)(ii)-1 through -3
(4) Loan Type	Existing	Whether the loan or application is insured by the Federal Housing Administration, guaranteed by the Veterans Administration, Rural Housing Service, or Farm Service Agency	§ 1003.4(a)(2), Comment 4(a)(2)-1
(5) Loan Purpose	Modified	Whether the transaction is for home purchase, home improvement, refinancing, cash-out refinancing, or another purpose	§ 1003.4(a)(3), Comments 4(a)(3)-1 through -5



## LEGAL ENTITY IDENTIFIER

- The Legal Entity Identifier (“LEI”) is a unique 20-character code that identifies entities which engage in financial transactions.
- Including Parent companies and subsidiaries.
- As of Sept. 2017 many financial institutions have not obtained their own unique Legal Entity Identifier (LEI).

## WHY MUST WE ALL HAVE A “LEGAL ENTITY IDENTIFIER” (LEI)

The LEI could gather all the data from the financial institution’s multiple entities to identify possible discriminatory lending patterns and identify whether financial institutions are serving the housing needs of their communities. [§ 1003.5(a)(3)]

Where do you go to get your LEI, Google:

Global LEI Foundation [www.gleif.org](http://www.gleif.org) or

LEI Regulatory Oversight Committee [www.leiroc.org](http://www.leiroc.org)

## LEGAL ENTITY IDENTIFIER (LEI)

It is recommended that you obtain your LEI sooner rather than later.

There should be no price changes between now and when we must start using the LEI. The price is \$219.

However, you must have an LEI for all loans submitted for HMDA on or after January 1, 2018.

Data Point	Status <sup>b</sup>	Description	Regulation C References
(6) Preapproval	Modified	Whether the transaction involved a preapproval request for a home purchase loan under a preapproval program	§ 1003.4(a)(4), Comments 4(a)(4)-1 and -2
(7) Construction Method	Modified	Whether the dwelling is site-built or a manufactured home	§ 1003.4(a)(5), Comments 4(a)(5)-1 through -3
(8) Occupancy Type	Modified	Whether the property will be used as a principal residence, second residence, or investment property	§ 1003.4(a)(6), Comments 4(a)(6)-1 through -5
(9) Loan Amount	Modified	Amount of the loan or the amount applied for	§ 1003.4(a)(7), Comments 4(a)(7)-1 through -9
(10) Action Taken and (11) Action Taken Date	Existing	Type and date of action the FI took on the loan, application, or preapproval request	§ 1003.4(a)(8), Comments 4(a)(8)(i)-1 through -14 and 4(a)(8)(ii)-1 through -6
(12) Property Address How is this new?	New	Address of the property securing the loan (or proposed to secure a loan)	§ 1003.4(a)(9)(i), Comments 4(a)(9)-1 through -5 and 4(a)(9)(i)-1 through -3
(13), (14), and (15) Property Location	Existing	Location of the property securing the loan (or proposed to secure a loan) by state, county, and census tract	§ 1003.4(a)(9)(ii), Comments 4(a)(9)-1 through -5, 4(a)(9)(ii)(B)-1, and 4(a)(9)(ii)(C)-1
(16) Ethnicity, (17) Race, and (18) Sex	Modified	Applicant's or borrower's ethnicity, race, and sex, and if information was collected by visual observation or surname	§ 1003.4(a)(10)(i), Comments 4(a)(10)(i)-1 and -2 and appendix B

Data Point	Status <sup>b</sup>	Description	Regulation C References
(19) Age	New	Applicant's or borrower's age	§ 1003.4(a)(10)(ii), Comments 4(a)(10)(ii)-1 through -5
(20) Income	Existing	If credit decision is made, gross annual income relied on in making the credit decision; Or, if a credit decision was not made, the gross annual income relied on in processing the application	§ 1003.4(a)(10)(iii), Comments 4(a)(10)(iii)-1 through -10
(21) Type of Purchaser	Modified	Type of entity that purchased the loan	§ 1003.4(a)(11), Comments 4(a)(11)-1 through -10
(22) Rate Spread	Modified	Difference between the annual percentage rate and average prime offer rate for a comparable transaction	§ 1003.4(a)(12), Comments 4(a)(12)-1 through -8
(23) HOEPA Status	Existing	Whether the loan is a high-cost mortgage under the Home Ownership and Equity Protection Act (HOEPA)	§ 1003.4(a)(13), Comment 4(a)(13)-1
(24) Lien Status	Modified	Whether the property is a first or subordinate lien	§ 1003.4(a)(14), Comments 4(a)(14)-1 and -2
(25) Credit Score	New	Credit score(s) relied on and the name and version of the credit scoring model	§ 1003.4(a)(15), Comments 4(a)(15)-1 through -7
(26) Reason for Denial	Modified	Reason(s) the application was denied	§ 1003.4(a)(16), Comments 4(a)(16)-1 through -4
(27) Total Loan Costs or Total Points and Fees	New	Either total loan costs, or total points and fees charged	§ 1003.4(a)(17), Comments 4(a)(17)(i)-1 through -3 and 4(a)(17)(ii)-1 through -2

Data Point	Status <sup>b</sup>	Description	Regulation C References
(28) Origination Charges	New	Total borrower-paid origination charges	§ 1003.4(a)(18), Comments 4(a)(18)-1 through -3
(29) Discount Points	New	Points paid to the creditor to reduce the interest rate	§ 1003.4(a)(19), Comments 4(a)(19)-1 through -3
(30) Lender Credits	New	Amount of lender credits	§ 1003.4(a)(20), Comments 4(a)(20)-1 through -3
(31) Interest Rate	New	Interest rate on the approved application or loan	§ 1003.4(a)(21), Comments 4(a)(21)-1 through -3
(32) Prepayment Penalty Term	New	Term in months of any prepayment penalty	§ 1003.4(a)(22), Comments 4(a)(22)-1 through -2
(33) Debt-to-Income Ratio	New	Ratio of the applicant's or borrower's total monthly debt to total monthly income relied on	§ 1003.4(a)(23), Comments 4(a)(23)-1 through -7
(34) Combined Loan-to-Value Ratio	New	Ratio of the total amount of debt that is secured by the property to the value of the property that was relied on	§ 1003.4(a)(24), Comments 4(a)(24)-1 through -5
(35) Loan Term	New	Number of months after which the legal obligation will mature or terminate	§ 1003.4(a)(25), Comments 4(a)(25)-1 through -5
(36) Introductory Rate Period	New	Number of months until the first date the interest rate may change	§ 1003.4(a)(26), Comments 4(a)(26)-1 through -4
(37) Non-Amortizing Features	New	Whether the transaction involves a balloon payment, interest-only payments, negative amortization, or any other type of non-amortizing feature	§ 1003.4(a)(27), Comment 4(a)(27)-1

Data Point	Status <sup>b</sup>	Description	Regulation C References
(38) Property Value	New	Value of the property relied on that secures the loan	§ 1003.4(a)(28), Comments 4(a)(28)-1 through -4
(39) Manufactured Home Secured Property Type	New	Whether the covered loan is secured by a manufactured home and land or a manufactured home and not land	§ 1003.4(a)(29), Comments 4(a)(29)-1 through -4
(40) Manufactured Home Land Property Interest	New	Information about the applicant's or borrower's ownership or leasehold interest in the land where the manufactured home is located	§ 1003.4(a)(30), Comments 4(a)(30)-1 through -6
(41) Total Units	New	Number of individual dwelling units related to the property	§ 1003.4(a)(31), Comments 4(a)(31)-1 through -4
(42) Multifamily Affordable Units	New	Number of individual dwelling units related to the property that are income-restricted under federal, state, or local affordable housing programs	§ 1003.4(a)(32), Comments 4(a)(32)-1 through -6
(43) Application Channel (Submission of Application and Initially Payable to Your Institution)	New	Indicators of whether the application was submitted directly to the FI, and whether the obligation was initially payable to the FI	§ 1003.4(a)(33), Comments 4(a)(33)-1, 4(a)(33)(i)-1 and 4(a)(33)(ii)-1 through -2
(44) Mortgage Loan Originator NMLSR Identifier	New	National Mortgage Licensing System & Registry (NMLSR) identifier for the mortgage loan originator	§ 1003.4(a)(34), Comments 4(a)(34)-1 through -3
(45) Automated Underwriting System	New	Name of the automated underwriting system used by the FI to evaluate the application and the result generated by that system	§ 1003.4(a)(35), Comments 4(a)(35)-1 through -6

© Mortgage Educators and Compliance, 2017

Data Point	Status <sup>b</sup>	Description	Regulation C References
(46) Reverse Mortgage	New	Indicator of whether the transaction is for a reverse mortgage	§ 1003.4(a)(36)
(47) Open-End Line of Credit	New	Indicator of whether the transaction is for an open-end line of credit	§ 1003.4(a)(37), Comment 4(a)(37)-1
(48) Business or Commercial Purpose	New	Indicator of whether the transaction is primarily for a business or commercial purpose	§ 1003.4(a)(38), Comment 4(a)(38)-1

[http://files.consumerfinance.gov/f/201510\\_cfpb\\_hmda-summary-of-reportable-data.pdf](http://files.consumerfinance.gov/f/201510_cfpb_hmda-summary-of-reportable-data.pdf)

## APPLICANT INFORMATION - COLLECTION

- When a financial institution requests ethnicity, race and sex information from an applicant it must offer the applicant the option of selecting more than one ethnicity and race and must permit the applicant to self-identify using both aggregate categories and disaggregated subcategories.
- **Meaning there are General and Sub Categories**

## APPLICANT INFORMATION - COLLECTION

- For example, a borrower says he is Hispanic or Latino, but the applicant may choose to self-identify as Mexican, Puerto Rican, Cuban or other Hispanic or Latino. The applicant must also be permitted to provide additional information if they choose.
- If the applicant selects Other Hispanic or Latino the applicant must be permitted to provide an ethnicity subcategory that is not provided on the collection form, say this borrower says he is Brazilian.

## Section 7: Demographic Information. This section asks about your ethnicity, sex, and race.

### Demographic Information of Borrower

The purpose of collecting this information is to help ensure that all applicants are treated fairly and that the housing needs of communities and neighborhoods are being fulfilled. For residential mortgage lending, federal law requires that we ask applicants for their demographic information (ethnicity, sex, and race) in order to monitor our compliance with equal credit opportunity, fair housing, and home mortgage disclosure laws. You are not required to provide this information, but are encouraged to do so. **The law provides that we may not discriminate** on the basis of this information, or on whether you choose to provide it. However, if you choose not to provide the information and you have made this application in person, federal regulations require us to note your ethnicity, sex, and race on the basis of visual observation or surname. The law also provides that we may not discriminate on the basis of age or marital status information you provide in this application.

**Instructions:** You may select one or more "Hispanic or Latino" origins and one or more designations for "Race." If you do not wish to provide some or all of this information, select the applicable check box.

#### Ethnicity

☐ Hispanic or Latino

☐ Mexican ☐ Puerto Rican ☐ Cuban

☐ Other Hispanic or Latino – Enter origin:

Examples: Argentinean, Colombian, Dominican, Nicaraguan, Salvadoran, Spaniard, etc.

☐ Not Hispanic or Latino

☐ I do not wish to provide this information

#### Sex

☐ Female

☐ Male

☐ I do not wish to provide this information

#### Race

☐ American Indian or Alaska Native – Enter name of enrolled or principal tribe:

☐ Asian

☐ Asian Indian ☐ Chinese ☐ Filipino

☐ Japanese ☐ Korean ☐ Vietnamese

☐ Other Asian – Enter race:

Examples: Hmong, Laotian, Thai, Pakistani, Cambodian, etc.

☐ Black or African American

☐ Native Hawaiian or Other Pacific Islander

☐ Native Hawaiian ☐ Guamanian or Chamorro ☐ Samoan

☐ Other Pacific Islander – Enter race:

Examples: Fijian, Tongan, etc.

☐ White

☐ I do not wish to provide this information

**M|E|C** Mortgage Educators and Compliance

WHAT IF THE APPLICANT SAYS  
“I DO NOT WISH TO PROVIDE THIS INFORMATION”?

## APPLICANT INFORMATION - COLLECTION

- A financial institution must inform the applicant that:
  - **Federal law requires the information be collected** to protect consumers and to monitor compliance with Federal statutes that prohibit discrimination against applicants
  - If the information is not provided where the Application is taken in person, the financial institution is required to note the information by visual observation or surname.

If info is collected by visual observation or surname the financial institution must select from the aggregate categories, not the disaggregated categories. **If a financial institution collects the application through electronic media with a video component, this is considered in person.**

If an applicant begins an application by Mail, Internet or Telephone and does not provide the requested information or does not select "I do not wish to provide this information" **and**



...meets the financial institution in person to complete the application, the financial institution is required to request the information when they meet in person. If the applicant does not provide the requested information during the in-person meeting, then the financial institution must make the determination based on observation or surname.

If the meeting occurs after the application process is complete, say at loan closing, then the financial institution is not required to obtain the information.

## APPLICANT INFORMATION - REPORTING

- A Financial institution is required to not only collect sex, ethnicity, and race but also to report it.
- A Financial institution must report every aggregate race category the applicant selected, and if the applicant selected subcategories, they must report all subcategories chosen, up to **five (5)** total categories.

Q: How do you report your borrower's age if they were born January 15, 1970 and you are taking the application January 2, 2018?

A: Number must be in whole years or 47.



CFPB HMDA Small Entity Compliance Guide

M|E|C Mortgage Educators and Compliance

Do you have to report income on a credit decision?

Yes, if a credit decision was made.

What income?

The gross annual income that it relied on in making the credit decision



© Mortgage Educators and Compliance, 2017

CFPB HMDA Small Entity Compliance Guide

M|E|C Mortgage Educators and Compliance

## APPLICATION CHANNEL

- Except for purchased covered loans, a financial institution must report both of the following:
  - Whether or not the applicant or borrower submitted the application directly to the financial institution.
  - Whether or not the obligation arising from the covered loan or application was or would have been initially payable to the financial institution

# Pre-Approved

A financial institution must report whether or not the application or covered loan involved in a pre-approval request for a home purchase loan was under a pre-approval program.

## LOAN TYPE

A financial institution must report whether the covered loan is or the application was for a covered loan that would have been:

- Insured by FHA
- Guaranteed by the VA
- Guaranteed by the Rural Housing Service or the Farm Service Agency
- Not insured or guaranteed by any of these federal agencies (Conventional)

CFPB HMDA Small Entity Compliance Guide

M|E|C Mortgage Educators and Compliance

## LOAN PURPOSE

A financial institution must record and report the purpose of the covered loan using one of the following:

- Home Loan Purchase
- Home Improvement Loan
- Refinancing
- Cash-Out Refinance
- Other (Such as a Purchase and Home Improvement)

CFPB HMDA Small Entity Compliance Guide

M|E|C Mortgage Educators and Compliance

## LOAN AMOUNTS MUST ALSO BE REPORTED

If the Covered Loan is a:	The reportable loan amount is the:
Closed-End Mortgage Loan other than a purchased Closed-End Mortgage Loan, assumption, or a Reverse Mortgage	Amount to be repaid as disclosed on the legal obligation. 12 CFR 1003.4(a)(7)(i); comment 4(a)(7)-5.
Purchased Closed-End Mortgage Loan or assumption of a Closed-End Mortgage Loan	Unpaid principal balance at the time of purchase or assumption. 12 CFR 1003.4(a)(7)(i); comment 4(a)(7)-5.
Open-End Line of Credit (including a purchased Open-End Line of Credit and assumption of an Open-End Line of Credit) other than a Reverse Mortgage	Amount of credit available to borrower under the terms of plan. 12 CFR 1003.4(a)(7)(ii); comment 4(a)(7)-6.
Reverse Mortgage	Initial principal limit (as determined pursuant to section 255 of the National Housing Act and implementing regulations and mortgagee letters issued by HUD). 12 CFR 1003.4(a)(7)(iii); comment 4(a)(7)-9.
Refinancing	Loan amount for new debt obligation based on the type of Covered Loan (see above). Comment 4(a)(7)-7.

If the transaction involves:	Report the:
A counteroffer that is accepted for an amount that is different from the amount for which the applicant applied	Loan amount granted for the Covered Loan. Comment 4(a)(7)-1.
A counteroffer for an amount different from the amount for which the applicant applied, and the applicant did not accept or failed to respond	Amount for which applicant applied. Comment 4(a)(7)-1.
An approved but not accepted Application (including an approved but not accepted preapproval request)	Approved loan amount. Comment 4(a)(7)-2.

Application (including a preapproval request) that was denied, closed for incompleteness, or withdrawn

Amount initially requested. Comment 4(a)(7)-3.

Loan proceeds that will be used for more than one purpose

Entire loan amount for the Covered Loan, even if only a portion of the proceeds is intended for the reported purpose. Comment 4(a)(7)-4.

What do we report: Years or Months?

What about a HELOC?

30 years

?

?

360 months

Loan Term

180 months

?

?

15 years

The action taken must be reported as one of the following:

Action taken  
and date

- Loan originated
- Application approved but not accepted
- Application denied
- Application withdrawn
- File closed for incompleteness
- Loan purchased
- Preapproval request denied
- Preapproval request approved but not accepted

# Denied

For an application that is denied, a financial institution is required to report the principal reasons (up to four) that it denied the application.

## PROPERTY ADDRESS AND LOCATION

- A financial institution reports the following information about the location of the property secured by the covered loan, or for an application, proposed to secure the covered loan:
  - The property address
  - Location of the property by state, county and census tract

## DTI ratio      CLTV ratio

The financial institution must report the DTI ratio used when making the credit decision on covered loans.

A financial institution must report the relied on CLTV ratio that was used when making its credit decision.



# Credit Score



The reporting must include score(s), the name and version of the scoring model used to generate each reported credit score.

M|E|C Mortgage Educators  
and Compliance

© Mortgage Educators and Compliance, 2017

A financial institution must report the interest rate that is approved. For applications that are denied or withdrawn a financial institution reports that no interest rate was applicable.



M|E|C Mortgage Educators  
and Compliance

## CONTRACTUAL FEATURES

A financial institution must report whether the contractual terms include or would have included: (**Non-Amortizing features**)

- Interest-only payments
- Negative amortization
- Balloon payment
- Contractual terms that would allow for payments other than fully amortizing payments

12 CFR 1003.4(a)(27)

M|E|C Mortgage Educators  
and Compliance

## ADDITIONAL DATA POINTS

- Total Loan Costs or Total Points and Fees (Line D)
- Total Borrower-paid Origination charges
- Total Discount Points (Line A1)
- Lender Credits (Line J)
- Prepayment Penalty Term
- HOEPA Status (Over the APOR)
- Mortgage Loan Originator Identifier



M|E|C Mortgage Educators  
and Compliance

## HMDA Rule Key Dates Timeline

	2016	2017	2018	2019	2020
Effective Dates	No new regulatory requirements go into effect	1/1 Effective date for excluding low volume depository institutions from coverage	1/1 Effective date for most provisions related to institutional and transactional coverage, and data collection, recording, reporting, and disclosure	1/1 Effective date for changes to enforcement provisions and additional amendments to reporting provisions	1/1 Effective date for quarterly reporting provisions
Data Collection	Q1 – Q4 Collect 2016 data as required under the <b>current rule</b> <sup>1</sup> (for reporting in 2017)	Q1 – Q4 Collect 2017 data as required under the <b>current rule</b> <sup>1</sup> (for reporting in 2018)	Q1 – Q4 Collect 2018 data as required under the <b>new rule</b> <sup>2</sup> (for reporting in 2019)	Q1 – Q4 Collect 2019 data as required under the <b>new rule</b> <sup>2</sup> (for reporting in 2020)	Q1 – Q4 Collect 2020 data as required under the <b>new rule</b> <sup>2</sup> (for reporting in 2021 and, if FI is quarterly reporter, 2020)
Data Submission	1/1 – 3/1 Submit 2015 data as required under the <b>current rule</b> , <sup>1</sup> and submit to the Federal Reserve Board	1/1 – 3/1 Submit 2016 data as required under the <b>current rule</b> , <sup>1</sup> and submit to the Federal Reserve Board	1/1 – 3/1 Submit 2017 data as required under the <b>current rule</b> , <sup>1</sup> and submit to the CFPB	1/1 – 3/1 Submit 2018 data as required under the <b>new rule</b> , <sup>2</sup> and submit to the CFPB	1/1 – 3/1 Submit 2019 data as required under the <b>new rule</b> , <sup>2</sup> and submit to the CFPB  4/1 – 5/30 Quarterly FI reporters report Q1, 2020 data as required under the <b>new rule</b> , <sup>2</sup> and submit to the CFPB

© Mortgage Educators and Compliance, 2017

### HMDA DATA SHOWS:

- Out of 12.1 million applications only 7.4 million resulted in a mortgage
- Black and Hispanic borrowers are rejected a higher rate than White and Asian borrowers.

## CASE STUDY

Since we've talked about and seen the new data points that will begin to be reported, you might be thinking that it is a lot of new specific information, that could be used to identify the borrower.

CFPB Executive Summary; [http://files.consumerfinance.gov/f/201510\\_cfpb\\_hmda-executive-summary.pdf](http://files.consumerfinance.gov/f/201510_cfpb_hmda-executive-summary.pdf)

**M|E|C** Mortgage Educators  
and Compliance

## CASE STUDY

For data collected, the CFPB will use a balancing test to determine whether, and if so, how HMDA data should be modified before its disclosure to protect applicant and borrower privacy while also fulfilling HMDA's disclosure purposes.

CFPB Executive Summary; [http://files.consumerfinance.gov/f/201510\\_cfpb\\_hmda-executive-summary.pdf](http://files.consumerfinance.gov/f/201510_cfpb_hmda-executive-summary.pdf)

**M|E|C** Mortgage Educators  
and Compliance

## INDUSTRY CONCERNS

The CFPB simply states that at a later date, the bureau will provide a process for the public to provide input regarding the application of this balancing test to determine the HMDA data that will be publicly disclosed.

CFPB Executive Summary; [http://files.consumerfinance.gov/f/201510\\_cfpb\\_hmda-executive-summary.pdf](http://files.consumerfinance.gov/f/201510_cfpb_hmda-executive-summary.pdf)

M|E|C Mortgage Educators  
and Compliance

## INDUSTRY CONCERNS

- The CFPB also publishes the HMDA data which they collect, and makes it all downloadable and searchable through their online HMDA tool. The National Mortgage Database, a separate joint project between the CFPB and the Federal Housing Finance Agency, is in the works and will also house a lot of loan-specific and possibly personally identifying data.

M|E|C Mortgage Educators  
and Compliance

## INDUSTRY CONCERNS

- Then there are online county records systems, such as the one used in the five boroughs of New York City, called Automated City Register Information System.
- All of these databases offer different, identifiable data points about a property and its owner.

## QUESTIONS

- How much HMDA information is going to become open to the public to see?
- Could this put an individual in danger of their identity being stolen?
- Have people's identities been compromised recently?

## QUESTIONS

- Is it an invasion of an individuals privacy to have some of their financial information become public knowledge?
- Do you think the new HMDA data points go too far or do you think they will be helpful in preventing discriminatory and predatory lending practices?

IF YOU WERE TASKED WITH CREATING A NEW I003,  
WHAT WOULD YOU CHANGE?

## RESPONSES FROM INDUSTRY

- Get rid of the Legal Description.
- Why do we ask about Automobiles?
- Need contact information such as cell phones and email.
- Who uses a fax machine anymore?
- You'll also notice that areas have been moved around such as Loan amount, Rate, Term and Mortgage Type (FHA, VA, Conventional etc.)

## THE NEW UNIFORM RESIDENTIAL LOAN APPLICATION URLA OR “THE NEW 1003”



## THE NEW 2015 HMDA RULE

- With the new 2015 HMDA Rule, there was a decision by both government-sponsored entities (GSEs) to take a look at the Uniform Residential Loan Application (1003).
- On December 8, 2015, Freddie Mac and Fannie Mae announced that they would be revising and redesigning the 1003 for the purpose of providing lenders and borrowers with **greater clarity** and an **easier more consumer-friendly loan application**.
- It is also meant **to assist lenders to collect HMDA data more easily**.

## THE NEW 1003

- Starting in 2018, the new 1003 will be able to be used by mortgage professionals.
- There are two separate pieces of this new 1003, the Borrower Information portion and the Lender Information portion.

## THE NEW 1003

- The Borrower Information portion is where all of the borrower's pertinent information will be placed, things like name, address, social security number, assets, liabilities and so on.
- The Lender Information portion shows all of the pertinent information about the lender and the loan that they are going to originate for the borrower.

To be completed by the **Lender**:

Lender Loan No./Universal Loan Identifier \_\_\_\_\_

Agency Case No. \_\_\_\_\_

### Uniform Residential Loan Application

No, check box or signatures at the top. No loan type, amount, months or amortization type.

Verify and complete the information on this application. If you are applying for this loan with others, each additional Borrower must provide information as directed by your Lender.

**Section 1: Borrower Information.** This section asks about your personal information and your income from employment and other sources, such as retirement, that you want considered to qualify for this loan.

#### 1a. Personal Information

Name (First, Middle, Last, Suffix) \_\_\_\_\_

Social Security Number \_\_\_\_\_  
(or Individual Taxpayer Identification Number)

Alternate Names – List any names by which you are known or any names under which credit was previously received (First, Middle, Last, Suffix) \_\_\_\_\_

Date of Birth  
(mm/dd/yyyy) \_\_\_\_\_

☐ U.S. Citizen  
☐ Permanent Resident Alien  
☐ Non-Permanent Resident Alien

☐ I am applying for individual credit.

☐ I am applying for joint credit. Total Number of Borrowers: \_\_\_\_\_

Each Borrower intends to apply for joint credit. Your initials: \_\_\_\_\_

List Name(s) of Other Borrower(s) Applying for this Loan  
(First, Middle, Last, Suffix) \_\_\_\_\_

Marital Status

☐ Married

☐ Separated

☐ Unmarried\*

\*Single, Divorced, Widowed, Civil Union, Domestic Partnership, Registered Reciprocal Beneficiary Relationship

Dependents (not listed by another Borrower)

Number \_\_\_\_\_

Ages \_\_\_\_\_

Contact Information

Home Phone (\_\_\_\_) \_\_\_\_ - \_\_\_\_\_

Cell Phone (\_\_\_\_) \_\_\_\_ - \_\_\_\_\_

Work Phone (\_\_\_\_) \_\_\_\_ - \_\_\_\_\_ Ext. \_\_\_\_\_

Email \_\_\_\_\_

## DEFINITIONS

**Civil Union** - the legal status that ensures to same-sex couples specified rights and responsibilities of married couples.

**Domestic Partnership** - either one of an unmarried heterosexual or homosexual cohabiting couple especially when considered as to eligibility for spousal benefits.

**Registered Reciprocal Beneficiary Relationship** – a legal relationship created when two consenting adults who are prohibited from marriage declare their intent to enter a reciprocal beneficiary relationship. Neither of the parties may be married or a party to another reciprocal beneficiary relationship.

www.merriam-webster.com and http://health.hawaii.gov

M|E|C Mortgage Educators  
and Compliance

### Current Address

Note that the Legal Description is no longer required.

Street \_\_\_\_\_ Unit # \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_ Country \_\_\_\_\_

How Long at Current Address? \_\_\_\_ Years \_\_\_\_ Months ☐ Own ☐ Rent (\$ \_\_\_\_\_ /month) ☐ No primary housing expense

If at Current Address for LESS than 2 years, list Former Address ☐ Does not apply

Street \_\_\_\_\_ Unit # \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_ Country \_\_\_\_\_

How Long at Former Address? \_\_\_\_ Years \_\_\_\_ Months ☐ Own ☐ Rent (\$ \_\_\_\_\_ /month) ☐ No primary housing expense

Mailing Address – if different from Current Address ☐ Does not apply

Street \_\_\_\_\_ Unit # \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_ Country \_\_\_\_\_

**Military Service** – Did you (or your deceased spouse) ever serve, or are you currently serving, in the United States Armed Forces? ☐ NO ☐ YES

If YES, check all that apply: ☐ Currently serving on active duty with projected expiration date of service/tour \_\_\_\_ / \_\_\_\_ (mm/yyyy)

☐ Currently retired, discharged, or separated from service

☐ Only period of service was as a non-activated member of the Reserve or National Guard

☐ Surviving spouse

M|E|C Mortgage Educators  
and Compliance

**1b. Current Employment/Self Employment and Income**☐ Does not apply

Employer or Business Name \_\_\_\_\_ Phone (\_\_\_\_) \_\_\_\_ - \_\_\_\_  
 Address \_\_\_\_\_  
 City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Position or Title \_\_\_\_\_

Start Date \_\_\_\_/\_\_\_\_/\_\_\_\_ (mm/yyyy)

How long in this line of work? \_\_\_\_ Years \_\_\_\_ Months

**Check if this statement applies:**
☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.

☐ Check if you are the Business Owner or Self-Employed ☐ I have an ownership share of less than 25%. ☐ I have an ownership share of 25% or more. **Monthly Income (or Loss)** \$ \_\_\_\_\_

**Gross Monthly Income**

Base \$ \_\_\_\_\_/month

Overtime \$ \_\_\_\_\_/month

Bonus \$ \_\_\_\_\_/month

Commission \$ \_\_\_\_\_/month

Military Entitlements \$ \_\_\_\_\_/month

Other \$ \_\_\_\_\_/month

**TOTAL** \$ \_\_\_\_\_/month

Self-Employed goes into more detail.

Uniform Residential Loan Application  
 Freddie Mac Form 65 • Fannie Mae Form 1003  
 Revised 08/2016 • Effective 01/2018

What about Alimony,  
 Child Support or  
 Separate Maintenance?

Dividends, Interest, Net Rental  
 Income are moved.  
 Military Entitlements are now added.

**M|E|C** Mortgage Educators  
 and Compliance

**1c. IF APPLICABLE, Complete Information for Additional Employment/Self Employment and Income**☐ Does not apply

Employer or Business Name \_\_\_\_\_ Phone (\_\_\_\_) \_\_\_\_ - \_\_\_\_  
 Address \_\_\_\_\_  
 City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Position or Title \_\_\_\_\_

Start Date \_\_\_\_/\_\_\_\_/\_\_\_\_ (mm/yyyy)

How long in this line of work? \_\_\_\_ Years \_\_\_\_ Months

**Check if this statement applies:**
☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.

☐ Check if you are the Business Owner or Self-Employed ☐ I have an ownership share of less than 25%. ☐ I have an ownership share of 25% or more. **Monthly Income (or Loss)** \$ \_\_\_\_\_

**Gross Monthly Income**

Base \$ \_\_\_\_\_/month

Overtime \$ \_\_\_\_\_/month

Bonus \$ \_\_\_\_\_/month

Commission \$ \_\_\_\_\_/month

Military Entitlements \$ \_\_\_\_\_/month

Other \$ \_\_\_\_\_/month

**TOTAL** \$ \_\_\_\_\_/month**1d. Previous Employment/Self-Employment and Income ONLY IF your Current Employment is LESS than 2 years.**☐ Does not apply

Employer or Business Name \_\_\_\_\_  
 Address \_\_\_\_\_  
 City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_  
 Position or Title \_\_\_\_\_  
 Start Date \_\_\_\_/\_\_\_\_/\_\_\_\_ (mm/yyyy) End Date \_\_\_\_/\_\_\_\_/\_\_\_\_ (mm/yyyy)

☐ Check if you were the Business Owner or Self-Employed

**Previous Gross Monthly Income**  
 \$ \_\_\_\_\_

**M|E|C** Mortgage Educators  
 and Compliance



**2b. Other Assets You Have**☐ Does not apply

Include all other assets below. Under Asset Type, choose from the asset types listed here:

- Earnest Money
- Proceeds from Sale of Non-Real Estate Asset
- Proceeds from Real Estate Property to be sold on or before closing
- Sweat Equity
- Employer Assistance
- Rent Credit
- Secured Borrowed Funds
- Trade Equity
- Unsecured Borrowed Funds
- Other

Asset Type – use list above	Cash or Market Value
More assets is great but what is missing from the asset section?	\$
Automobiles	\$
	\$
Provide TOTAL Amount Here	\$

**2c. Liabilities – Credit Cards, Other Debts, and Leases that You Owe**☐ Does not apply

List all liabilities below (except real estate) and include deferred payments. Under Account Type, choose from the types listed here:

- Revolving (e.g., credit cards)
- Installment (e.g., car, student, personal loans)
- Open 30-Day (balance paid monthly)
- Lease (not real estate)
- Other

Account Type – use list above	Company Name	Account Number	Unpaid Balance	To be paid off at or before closing	Monthly Payment
			\$	<input type="checkbox"/>	\$
			\$	<input type="checkbox"/>	\$
			\$	<input type="checkbox"/>	\$

Do we count leases on vehicles that will be returned soon?

MEC Mortgage Educators and Compliance

© Mortgage Educators and Compliance, 2017

**2d. Other Liabilities and Expenses**☐ Does not apply

Include all other liabilities and expenses below. Choose from the types listed here:

- Alimony
- Child Support
- Separate Maintenance
- Job Related Expenses
- Other

	Monthly Payment
	\$
	\$
	\$

**Section 3: Financial Information — Real Estate.** This section asks you to list all properties you currently own and what you owe on them. ☐ I do not own any real estate**3a. Property You Own**

If you are refinancing, list the property you are refinancing FIRST.

Address

Street \_\_\_\_\_ Unit # \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Property Value	Status: Sold, Pending Sale, or Retained	Monthly Insurance, Taxes, Association Dues, etc. Not Included in Mortgage Payment	For Investment Property Only	
			Monthly Rental Income	For LENDER to Calculate: Net Monthly Rental Income
\$		\$	\$	\$

Mortgage Loans on this Property ☐ Does not apply

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance	To be paid off at or before closing	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit (if applicable)
		\$	\$	<input type="checkbox"/>		\$
		\$	\$	<input type="checkbox"/>		\$

MEC Mortgage Educators and Compliance



**3b. IF APPLICABLE, Complete Information for Additional Property** ☐ Does not apply**Address**

Street \_\_\_\_\_ Unit # \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Property Value	Status: Sold, Pending Sale, or Retained	Monthly Insurance, Taxes, Association Dues, etc. Not Included in Mortgage Payment	For Investment Property Only	
			Monthly Rental Income	For LENDER to Calculate: Net Monthly Rental Income
\$ _____		\$ _____	\$ _____	\$ _____

**Mortgage Loans on this Property** ☐ Does not apply

Creditor Name	Account Number	Monthly Mortgage Payment	Unpaid Balance	To be paid off at or before closing	Type: FHA, VA, Conventional, USDA-RD, Other	Credit Limit (if applicable)
		\$ _____	\$ _____	<input type="checkbox"/>		\$ _____
		\$ _____	\$ _____	<input type="checkbox"/>		\$ _____

**Section 4: Loan and Property Information.** This section asks about the loan's purpose and the property you want to purchase or refinance.

Loan amount, Purpose and Property information is now sections 4 not Sections 1 &amp; 2.

**4a. Loan and Property Information**Loan Amount \$ \_\_\_\_\_ Loan Purpose ☐ Purchase ☐ Refinance ☐ Other \_\_\_\_\_

Property Address Street \_\_\_\_\_

Unit # \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

County \_\_\_\_\_ Number of Units \_\_\_\_\_ Property Value \$ \_\_\_\_\_

Occupancy ☐ Primary Residence ☐ Second Home ☐ Investment Property ☐ FHA Secondary Residence1. **Mixed-Use Property.** If you will occupy the property, will you set aside space within the property to operate your own business? (e.g., daycare facility, medical office, beauty/barber shop) ☐ NO ☐ YES2. **Manufactured Home.** Is the property a manufactured home? (e.g., a factory built dwelling built on a permanent chassis) ☐ NO ☐ YES

New questions added

**4b. Other New Mortgage Loans on the Property You are Buying or Refinancing** ☐ Does not apply

Creditor Name	Lien Type	Monthly Payment	Loan Amount/ Amount to be Drawn	Credit Limit (if applicable)
	<input type="radio"/> First Lien <input type="radio"/> Subordinate Lien	\$ _____	\$ _____	\$ _____

## Future Rental Income

© Mortgage Educators and Compliance, 2017

### 4c. Rental Income on the Property You Want to Purchase ☐ For Purchase Only ☐ Does not apply

Complete if the property is a 2-4 Unit Primary Residence or an Investment Property	Amount
Expected Monthly Rental Income	\$
<b>For LENDER to Calculate:</b> Expected Net Monthly Rental Income	\$

Gift(s) or Grant money borrower will receive and where it's coming from

### 4d. Gifts or Grants You Have Been Given or Will Receive for this Loan ☐ Does not apply

Include all gifts and grants below. Under Source, choose from the sources listed here:

- |                     |                       |                       |                |         |
|---------------------|-----------------------|-----------------------|----------------|---------|
| • Relative          | • Employer            | • Community Nonprofit | • State Agency | • Other |
| • Unmarried Partner | • Religious Nonprofit | • Federal Agency      | • Local Agency |         |

Asset Type (Cash Gift, Gift of Equity, Grant)	Source – use list above	Cash or Market Value
<input type="radio"/> Deposited <input type="radio"/> Not Deposited		\$
<input type="radio"/> Deposited <input type="radio"/> Not Deposited		\$

Borrower Name: \_\_\_\_\_

Uniform Residential Loan Application  
Freddie Mac Form 65 • Fannie Mae Form 1003  
Revised 08/2016 • Effective 01/2018

**M|E|C** Mortgage Educators and Compliance

© Mortgage Educators and Compliance, 2017

## DECLARATIONS PAGE

These are the questions answered either “Yes” or “No”. The first five questions (A-E) we really need to understand, the rest are about the same as the old 1003.

Let's look at the new questions and think not only what is being asked but more importantly WHY.



**M|E|C** Mortgage Educators and Compliance



## Section 5: Declarations. This section asks you specific questions about the property, your funding, and your past financial history.

### 5a. About this Property and Your Money for this Loan

<b>A. Will you occupy the property as your primary residence?</b> If YES, have you had an ownership interest in another property in the last three years? If YES, complete (1) and (2) below: (1) What type of property did you own: primary residence (PR), FHA secondary residence (SR), second home (SH), or investment property (IP)? (2) How did you hold title to the property: by yourself (S), jointly with your spouse (SP), or jointly with another person (O)	ONO OYES ONO OYES _____ _____
<b>B. If this is a Purchase Transaction: Do you have a family relationship or business affiliation with the seller of the property?</b>	ONO OYES
<b>C. Are you borrowing any money for this real estate transaction (e.g., money for your closing costs or down payment) or obtaining any money from another party, such as the seller or realtor, that you have not disclosed on this loan application?</b> If YES, what is the amount of this money?	ONO OYES \$ _____
<b>D. 1. Have you or will you be applying for a mortgage loan on another property (not the property securing this loan) on or before closing this transaction that is not disclosed on this loan application?</b> <b>2. Have you or will you be applying for any new credit (e.g., installment loan, credit card, etc.) on or before closing this loan that is not disclosed on this application?</b>	ONO OYES ONO OYES
<b>E. Will this property be subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid through your property taxes (e.g., the Property Assessed Clean Energy Program)?</b>	ONO OYES

Why are these questions being asked?

M|E|C Mortgage Educators and Compliance



## Congress takes on "predatory" PACE loans

Bills introduced to change rules for energy improvement loans

April 6, 2017 Ben Lane 0 Comments

Specifically, the bill would amend the Truth in Lending Act to require a full TILA disclosure of the loan details and terms, as is required now with mortgage loans.

The bill, titled the Protecting Americans from Credit Exploitation Act (or PACE Act), was introduced this week in the Senate by Sens. Tom Cotton, R-Ark.; Marco Rubio, R-Florida; and John Boozman, R-Ark.; and in the House of Representatives by Reps. Brad Sherman, D-Calif.; and Ed Royce, R-Calif.

As Sherman's office notes, the bill would ensure that ensure PACE lenders are subject to the "same basic disclosure requirements that apply to traditional lenders, including providing to consumers the annual percentage rate, a schedule of payments, and the total cost of the loan."

Under the bill's stipulations, homeowners will also be notified that they are taking a lien on their home.

M|E|C Mortgage Educators and Compliance

## MBA SUPPORTS PACE CONSUMER PROTECTION LEGISLATION

MBA and 27 national and state industry trades jointly sent letters to the House and Senate in support of S.838 and H.R. 1958, the *Protecting Americans from Credit Entanglements Act*. If enacted, this bipartisan legislation would subject residential Property Assessed Clean Energy (PACE) loans to national consumer protections required of other mortgage products. More specifically, it would require federal TILA requirements and considerations for these energy efficient home improvement loans, including the CFPB's "Ability to Repay" and "Know Before You Owe" rules.

## UPDATE 10.5.2017

Governor Jerry Brown signed AB 1284, which enacted several important consumer protections into Property Assessed Clean Energy (PACE) including:

- 1) Licensing requirements for PACE administrators.
- 2) An Ability To Pay requirement for PACE financing.
- 3) And the Department of Business Oversight (DBO) to regulate PACE lenders.

## APPROVED BY GOVERNOR, OCTOBER 15, 2017

- SB 173, Dodd. Real estate: Bureau of Real Estate.
- Existing law establishes the Bureau of Real Estate within the Department of Consumer Affairs to license and regulate real estate brokers and real estate salespersons.
- This bill would, as of July 1, 2018, remove the bureau from the Department of Consumer Affairs and instead make it a department within the Business, Consumer Services, and Housing Agency and rename the bureau to the Department of Real Estate.

### 5b. About Your Finances

F. Are you a co-signer or guarantor on any debt or loan that is not disclosed on this application?	Was i.	ON O YES
G. Are there any outstanding judgments against you?	Was a.	ON O YES
H. Are you currently delinquent or in default on a federal debt?	Was f.	ON O YES
I. Are you a party to a lawsuit in which you potentially have any personal financial liability?	Was d.	ON O YES
J. Have you conveyed title to any property in lieu of foreclosure in the past 7 years?	Was c/e.	ON O YES
K. Within the past 7 years, have you completed a pre-foreclosure sale or short sale, whereby the property was sold to a third party and the Lender agreed to accept less than the outstanding mortgage balance due?	New	ON O YES
L. Have you had property foreclosed upon in the last 7 years?	Was c/e.	ON O YES
M. Have you declared bankruptcy within the past 7 years? If YES, identify the type(s) of bankruptcy: <input type="checkbox"/> Chapter 7 <input type="checkbox"/> Chapter 11 <input type="checkbox"/> Chapter 12 <input type="checkbox"/> Chapter 13	Was b.	ON O YES

J and L are now separate questions

**Acknowledgments and Agreements**

I agree to, acknowledge, and represent the following statements to:

- The Lender (this includes the Lender's agents, service providers and any of their successors and assigns); AND
- Other Loan Participants (this includes any actual or potential owners of a loan resulting from this application (the "Loan"), or acquirers of any beneficial or other interest in the Loan, any mortgage insurer, guarantor, any servicers or service providers of the Loan, and any of their successors and assigns).

By signing below, I agree to, acknowledge, and represent the following statements about:

**(1) The Complete Information for this Application**

- The information I have provided in this application is true, accurate, and complete as of the date I signed this application.
- If the information I submitted changes or I have new information before closing of the Loan, I must change and supplement this application or any real estate sales contract, including providing any updated/supplemented real estate sales contract.
- For purchase transactions: The terms and conditions of any real estate sales contract signed by me in connection with this application are true, accurate, and complete to the best of my knowledge and belief. I have not entered into any other agreement, written or oral, in connection with this real estate transaction.
- The Lender and Other Loan Participants may rely on the information contained in the application before and after closing of the Loan.
- Any intentional or negligent misrepresentation of information may result in the imposition of:
  - (a) civil liability on me, including monetary damages, if a person suffers any loss because the person relied on any misrepresentation that I have made on this application, and/or
  - (b) criminal penalties on me including, but not limited to, fine or imprisonment or both under the provisions of federal law (18 U.S.C. §§ 1001 et seq.).

**(2) The Property's Security**

- The Loan I have applied for in this application will be secured by a mortgage or deed of trust which provides the Lender a security interest in the property described in this application.

**(3) The Property's Appraisal, Value, and Condition**

- Any appraisal or value of the property obtained by the Lender is for use by the Lender and Other Loan Participants.
- The Lender and Other Loan Participants have not made any representation or warranty, express or implied, to me about the property, its condition, or its value.

**(4) Electronic Records and Signatures**

- The Lender and Other Loan Participants may keep any paper record and/or electronic record of this application, whether or not the Loan is approved.
- If this application is created as (or converted into) an "electronic application", I consent to the use of "electronic records" and "electronic signatures" as the terms are defined in and governed by applicable federal and/or state electronic transactions laws.
- I intend to sign and have signed this application either using my:
  - (a) electronic signature; or (b) a written signature and agree that if a paper version of this application is converted into an electronic application, the application will be an electronic record, and the representation of my written signature on this application will be my binding electronic signature.
- I agree that the application, if delivered or transmitted to the Lender or Other Loan Participants as an electronic record with my electronic signature, will be as effective and enforceable as a paper application signed by me in writing.

**(5) Delinquency**

- The Lender and Other Loan Participants may report information about my account to credit bureaus. Late payments, missed payments, or other defaults on my account may be reflected in my credit report and will likely affect my credit score.
- If I have trouble making my payments I understand that I may contact a HUD-approved housing counseling organization for advice about actions I can take to meet my mortgage obligations.

**(6) Use and Sharing of Information**

- I understand and acknowledge that the Lender and Other Loan Participants can obtain, use, and share the loan application, a consumer credit report, and related documentation for purposes permitted by applicable laws.

There were eleven (11) statements that the borrower was acknowledging and agreeing. Now there are only six (6).

**Old Form****X. INFORMATION FOR GOVERNMENT MONITORING PURPOSES**

The following information is requested by the Federal Government for certain types of loans related to a dwelling in order to monitor the lender's compliance with equal credit opportunity, fair housing and home mortgage disclosure laws. You are not required to furnish this information, but are encouraged to do so. The law provides that a lender may not discriminate either on the basis of this information, or on whether you choose to furnish it. If you furnish the information, please provide both ethnicity and race. For race, you may check more than one designation. If you do not furnish ethnicity, race, or sex, under Federal regulations, this lender is required to note the information on the basis of visual observation and surname if you have made this application in person. If you do not wish to furnish the information, please check the box below. (Lender must review the above material to assure that the disclosures satisfy all requirements to which the lender is subject under applicable state law for the particular type of loan applied for.)

BORROWER <input type="checkbox"/> I do not wish to furnish this information	CO-BORROWER <input type="checkbox"/> I do not wish to furnish this information
<b>Ethnicity:</b> <input type="checkbox"/> Hispanic or Latino <input type="checkbox"/> Not Hispanic or Latino <b>Race:</b> <input type="checkbox"/> American Indian or Alaska Native <input type="checkbox"/> Asian <input type="checkbox"/> Black or African American <input type="checkbox"/> Native Hawaiian or Other Pacific Islander <input type="checkbox"/> White	<b>Ethnicity:</b> <input type="checkbox"/> Hispanic or Latino <input type="checkbox"/> Not Hispanic or Latino <b>Race:</b> <input type="checkbox"/> American Indian or Alaska Native <input type="checkbox"/> Asian <input type="checkbox"/> Black or African American <input type="checkbox"/> Native Hawaiian or Other Pacific Islander <input type="checkbox"/> White
<b>Sex:</b> <input type="checkbox"/> Female <input type="checkbox"/> Male	<b>Sex:</b> <input type="checkbox"/> Female <input type="checkbox"/> Male

To be Completed by Loan Originator: **Only allowed for limited information**

This information was provided:

☐ In a face-to-face interview

☐ In a telephone interview

☐ By the applicant and submitted by fax or mail

☐ By the applicant and submitted via e-mail or the Internet

Loan Originator's Signature		Date
Loan Originator's Name (print or type)	Loan Originator Identifier	Loan Originator's Phone Number (including area code)
Loan Origination Company's Name	Loan Origination Company Identifier	Loan Origination Company's Address

Was Section X now Section 7  
Now called: Demographic  
Information of Borrower

## Section 7: Demographic Information. This section asks about your ethnicity, sex, and race.

### Demographic Information of Borrower

The purpose of collecting this information is to help ensure that all applicants are treated fairly and that the housing needs of communities and neighborhoods are being fulfilled. For residential mortgage lending, federal law requires that we ask applicants for their demographic information (ethnicity, sex, and race) in order to monitor our compliance with equal credit opportunity, fair housing, and home mortgage disclosure laws. You are not required to provide this information, but are encouraged to do so. **The law provides that we may not discriminate** on the basis of this information, or on whether you choose to provide it. However, if you choose not to provide the information and you have made this application in person, federal regulations require us to note your ethnicity, sex, and race on the basis of visual observation or surname. The law also provides that we may not discriminate on the basis of age or marital status information you provide in this application. **Instructions:** You may select one or more "Hispanic or Latino" origins and one or more designations for "Race." If you do not wish to provide some or all of this information, select the applicable check box.

#### Ethnicity

- ☐ Hispanic or Latino  
☐ Mexican ☐ Puerto Rican ☐ Cuban  
☐ Other Hispanic or Latino – Enter origin:

Examples: Argentinean, Colombian, Dominican, Nicaraguan, Salvadoran, Spaniard, etc.

- ☐ Not Hispanic or Latino  
☐ I do not wish to provide this information

#### Sex

- ☐ Female  
☐ Male  
☐ I do not wish to provide this information

#### Race

- ☐ American Indian or Alaska Native – Enter name of enrolled or principal tribe:

#### Asian

- ☐ Asian Indian ☐ Chinese ☐ Filipino  
☐ Japanese ☐ Korean ☐ Vietnamese  
☐ Other Asian – Enter race:

Examples: Hmong, Laotian, Thai, Pakistani, Cambodian, etc.

#### Black or African American

- ☐ Native Hawaiian or Other Pacific Islander  
☐ Native Hawaiian ☐ Guamanian or Chamorro ☐ Samoan  
☐ Other Pacific Islander – Enter race:

Examples: Fijian, Tongan, etc.

- ☐ White  
☐ I do not wish to provide this information

#### To Be Completed by Financial Institution (for application taken in person):

- Was the ethnicity of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES  
 Was the sex of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES  
 Was the race of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES

#### The Demographic Information was provided through:

- ☐ Face-to-Face Interview (includes Electronic Media w/ Video Component) ☐ Telephone Interview ☐ Fax or Mail ☐ Email or Internet

These two areas are expanded

© Mortgage Educators and Compliance, 2017

## Section 8: Loan Originator Information.

### Loan Originator Information

Loan Originator Organization Name \_\_\_\_\_  
 Address \_\_\_\_\_  
 Loan Originator Organization NMLSR ID# \_\_\_\_\_ State License ID# \_\_\_\_\_  
 Loan Originator Name \_\_\_\_\_  
 Loan Originator NMLSR ID# \_\_\_\_\_ State License ID# \_\_\_\_\_  
 Email \_\_\_\_\_ Phone (\_\_\_\_) \_\_\_\_\_ - \_\_\_\_\_  
 Signature \_\_\_\_\_ Date (mm/dd/yyyy) \_\_\_\_/\_\_\_\_/\_\_\_\_

Borrower Name: \_\_\_\_\_

Uniform Residential Loan Application  
 Freddie Mac Form 65 • Fannie Mae Form 1003  
 Revised 08/2016 • Effective 01/2018



M|E|C Mortgage Educators  
and Compliance

## THE LAST SEVEN (7) PAGES WERE JUST FOR THE BORROWER

The last seven (7) pages were just for the Borrower we also have an additional two (2) pages for the Lender Loan Information. For a total of nine (9) pages of information.

To be completed by the Lender:

Lender Loan No./Universal Loan Identifier \_\_\_\_\_ Agency Case No. \_\_\_\_\_

### Uniform Residential Loan Application — Lender Loan Information

This section is completed by your Lender.

#### L1. Property and Loan Information

##### Community Property State

- ☐ At least one borrower lives in a community property state.  
☐ The property is in a community property state.

##### Transaction Detail

- ☐ Conversion of Contract for Deed or Land Contract  
☐ Renovation  
☐ Construction-Conversion/Construction-to-Permanent  
     ○ Single-Closing   ○ Two-Closing  
 Construction/Improvement Costs \$ \_\_\_\_\_  
 Lot Acquired Date \_\_\_\_ / \_\_\_\_ (mm/yyyy)  
 Original Cost of Lot \$ \_\_\_\_\_

##### Refinance Type

- ☐ No Cash Out  
☐ Limited Cash Out  
☐ Cash Out

##### Refinance Program

- ☐ Full Documentation  
☐ Interest Rate Reduction  
☐ Streamlined without Appraisal  
☐ Other \_\_\_\_\_

##### Energy Improvement

- ☐ Mortgage loan will finance energy-related improvements.  
☐ Property is currently subject to a lien that could take priority over the first mortgage lien, such as a clean energy lien paid for through property taxes (e.g., the Property Assessed Clean Energy program).

##### Project Type

- ☐ Condominium   ☐ Cooperative   ☐ Planned Unit Development (PUD)   ☐ Property is not located in a project



**L2. Title Information**Title to the Property **Will** be Held in What Name(s):**For Refinance:** Title to the Property is **Currently** Held in What Name(s):**Estate Will be Held in**

- ☐ Fee Simple  
☐ Leasehold: Expiration Date \_\_\_\_ / \_\_\_\_ (mm/yyyy)

**Manner in Which Title Will be Held**

- ☐ Sole Ownership      ☐ Joint Tenancy with Right of Survivorship  
☐ Life Estate            ☐ Tenancy by the Entirety  
☐ Tenancy in Common   ☐ Other

**Trust Information**

- ☐ Title Will be Held by an *Inter Vivos* (Living) Trust  
☐ Title Will be Held by a Land Trust

**Indian Country Land Tenure**

- ☐ Fee Simple (On a Reservation)  
☐ Individual Trust Land (Allotted/Restricted)  
☐ Tribal Trust Land (On a Reservation)  
☐ Tribal Trust Land (Off Reservation)  
☐ Alaska Native Corporation Land

**L3. Mortgage Loan Information****Mortgage Type Applied For**

- ☐ Conventional      ☐ USDA-RD  
☐ FHA      ☐ VA      ☐ Other: \_\_\_\_\_

**Terms of Loan**

Note Rate \_\_\_\_\_ %  
 Loan Term \_\_\_\_\_ (months)

**Mortgage Lien Type**

- ☐ First Lien  
☐ Subordinate Lien

**Amortization Type**

- ☐ Fixed Rate      ☐ Other (explain): \_\_\_\_\_  
☐ Adjustable Rate

**If Adjustable Rate:**

Initial Period Prior to First Adjustment \_\_\_\_\_ (months)  
 Subsequent Adjustment Period \_\_\_\_\_ (months)

**Loan Features**

- ☐ Balloon / Balloon Term \_\_\_\_\_ (months)  
☐ Interest Only / Interest Only Term \_\_\_\_\_ (months)  
☐ Negative Amortization  
☐ Prepayment Penalty / Prepayment Penalty Term \_\_\_\_\_ (months)  
☐ Temporary Interest Rate Buydown / Initial Buydown Rate \_\_\_\_\_ %  
☐ Other (explain): \_\_\_\_\_

**Proposed Monthly Payment for Property**

First Mortgage (P & I)	\$ _____
Subordinate Lien(s) (P & I)	\$ _____
Homeowner's Insurance	\$ _____
Supplemental Property Insurance	\$ _____
Property Taxes	\$ _____
Mortgage Insurance	\$ _____
Association/Project Dues (Condo, Co-Op, PUD)	\$ _____
Other	\$ _____
<b>TOTAL</b>	<b>\$ _____</b>

**L4. Qualifying the Borrower – Minimum Required Funds or Cash Back****DUE FROM BORROWER(S)**

A. Sales Contract Price	\$
B. Improvements, Renovations, and Repairs	\$
C. Land (If acquired separately)	\$
D. For Refinance: Balance of Mortgage Loans on the Property to be paid off in the Transaction (See Table 3a. Property You Own)	\$
E. Credit Cards and Other Debts Paid Off (See Table 2c. Liabilities — Credit Cards, Other Debts, and Leases that You Owe)	\$
F. Borrower Closing Costs (Including Prepaid and Initial Escrow Payments)	\$
G. Discount Points	\$
H. TOTAL DUE FROM BORROWER(s) (Total of A thru G)	\$

Details of transaction on this and the next slide.

**TOTAL MORTGAGE LOANS**

I. Loan Amount Loan Amount Excluding Financed Mortgage Insurance (or Mortgage Insurance Equivalent) \$ _____ Financed Mortgage Insurance (or Mortgage Insurance Equivalent) Amount \$ _____	\$
J. Other New Mortgage Loans on the Property the Borrower(s) Is Buying or Refinancing (See Table 4b. Other New Mortgage Loans on the Property You are Buying or Refinancing)	\$
K. TOTAL MORTGAGE LOANS (Total of I and J)	\$
<b>TOTAL CREDITS</b>	
L. Seller Credits	\$
M. Other Credits	\$
N. TOTAL CREDITS (Total of L and M)	\$
<b>CALCULATION</b>	
TOTAL DUE FROM BORROWER(s) (Line H)	\$
LESS TOTAL MORTGAGE LOANS (Line K) AND TOTAL CREDITS (Line N)	– \$
Cash From/To the Borrower (Line H minus Line K and Line N) NOTE: This amount does not include reserves or other funds that may be required by the Lender to be verified.	\$

Details of transaction continued.



**L5. Homeownership Education and Housing Counseling**

Housing counseling and homeownership education programs are offered by independent third parties to help the Borrower understand the rights and responsibilities of homeownership. A list of HUD-approved housing counseling agencies can be found at: [www.hud.gov](http://www.hud.gov) or [www.consumerfinance.gov](http://www.consumerfinance.gov).

Has the Borrower(s) completed homeownership education (group or web-based classes) within the last 12 months? ☐ NO ☐ YES

If YES: (1) What format was it in: (Check the most recent) ☐ Attended Workshop In Person ☐ Completed Web-Based Workshop

(2) Who provided it:

If a HUD-approved agency, provide Housing Counseling Agency ID # \_\_\_\_\_

If not a HUD-approved agency, or unsure of HUD approval,

provide name of Housing Counseling Agency \_\_\_\_\_

(3) Date of Completion \_\_\_\_ / \_\_\_\_ / \_\_\_\_ mm/yyyy Borrower Name \_\_\_\_\_

Has the Borrower(s) completed housing counseling (customized counselor-to-client services) within the last 12 months? ☐ NO ☐ YES

If YES: (1) What format was it in: (Check the most recent) ☐ Face-to-Face ☐ Telephone ☐ Internet

(2) Who provided it:

If a HUD-approved agency, provide Housing Counseling Agency ID # \_\_\_\_\_

If not a HUD-approved agency, or unsure of HUD approval,

provide name of Housing Counseling Agency \_\_\_\_\_

(3) Date of Completion \_\_\_\_ / \_\_\_\_ / \_\_\_\_ mm/yyyy Borrower Name \_\_\_\_\_

Borrower Name(s): \_\_\_\_\_

Uniform Residential Loan Application — Lender Loan Information

Freddie Mac Form 65 • Fannie Mae Form 1003

Revised 08/2016 • Effective 01/2018

New information regarding Education and Counseling.

**M|E|C** Mortgage Educators  
and Compliance

## IMPLEMENTATION OF THE NEW 1003

- On August 23, 2016, Freddie Mac and Fannie Mae published the redesigned URLA (1003) allowing the industry sufficient time to begin the analysis and planning for the future URLA implantation, system updates and the transition to the new Automated Underwriter System (AUS) specifications.
- On September 23, 2016, the CFPB issued a notice of Bureau Official Approval of the URLA that established safe harbor for the use of the URLA under ECOA.

**M|E|C** Mortgage Educators  
and Compliance



## Implementation Timeline Update: Demographic Information Addendum, Redesigned URLA, and the Loan Product Advisor Specification

September 26, 2017

During the past several months, Fannie Mae and Freddie Mac (the GSEs) gathered industry feedback on the implementation timeline for the redesigned Uniform Residential Loan Application (URLA) and the automated underwriting system (AUS) specifications. Industry feedback was an important input to the implementation plans outlined in this announcement for the redesigned URLA, Desktop Underwriter® (DU®), Early Check™ and Loan Product Advisor®.

### Finalized Demographic Information Addendum

The Consumer Financial Protection Bureau (CFPB) has finalized their Technical Corrections and Clarifying Amendments to the Home Mortgage Disclosure Act (HMDA) Regulation C. The GSEs have updated the Demographic Information Addendum based on this final rule. The changes were made only to the form instructions and not to the data fields. Lenders may begin using this version of the Demographic Information Addendum immediately. Reference the [Demographic Information Addendum](#) on Freddie Mac's URLA webpage.

### URLA Effective Dates

The industry may begin using the redesigned URLA starting **July 1, 2019**. The GSEs will require the use of the redesigned URLA for all new loan applications in **February 2020**.

**Important Note:** FHFA's Request for Input on Improving Language Access in Mortgage Lending and Servicing may result in requiring the GSEs to add a borrower language preference question to the URLA or to an addendum to the URLA, and to collect the data in our AUS specifications. If this occurs it would be reflected in the 2017 updates to the published documents.

Freddie Mac will publish updated versions of the redesigned URLA, the Loan Product Advisor Specification and supporting documents by the end of 2017.



## SAMUEL OLIVER III, FREDDIE MAC VICE PRESIDENT OF SINGLE-FAMILY BUSINESS TRANSFORMATION MANAGEMENT



"The redesigned URLA allows much greater flexibility than in the past by acknowledging that not all loan applications are the same," said Samuel Oliver III, Freddie Mac vice president of single-family business transformation management.

Source Credit: National Mortgage News August 23, 2016 By Austin Kilgore



- The new 1003 is much more user-friendly but could it have been even better? **How?**
- For online applications, sections that are not used can be excluded, but for paper applications, they remain creating a very long application.
- Can you think of other changes you would like to see?

## CONSUMER PROTECTION

### FAIR LENDING AND FRAUD



## ANTI-MONEY LAUNDERING

## QUICK REVIEW

- The Bank Secrecy Act/Anti-Money Laundering (BSA/AML) rules **require** mortgage professionals to report suspicious activity on Suspicious Activity Reports (SARs).
- Each mortgage company should have at least one individual registered with the Financial Crimes Enforcement Network (FinCEN) as a supervisory user with the ability to file SARs.

## QUICK REVIEW

- Suspicious activity must be reported within **30** days of the occurrence.
- All supporting documentation must be maintained for **5** years in a secure location and must not be shared with others without FinCEN's permission.

Can we share what we find with the borrower?

If brokering, should we/can we say something to the investor/lender?

## RECENT AML NEWS – BENEFICIAL OWNERSHIP

- FinCEN published a final Beneficial Ownership Rule in May 2016. Financial Institutions must comply with it by May 11, 2018.
- For purposes of this rule, financial institution basically means a **credit union** or **bank** and **excludes private mortgage companies**.

<http://www.mortgagecompliancemagazine.com/weekly-newsline/whos-who-in-customers/>

## RECENT AML NEWS – BENEFICIAL OWNERSHIP

- “While it is unlikely **private mortgage companies** will encounter many borrowers that are **non-natural persons**, it could happen. Our recommendation in that regard is to implement due diligence alternate procedures, to the extent it is reasonable, to follow the FinCEN rules in those limited situations.”

<http://www.mortgagecompliancemagazine.com/weekly-newsline/whos-who-in-customers/>

**M|E|C** Mortgage Educators  
and Compliance

## RECENT AML NEWS – BENEFICIAL OWNERSHIP

The new Rule mandates the following **three** elements be covered by financial institutions:

1. Identify persons who own or control 25% or more of a "legal entity" when the legal entity opens a new bank account;
2. Identify an individual who has substantial management authority at the legal entity (for example, the CEO, chairman, or the managing partner); and

<http://www.mortgagecompliancemagazine.com/weekly-newsline/whos-who-in-customers/>

**M|E|C** Mortgage Educators  
and Compliance

## RECENT AML NEWS – BENEFICIAL OWNERSHIP

The new Rule mandates the following three elements be covered by financial institutions:

3. Include provisions for the beneficial ownership rules in the organization's written BSA/AML compliance program.

<http://www.mortgagecompliancemagazine.com/weekly-newsline/whos-who-in-customers/>

## RECENT AML NEWS

Based on August 2015 existing home sales statistics from the National Association of Realtors, the current regulatory structure covers approximately **78 percent** of real estate purchases nationwide.

- What sales aren't regulated?

**Those who pay cash for a property later to pull cash out.**

[https://www.fincen.gov/news\\_room/nr/pdf/20160412.pdf](https://www.fincen.gov/news_room/nr/pdf/20160412.pdf)

## JENNIFER CALVERY - DIRECTOR - FINANCIAL CRIMES ENFORCEMENT NETWORK

...The mere purchase of real estate worth more than \$10,000 with criminal proceeds is often sufficient to constitute a violation of U.S. AML laws without any further aggravating conduct. I remember well the real concern among many of my law enforcement colleagues in the late 1990s and early 2000s...

[https://www.fincen.gov/news\\_room/nr/pdf/20160412.pdf](https://www.fincen.gov/news_room/nr/pdf/20160412.pdf)

**M|E|C** Mortgage Educators  
and Compliance

## JENNIFER CALVERY - DIRECTOR - FINANCIAL CRIMES ENFORCEMENT NETWORK

...who were seeing what they believed to be members of criminal organizations purchasing personal residences in large cities throughout the United States in the name of a company. In some cities, the residences remained vacant...that seemed empty – lights off.

[https://www.fincen.gov/news\\_room/nr/pdf/20160412.pdf](https://www.fincen.gov/news_room/nr/pdf/20160412.pdf)

**M|E|C** Mortgage Educators  
and Compliance



## JENNIFER CALVERY - DIRECTOR - FINANCIAL CRIMES ENFORCEMENT NETWORK

- We have more data now than in 2003 to inform our decision-making. The analysis and DOJ forfeiture cases continue to show corrupt politicians, drug traffickers, and other criminals using shell companies to purchase luxury real estate with cash.

We see wire transfers originating from foreign banks in offshore havens where shell companies have established accounts, but in many cases we also see criminals using ...

<https://www.fincen.gov/news/speeches/jennifer-shasky-calvery-director-financial-crimes-enforcement-network-6>

M|E|C Mortgage Educators and Compliance

## JENNIFER CALVERY - DIRECTOR - FINANCIAL CRIMES ENFORCEMENT NETWORK

- ...U.S. incorporated and limited liability companies to launder their illicit funds through the U.S. real estate market.

The criminals will instruct the person involved in the settlement and closing to put the deed in the name of the shell company, thereby hiding the names of the actual owners.

<https://www.fincen.gov/news/speeches/jennifer-shasky-calvery-director-financial-crimes-enforcement-network-6>

M|E|C Mortgage Educators and Compliance

## RECENT AML NEWS

- January 2016: Geographic Targeting Orders issued for Manhattan and Miami-Dade County.
  - Specifically addressed individuals who do NOT receive mortgages (paid cash) for high-end residential real estate.
- Expanded in July 2016 to all boroughs of New York City, Los Angeles County, San Francisco, San Mateo and Santa Clara counties, San Diego County and San Antonio, TX (Bexar County).

[https://www.fincen.gov/news\\_room/nr/pdf/20160412.pdf](https://www.fincen.gov/news_room/nr/pdf/20160412.pdf)

<i>New York</i>		© Mortgage Educators and Compliance, 2017	
The Borough of Manhattan	\$3,000,000		
The Borough of Brooklyn	\$1,500,000		
The Borough of Queens	\$1,500,000		
The Borough of Bronx	\$1,500,000		
The Borough of Staten Island	\$1,500,000		
<i>Florida</i>			
Miami-Dade County	\$1,000,000		
Broward County	\$1,000,000		
Palm Beach County	\$1,000,000		
<i>California</i>			
San Diego County	\$2,000,000		
Los Angeles County	\$2,000,000		
San Francisco County	\$2,000,000		
San Mateo County	\$2,000,000		
Santa Clara County	\$2,000,000		
<i>Texas</i>			
Bexar County	\$500,000		

[https://www.fincen.gov/sites/default/files/shared/Title\\_Ins\\_GTO\\_Table\\_072716.pdf](https://www.fincen.gov/sites/default/files/shared/Title_Ins_GTO_Table_072716.pdf)

- More than 75% of the entities suspected to be involved in residential real-estate money laundering are individuals unaffiliated with a legitimate real estate business.

[https://www.ffiec.gov/bsa\\_aml\\_infobase/documents/new\\_6\\_08/SuspectMLResidenRealEstate%20Indust.pdf](https://www.ffiec.gov/bsa_aml_infobase/documents/new_6_08/SuspectMLResidenRealEstate%20Indust.pdf)

- 5.5% of SAR filings were about builders, contractors and rehabbers structuring deals to avoid paying taxes.

[https://www.ffiec.gov/bsa\\_aml\\_infobase/documents/new\\_6\\_08/SuspectMLResidenRealEstate%20Indust.pdf](https://www.ffiec.gov/bsa_aml_infobase/documents/new_6_08/SuspectMLResidenRealEstate%20Indust.pdf)

## WHAT CAN YOU DO?

Review your policies and procedures.

- Verify controls for ongoing compliance.
- Participate in audits by an **outside independent auditor**.
- Utilize the AMLCO (Anti-Money Laundering Compliance Officer)
- Participate in trainings.

[https://www.ffiec.gov/bsa\\_aml\\_infobase/pages\\_manual/OLM\\_007.htm](https://www.ffiec.gov/bsa_aml_infobase/pages_manual/OLM_007.htm)

## Customer Identification Program (CIP) Know your borrower



## SUSPICIOUS ACTIVITY REPORT

- **What is suspicious?**
  - No specific definition.
  - Watch for indicators that a person is engaging in a fraudulent transaction.

## SUSPICIOUS ACTIVITY REPORT

- SAR's must be filed within 30 days of discovery.
- Once a SAR is filed, it must be kept with supporting documentation in a secure location for 5 years.
- Do not discuss the SAR, except when requested by FinCEN.

## PENALTIES

- If you report, even if there wasn't anything suspicious occurring you are in a Safe Harbor.
- Fines of **\$500-\$100,000** if you don't comply.

## COMPLIANCE MANAGEMENT SYSTEM (CMS) COMPONENTS

A **Compliance Management System** , Which Includes:

- Policies and Procedures, Training, and Monitoring and Corrective Action; Consumer Complaint Management Program; and
- Independent Compliance Audit (An Outside Company)

## INCENTIVE PROGRAMS

## INCENTIVE PROGRAMS

- The CFPB recognizes that many supervised entities may choose to implement incentive programs to achieve business objectives. When properly implemented and monitored, reasonable incentives can benefit consumers and the financial marketplace as a whole.

**Any recent “incentive programs” that may have made the news?**

<http://www.consumerfinance.gov/policy-compliance/guidance/implementation-guidance/cfpb-compliance-bulletin-2016-03-detecting-and-preventing-consumer-harm-from-production-incentives/>

THE WALL STREET JOURNAL

## Wells Fargo hit with \$185 million penalty over account openings and employee incentives

Published: Sept 9, 2016 6:48 a.m. ET



Aa

Employees opened 1.5 million accounts that may not have been authorized by bank customers: CFPB



Exterior of a Wells Fargo branch in New York.

By  
EMILY  
GLAZER

Wells Fargo & Co., the largest U.S. bank by market value, must pay \$185 million related to a regulatory enforcement action over "widespread illegal practice" around account openings, sales targets and compensation incentives, according to regulators and prosecutors.

M|E|C Mortgage Educators and Compliance

The Washington Post

© Mortgage Educators and Compliance, 2017

Business

## Wells Fargo changes employees' pay structure, incentive plan

January 10

### BANKING

#### Wells Fargo changes its pay structure

Wells Fargo announced on Tuesday a full restructuring of how it pays its bank branch employees, with incentives now tied to how often customers use their accounts, as the bank tries to recover from a scandal over aggressive sales practices.

The plan has been considered a high priority for chief executive Tim Sloan and Mary Mack, the head of Wells Fargo's community bank division — both of whom took those jobs after the scandal emerged. Wells Fargo announced in September that it was eliminating the sales goals that led employees to open up to 2 million unauthorized accounts.

Wells Fargo's 70,000-plus front-line bank employees will no longer be given incentives for how many new accounts they open or for meeting

M|E|C Mortgage Educators and Compliance



## PRODUCTION INCENTIVES PROGRAMS

- Incentive Programs:
- “Programs that tie outcomes to certain benchmarks”
- These incentives occur as either required or optional, as sales or other incentives, and to employees or service providers or both.

“CFPB Compliance Bulletin 2016-03.” Consumer Financial Protection Bureau.  
28 Nov. 2016.

## RISK CREATED BY INCENTIVES PROGRAMS

- Programs may incentivize employees or service providers to use “overly aggressive marketing, sales, servicing, or collections tactics.”
- This may lead to pressuring or misleading consumers into purchasing products they did not want and may even lead to outright violations of Federal consumer financial law.

“CFPB Compliance Bulletin 2016-03.” Consumer Financial Protection Bureau.  
28 Nov. 2016.

## EXAMPLES OF IMPROPER PRACTICES

- Add-On Products
- Unfair and Abusive Sales Practices

"CFPB Compliance Bulletin 2016-03." Consumer Financial Protection Bureau.  
28 Nov. 2016.

## CFPB EXPECTATIONS

- Entities that chose to use an incentive program should institute a program for supervising and controlling these practices referred to as a Compliance Management System (CMS).
- The CMS should "reflect the risk, nature, and significance of the incentive programs to which they apply."

"CFPB Compliance Bulletin 2016-03." Consumer Financial Protection Bureau.  
28 Nov. 2016.

## SUPERVISION OF SERVICE PROVIDERS

### Who will supervise you and your mortgage company?

“Title X grants the CFPB supervisory and enforcement authority over supervised service providers, which includes the authority to examine the operations of service providers on site.”

### What is the CFPB looking for in their examination?

“Compliance Bulletin and Policy Guidance; 2016-02, Service Providers.”  
Consumer Financial Protection Bureau. 31 Oct. 2016.

**M|E|C** Mortgage Educators  
and Compliance

## SERVICE PROVIDER RISK MANAGEMENT PROGRAM

- Verify Service Provider understands and is capable of complying with Federal consumer financial law
- Request and review service provider’s policies, procedures, internal controls, and training materials
- Include clear expectations in service provider contract
- Establish internal controls and on-going monitoring
- Take prompt action to remedy problems

“Compliance Bulletin and Policy Guidance; 2016-02, Service Providers.”  
Consumer Financial Protection Bureau. 31 Oct. 2016.

**M|E|C** Mortgage Educators  
and Compliance

## REVIEW

Does the CFPB's regulations on incentive programs apply to programs directed at employees or service providers?

**Answer: Yes, it applies to both!**



## FAIR LENDING

## **ECOA** PROHIBITS DISCRIMINATION BASED ON:

- Race or color
- Religion
- National origin
- Sex or Marital status
- Age (as long as the borrower is old enough to enter into a contract)
- Receipt of income from any public assistance program
- Exercising in good faith your rights under the Consumer Credit Protection Act.

<https://www.consumer.ftc.gov/articles/0188-mortgage-discrimination>

## **FAIR HOUSING ACT** PROHIBITS DISCRIMINATION BASED ON:

- Race or Color
- Religion
- National Origin
- Sex
- Disability
- Familial Status

<https://www.consumer.ftc.gov/articles/0188-mortgage-discrimination>

## FAIR HOUSING ACT PROHIBITS DISCRIMINATION BASED ON:

- Race or Color
- Religion
- National Origin
- Sex
- **Disability**
- Familial Status

<https://www.consumer.ftc.gov/articles/0188-mortgage-discrimination>

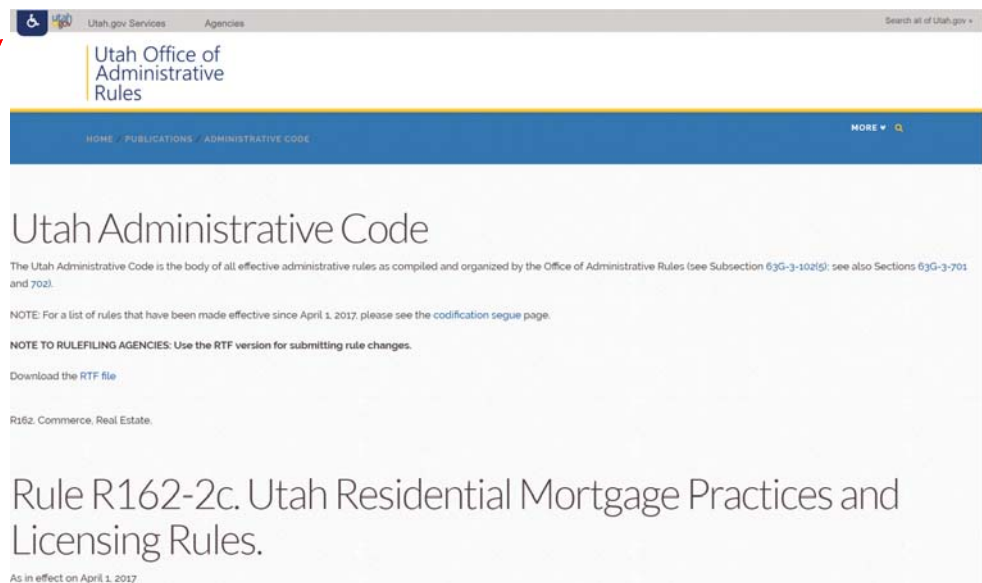
QUESTION: DO YOU NEED TO WORRY ABOUT  
DISABILITIES WHEN HELPING YOUR BORROWERS?

## QUESTIONS

Fair Housing Act prohibits discrimination based on disability.

- What's the ADA?
- Do you need to have your branch office accessible to those with a disability?
- What about your website to a borrower who's blind, or deaf?
- How many have borrowers complete an application online?

Did you notice this symbol?



Utah.gov Services Agencies Search all of Utah.gov

Utah Office of Administrative Rules

HOME / PUBLICATIONS / ADMINISTRATIVE CODE MORE

### Utah Administrative Code

The Utah Administrative Code is the body of all effective administrative rules as compiled and organized by the Office of Administrative Rules (see Subsection 63G-3-102(5); see also Sections 63G-3-701 and 702).

NOTE: For a list of rules that have been made effective since April 1, 2017, please see the [codification segue page](#).

NOTE TO RULEFILING AGENCIES: Use the RTF version for submitting rule changes.

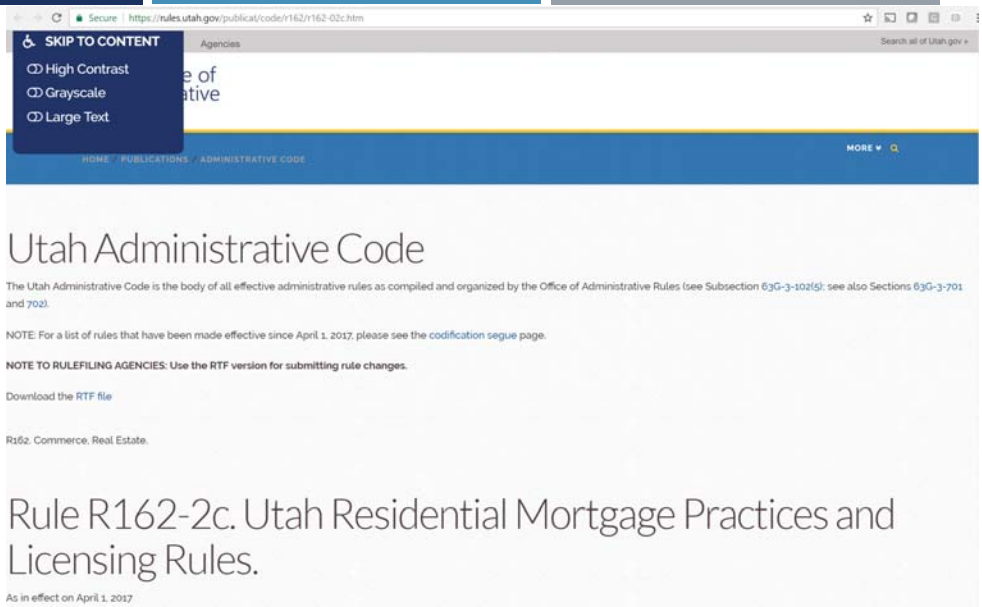
[Download the RTF file](#)

R162: Commerce, Real Estate.

### Rule R162-2c. Utah Residential Mortgage Practices and Licensing Rules.

As in effect on April 1, 2017

© Mortgage Educators and Compliance, 2017



The screenshot shows a web browser window with the URL <https://rules.utah.gov/public/code/r162/r162-02c.htm>. An accessibility menu is open, showing options: "SKIP TO CONTENT", "High Contrast", "Grayscale", and "Large Text". A red arrow points to the "High Contrast" option. The page content includes the title "Utah Administrative Code", a description of the code, and a specific rule: "Rule R162-2c. Utah Residential Mortgage Practices and Licensing Rules." The footer includes the "MEC Mortgage Educators and Compliance" logo.

Look what happens when you click it!

© Mortgage Educators and Compliance, 2017

## WEBSITES ACCESSIBILITY

- The Department of Justice (DOJ) issued a notice to the public about **website** accessibility.
- DOJ's position that the ADA applies to businesses offering goods and **services to the public via the digital channel and officially put digital accessibility on the private sector's radar.**

<http://www.ballardspahr.com/alertspublications/legalalerts/2015-12-02-doj-delays-web-accessibility-regulations-enforcement-actions-continue.aspx>

MEC Mortgage Educators and Compliance



UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF NEW HAMPSHIRE

\*\*\*\*\*

BETTY KITSON, \*

Plaintiff, \*

v. \*

PEOPLES HERITAGE SAVINGS BANK, \*

Defendant. \*

\*\*\*\*\*

CHAPTER 13  
Case No.: 97-12873mwv

Adv. Proc. No.: 97-01169mwv  
Trial Date: November 12, 1998

**MEMORANDUM OF *AMICUS CURIAE* UNITED STATES  
IN OPPOSITION TO  
DEFENDANT PEOPLES HERITAGE SAVINGS BANK'S  
MOTION TO DISMISS PLAINTIFF'S CLAIM  
FOR VIOLATION OF THE AMERICANS WITH DISABILITIES ACT**

**INTRODUCTION**

Plaintiff, Betty Kitson, who is blind, applied for a home mortgage with the Defendant, Peoples Heritage Savings Bank ("Peoples") in 1994. Plaintiff's Third Amended Complaint, ¶¶

**SETTLEMENT AGREEMENT BETWEEN  
THE UNITED STATES OF AMERICA  
AND  
WELLS FARGO & COMPANY  
UNDER THE AMERICANS WITH DISABILITIES ACT  
DJ # 202-11-239**

**BACKGROUND**

1. This Settlement Agreement ("Agreement") is made by and entered into between the United States of America and Wells Fargo & Company ("WFC") (collectively, the "Parties"). The Agreement resolves an investigation of WFC conducted by the United States Department of Justice ("United States") under Title III of the Americans with Disabilities Act of 1990 ("ADA"), 42 U.S.C. §§ 12181 - 12189, and the Title III implementing regulation, 28 C.F.R. pt. 36.
2. The United States initiated its investigation of WFC after receiving several complaints made by and on behalf of individuals who are deaf, are hard of hearing, or have speech disabilities. The complainants alleged that WFC had violated Title III of the ADA when it refused to accept some calls made using relay services and instead referred such callers to telephone numbers with dedicated teletypewriter / telecommunications device for the deaf ("TTY / TDD") service. In addition, several complainants alleged that their calls to dedicated TTY / TDD telephone numbers did not result in effective communication or equal access to services because the calls were not answered with a TTY / TDD and/or callers were required to leave messages which never resulted in a return call or access to services available to individuals without disabilities via telephone. The United States investigated these complaints under the authority granted by Section 308(b)(1)(A)(i) of the ADA, 42 U.S.C. § 12188(b)(1)(A)(i), and 28 C.F.R. § 36.502.
3. During the investigation, WFC acknowledged that, because of its concern regarding fraud perpetrated via individuals purporting to be relay services, some of its call centers stopped accepting calls made through relay services and, instead, referred those calls to dedicated TTY / TDD lines on or about March 2009. WFC represents that, after

## WEBSITES ACCESSIBILITY

- The DOJ has yet to issue the rule (expect it in 2018), but the delay in rulemaking has not delayed their enforcement.
- The DOJ has repeatedly taken the position in litigation, as recently as this (past) summer, that the obligation to make websites accessible is a “current” obligation under the ADA.

<http://www.ballardspahr.com/alertspublications/legalalerts/2015-12-02-doj-delays-web-accessibility-regulations-enforcement-actions-continue.aspx>

## WEBSITES ACCESSIBILITY

- The government has made it clear through settlement agreements with business entities that compliance with the ADA means meeting, at a minimum, the **WCAG 2.0 AA** web and mobile content accessibility guidelines issued by the World Wide Web Consortium

<http://www.ballardspahr.com/alertspublications/legalalerts/2015-12-02-doj-delays-web-accessibility-regulations-enforcement-actions-continue.aspx>

## WEBSITES ACCESSIBILITY

- Additionally, advocacy groups continue to file lawsuits against entities with ADA obligations, and plaintiffs' attorneys are issuing demand letters to business entities with regularity.

<http://www.ballardspahr.com/alertspublications/legalalerts/2015-12-02-doj-delays-web-accessibility-regulations-enforcement-actions-continue.aspx>

## QUESTIONS

What if we were really trying to reach out to an underserved group?

And we came up with a “**special purpose credit program**” would we be viewed in a better light?

## SPECIAL PURPOSE CREDIT PROGRAMS

In a **special purpose credit program**, “a for-profit organization must determine that the program will benefit a class of people who would otherwise be denied credit or would receive it on less favorable terms. This determination can be based on a broad analysis using the organization’s own research or data from outside sources, including governmental reports and studies.”

“CFPB Supervisory Highlights. Issue 12, Summer 2016.” *Consumer Financial Protection Bureau*. June 2016.

M|E|C Mortgage Educators  
and Compliance

## SPECIAL PURPOSE CREDIT PROGRAMS

“In every case, **special purpose credit program** status depends upon adherence to the ECOA and Regulation B requirements for special purpose credit programs. A program, for example, offering more favorable pricing or products exclusively to a particular class of persons without evidence that such individuals would otherwise be denied credit or would receive it on less favorable terms **would not** satisfy the ECOA and Regulation B requirements for a special purpose credit program.”

“CFPB Supervisory Highlights. Issue 12, Summer 2016.” *Consumer Financial Protection Bureau*. June 2016.

M|E|C Mortgage Educators  
and Compliance

## LIMITED ENGLISH PROFICIENT

- According to ECOA, it is your responsibility to “ensure the fair and equitable, and nondiscriminatory access to credit” and “promote the availability of credit.”
- In pursuance of this, “**financial institutions may provide access to credit in languages other than English** in a manner that is beneficial to consumers as well as the institution.”

“CFPB Supervisory Highlights. Issue 12, Summer 2016.” *Consumer Financial Protection Bureau*. June 2016.

## SYNCHRONY BANK

Synchrony Bank (formerly GE Capital Retail Bank) **violated ECOA** by excluding “consumers who had indicated that they preferred to communicate in Spanish” from two different promotions about beneficial debt-relief offers.”

CFPB Supervisory Highlights. Issue 13, Fall 2016. *Consumer Financial Protection Bureau*. Oct. 2016.

## SYNCHRONY BANK

“For as long as three years, the bank did not provide the offers to these consumers in any language, including English, even if the consumer otherwise met the promotion’s qualifications.

In addition to requiring remediation to affected consumers, the bank was ordered to ensure that consumers who had expressed a preference for communicating in Spanish were not excluded from receiving credit offers.”

CFPB Supervisory Highlights. Issue 13, Fall 2016. *Consumer Financial Protection Bureau*. Oct. 2016.

M|E|C Mortgage Educators  
and Compliance

## QUESTIONS

- What could Synchrony Bank have done differently?
- Have you heard of any mortgage companies with offers that might be analogous to the above situation?

M|E|C Mortgage Educators  
and Compliance

## AMERICAN EXPRESS CENTURION BANK

American Express Centurion Bank participated in “deceptive acts or practices in telemarketing of a credit card add-on product to Spanish-speaking customers in Puerto Rico.

The vast majority of consumers enrolled in this product enrolled via telemarketing calls conducted in Spanish. Yet American Express did not provide uniform Spanish language scripts for these enrollment calls, and all written materials provided to consumers were in English.”

CFPB Supervisory Highlights. Issue 13, Fall 2016. *Consumer Financial Protection Bureau*. Oct. 2016.

**M|E|C** Mortgage Educators  
and Compliance

## AMERICAN EXPRESS CENTURION BANK

“As a result, American Express did not adequately alert consumers enrolled via telemarketing calls conducted in Spanish about the steps necessary to receive and access the full product benefits.

The statements and omissions by American Express were likely to affect a consumer's choice or conduct regarding the product and were likely to mislead consumers acting reasonably under the circumstances.”

CFPB Supervisory Highlights. Issue 13, Fall 2016. *Consumer Financial Protection Bureau*. Oct. 2016.

**M|E|C** Mortgage Educators  
and Compliance

## AMERICAN EXPRESS CENTURION BANK

“In addition to requiring remediation to affected consumers, the bank was ordered to, among other things, eliminate all deceptive acts and practices, including deceptive representations, statements, or omissions in its add-on product marketing materials and telemarketing scripts.”

### **UDAAP – Unfair Deceptive Abusive Acts and Practices**

CFPB Supervisory Highlights. Issue 13, Fall 2016. *Consumer Financial Protection Bureau*. Oct. 2016.

**M|E|C** Mortgage Educators  
and Compliance

## QUESTIONS

How did American Express violate the law?

**It was deceptive to only provide disclosures in English to individuals that only spoke Spanish. (UDAAP violation)**

As you advertise, what can you do to avoid fair lending violations?

**Run advertisements in different areas and languages, include pictures of people of different ethnicities. Do not advertise only to one segment of the market, ensure that you have different programs to target various individuals.**

**M|E|C** Mortgage Educators  
and Compliance



## COMMON FEATURES OF A WELL-DEVELOPED CMS

1. “An up-to-date fair lending policy statement, documenting the policies, procedures, and decision-making related to the institution’s provision of language services;
2. Regular fair lending training for all officers and board members as well as all employees involved with any aspect of the institution’s credit transactions, including the provision of language services;

CFPB Supervisory Highlights. Issue 13, Fall 2016. *Consumer Financial Protection Bureau*. Oct. 2016.

**M|E|C** Mortgage Educators  
and Compliance

## COMMON FEATURES OF A WELL-DEVELOPED CMS

3. Review of lending policies for potential fair lending risk;
4. “Ongoing monitoring for compliance with fair lending policies and procedures, and appropriate corrective action if necessary;
5. Ongoing monitoring for compliance with other policies and procedures that are intended to reduce fair lending risk (such as controls on loan originator discretion), and appropriate corrective action if necessary;

CFPB Supervisory Highlights. Issue 13, Fall 2016. *Consumer Financial Protection Bureau*. Oct. 2016.

**M|E|C** Mortgage Educators  
and Compliance

## COMMON FEATURES OF A WELL-DEVELOPED CMS

6. “Depending on the size and complexity of the financial institution, regular statistical analysis (as appropriate) of loan-level data for potential disparities on a prohibited basis in underwriting, pricing, or other aspects of the credit transaction, including both mortgage and non-mortgage products such as credit cards, auto lending, and student lending;

CFPB Supervisory Highlights. Issue 13, Fall 2016. *Consumer Financial Protection Bureau*. Oct. 2016.

M|E|C Mortgage Educators  
and Compliance

## COMMON FEATURES OF A WELL-DEVELOPED CMS

7. Regular assessment of the marketing of loan products. For example, institutions may elect to monitor language services for risk of steering, exclusion of Limited English Proficiency (LEP) and non-English speaking consumers from certain offers, or any other fair lending risk, and for risk of unfair, deceptive, or abusive acts or practices; and

8. Meaningful oversight of fair lending compliance by management and, where appropriate, the financial institution’s board of directors.

CFPB Supervisory Highlights. Issue 13, Fall 2016. *Consumer Financial Protection Bureau*. Oct. 2016.

M|E|C Mortgage Educators  
and Compliance

## CFPB CMS GUIDANCE

Institutions with strong compliance programs:

1. Examine lending patterns regularly,
2. Look for any statistically-significant disparities,
3. Evaluate physical presence
4. Monitor marketing campaigns and programs
5. Assess CRA areas and market areas more generally

CFPB Supervisory Highlights. Issue 13, Fall 2016. *Consumer Financial Protection Bureau*.  
Oct. 2016.

M|E|C Mortgage Educators  
and Compliance

## CFPB CMS GUIDANCE

Suggestions for reducing fair lending risk as part of  
compliance programs:

- Document risks identified
- Take appropriate steps in response to identified risks

CFPB Supervisory Highlights. Issue 13, Fall 2016. *Consumer Financial Protection Bureau*.  
Oct. 2016.

M|E|C Mortgage Educators  
and Compliance

## REVIEW


Which federal act(s) governs Special Purpose Credit Programs?

Answer: ECOA and Regulation B



## JURY AWARDS \$92 MILLION IN DAMAGES FOR CIVIL MORTGAGE FRAUD

A jury awarded damages of \$92 million in a case against Allied Home Mortgage and Jim Hodge its CEO, for civil mortgage fraud.

 United States Department of Justice

Offices of the United States Attorneys

THE UNITED STATES ATTORNEY'S OFFICE  
SOUTHERN DISTRICT of TEXAS

Search

SEARCH

HOME ABOUT NEWS U.S. ATTORNEY DIVISIONS PROGRAMS EMPLOYMENT CONTACT US

U.S. Attorneys » Southern District of Texas » News

Department of Justice

U.S. Attorney's Office

Southern District of Texas

SHARE 

FOR IMMEDIATE RELEASE

Wednesday, November 30, 2016

**Jury Finds Allied Home Mortgage Entities and CEO Liable for Civil Mortgage Fraud - Awards \$92 Million in Damages**

**Also Face Trebling of Damages and Additional Mandatory Penalties for Fraudulent Conduct**

HOUSTON – A federal jury has found the entities formerly known as Allied Home Mortgage Capital Corporation (Allied Capital) and Allied Home Mortgage Corporation (Allied Corporation) as well as president and CEO Jim C. Hodge liable in connection with more than a decade of fraudulent misconduct related to Allied's participation in the Federal Housing Administration (FHA) mortgage insurance program. The jury returned the verdicts late yesterday following a five-week trial, finding Allied and Hodge violated the False Claims Act (FCA) and the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA).

U.S. Attorney Kenneth Magidson of the Southern District of Texas and U.S. Attorney Preet Bharara of the Southern District of New York made the announcement along with Julián Castro, Secretary of the Department of Housing and Urban Development (HUD), and HUD Inspector General David A. Montoya.

## ACCORDING TO THE EVIDENCE PRESENTED AT TRIAL:

- FHA mortgage insurance makes home ownership possible for millions of American families by protecting lenders against mortgage defaults. FHA mortgage insurance also makes mortgage loans valuable in the resale market. To protect the continued availability of FHA mortgage insurance funds, HUD must accurately assess the risk of default on the loans it insures.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

## ACCORDING TO THE EVIDENCE PRESENTED AT TRIAL:

- To accomplish this task, HUD relies on assurances by lenders that they, and the loans they submit for insurance, comply with program requirements.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

- As a HUD-approved loan correspondent, Allied Capital originated FHA-insured mortgage loans.
- Allied Capital was required to seek HUD approval for each branch office from which it originated FHA loans.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

- Instead of complying with this requirement, however, Allied Capital, with Hodge's knowledge and approval, operated over one hundred "shadow" branch offices that originated FHA loans without HUD authorization.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

- As part of its scheme to deceive HUD, Allied Capital submitted loans originated by those branches to HUD using the ID numbers of approved branches. Allied Capital's undisclosed shadow branches were not subject to HUD oversight and their default rates were disguised by the default rates of branches whose IDs they were using. This fraudulent misconduct resulted in \$7,370,132 in losses to HUD when certain of those loans defaulted.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

- Allied Corporation, as a participant in HUD's Direct Endorsement Lender program, underwrote FHA-insured mortgage loans. For each FHA-insured mortgage loan, Allied Corporation was required to certify to HUD that the loan was underwritten according to HUD's guidelines.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>



Those guidelines ensure that FHA-insured loans are made only to borrowers who can repay them, thereby seeking to avoid losses to HUD's FHA insurance fund and foreclosures on borrowers' homes.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

Allied Corporation, however, recklessly underwrote and certified at least 1,192 loans for FHA insurance that were ineligible for insurance under HUD's guidelines. This fraudulent misconduct resulted in losses to HUD of \$85,612,643 when those loans defaulted.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

To compound matters, Allied Corporation and Hodge operated a dysfunctional quality control program and lied to HUD about it. HUD requires lenders participating in its programs to timely perform quality control audits of their FHA loans to identify and correct systemic problems, including underwriting problems.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

Allied Corporation, however, employed only a handful of quality control employees to review loans from as many as 600 branch offices. Many of those employees were unqualified to audit FHA-insured loans.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

In addition, Hodge personally directed his employees to falsify quality control reports to give the impression that required reviews had been performed, when in fact they had not. When HUD auditors later asked for those quality control reports, Allied Corporation provided the falsified reports.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

Allied Corporation and Hodge also falsely certified to HUD on an annual basis that Allied Corporation was in compliance with HUD's quality control requirements.

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

“For years, Jim Hodge and Allied lied to HUD in order to fraudulently reap profits from the FHA mortgage insurance program. After a month-long public trial where all their misconduct was exposed, a jury has held Mr. Hodge and Allied responsible for their lies and has made them pay for losses the United States suffered on loans that would never have been insured by HUD absent their lies. This case represents yet another recovery by the United States – this time after a trial – for fraud perpetrated against HUD by participants in the Direct Endorsement Lender program.”

MANHATTAN U.S. ATTORNEY PREET BHARARA

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

MEC Mortgage Educators and Compliance

## Judge says Texas mortgage companies owe \$296.3 mln to U.S. government

Jonathan Stempel  
Published 5:56 PM ET Tue, 19 Sept 2017



NEW YORK, Sept 19 (Reuters) - A federal judge ordered two Texas-based mortgage companies and their chief executive to pay \$296.3 million to the U.S. government after a jury found them liable for inducing the government into insuring risky home loans, the U.S. Department of Justice said on Tuesday.

The award was announced by acting U.S. Attorney in Manhattan Joon Kim, whose predecessor Preet Bharara had pursued the False Claims Act case against Allied Home Mortgage Corp, Allied Home Mortgage Capital Corp and Chief Executive Jim Hodge.

U.S. District Judge George Hanks in Houston ruled on Sept. 14 that the Allied entities were responsible for nearly the entire payout, and Hodge for \$25.3 million of it.

Updated  
Sept 19<sup>th</sup>  
in Reuters

MEC Mortgage Educators and Compliance

## INTERESTING NOTE:

- This case was originally brought as a Qui Tam\* (pronounced Key Tam) whistleblower lawsuit, but the United States filed a complaint-in-intervention to take over the suit.

(\**Qui tam pro domino rege quam pro se ipso in hac parte sequitur*, meaning "[he] who sues in this matter for the king as well as for himself.")

<http://www.mortgagecompliancemagazine.com/wp-content/uploads/2016/12/December-2016-Supplement.pdf>

M|E|C Mortgage Educators  
and Compliance

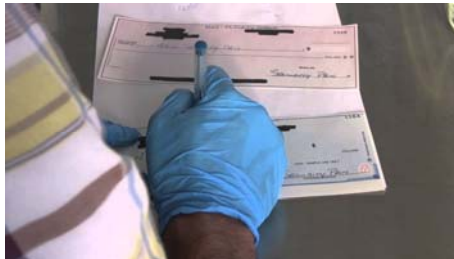


Image source <https://www.justice.gov/usao-az/mortgage-fraud>

M|E|C Mortgage Educators  
and Compliance

## COMMON TYPES OF FRAUD

- **Non-owner Occupied Property (aka Reverse Occupancy)**
- Foreclosure Rescue
- Straw Buyers
- Washed Checks
- Defective title



Lax, Howard, and Melissa Bridges. "Mortgage Fraud is Alive and Well."  
*Mortgage Compliance Magazine*. Sept. 2016.

<https://www.youtube.com/watch?v=hqSWxvsmczi>

**M|E|C** Mortgage Educators  
and Compliance

## NON-OWNER OCCUPIED PROPERTY (AKA REVERSE OCCUPANCY)

Fraudulent actors will claim that the property is non-owner occupied, which has the effect of allowing them to avoid the verification required by the Ability To Repay rule.

Watch for first-time home buyers with little or no credit who are looking to purchase an investment property before their primary residence. They may have lower income but a large amount of assets in their bank account.

Lax, Howard, and Melissa Bridges. "Mortgage Fraud is Alive and Well."  
*Mortgage Compliance Magazine*. Sept. 2016.

**M|E|C** Mortgage Educators  
and Compliance

## FORECLOSURE RESCUE

- Fraudulent actors will promise to rescue homeowners that have an inability to pay their mortgage.
- Then, they deplete the homeowner of their equity or charge fees for services that were not even rendered.

Lax, Howard, and Melissa Bridges. "Mortgage Fraud is Alive and Well."  
*Mortgage Compliance Magazine*. Sept. 2016.

**M|E|C** Mortgage Educators  
and Compliance

## STRAW BUYERS

- A straw buyer is a person who obtains a loan in his or her own name for an investor who cannot obtain one for themselves or who is avoiding anti-flipping laws.

Lax, Howard, and Melissa Bridges. "Mortgage Fraud is Alive and Well."  
*Mortgage Compliance Magazine*. Sept. 2016.

**M|E|C** Mortgage Educators  
and Compliance

## WASHED CHECKS

- Fraudulent actors will purchase a bank check for closing costs and use a chemical solvent to erase or alter the check amount.

Lax, Howard, and Melissa Bridges. "Mortgage Fraud is Alive and Well."  
*Mortgage Compliance Magazine*. Sept. 2016.

**M|E|C** Mortgage Educators  
and Compliance

## DEFECTIVE TITLE

- A fraudulent actor will pay delinquent taxes on a home without the knowledge or consent of the homeowner.
- The fraudulent actor will then file a lien against the homeowner.

Lax, Howard, and Melissa Bridges. "Mortgage Fraud is Alive and Well."  
*Mortgage Compliance Magazine*. Sept. 2016.

**M|E|C** Mortgage Educators  
and Compliance



## FRAUDULENT MORTGAGES EXAMPLE

Lester Soto was a co-owner of a New Jersey mortgage company. He used fraudulent documents to make it appear as though his straw buyers owned more assets and income than they did. These documents were submitted as part of loan applications.

<https://www.justice.gov/usao-nj/pr/co-owner-company-originated-millions-fraudulent-mortgages-sentenced-21-months-prison>

**M|E|C** Mortgage Educators  
and Compliance

## FRAUDULENT MORTGAGES EXAMPLE

Financial institutions relied on these documents and issued mortgage loans. Soto and his conspirators then split the proceeds using fraudulent settlement statement. The straw buyers were left with no means of paying the mortgages and many of the properties were foreclosed.

<https://www.justice.gov/usao-nj/pr/co-owner-company-originated-millions-fraudulent-mortgages-sentenced-21-months-prison>

**M|E|C** Mortgage Educators  
and Compliance

## QUESTION

What do you think should happen to Lester Soto?

He was ordered to serve 5 years in prison and pay over \$3,700,000.

## LOAN APPLICATION FRAUD EXAMPLE

Felicia Muhammad was a licensed real estate broker. She applied for three loans so she could purchase condominium units valued at more than \$1.1 million. On each loan, she declared each condo as her primary residence.

She then transferred the titled to a trust administered by her former landlord in exchange for \$18,000. After, all three loans defaulted, resulting in losses totaling \$662,000.

## WIRE FRAUD EXAMPLE

Nelson Cristiano Machado, Jr. entered into contracts for the purchase of two homes. In the applications, he falsely represented his employment, bank account balance, and that each home would be his primary residence. He failed to disclose the first mortgage when obtaining the second mortgage.

**He was sentenced to three years in prison.**

<https://www.justice.gov/usao-mdfl/pr/bradenton-pastor-sentenced-three-years-wire-fraud-connection-three-lee-county>

## PROSPECT MORTGAGE, RE/MAX (RM) AND KELLER WILLIAMS (KW) (2017)

The CFPB found the following violations:

- Lead agreements and desk license agreements with a mortgage lender, RM/KW accepted payments from that mortgage lender in exchange for referrals (RESPA violation)
- RM/KW agents required consumers wishing to place an offer on one of their properties offered for sale to prequalify with the mortgage lender and received payments for the referrals,

[https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201701\\_cfpb\\_RGCServices-consent-order.pdf](https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201701_cfpb_RGCServices-consent-order.pdf)

## FACTS

Prospect and RM/KW signed a lead agreement. The terms changed over time but generally stated that RM/KW would share information about their clients to Prospect and Prospect would pay a fee based on the number of consumers whose information was shared.

CAN YOU PAY FOR LEADS?  
CAN YOU PAY FOR REFERRALS?  
WHAT IS THE DIFFERENCE?

## Lead

- Name, Address
- Email, Phone Number
- Other contact information
- Lead may go to many companies
- Person purchasing does all of the work in contacting the lead

## Referral

- Name, Address
- Email, Phone Number
- Live phone call
- Exclusive contact
- Agent facilitates the connection
- Referrer pushes the client to use the party purchasing the referral

## FACTS

- The principal broker described the lead as occurring when an agent “brought that client to one of the loan consultants.” He also stated that Respondent would receive a lead payment “if a sales associate [agent] has a client who’s looking to buy a home ... They may introduce them ... Via telephone or set up a meeting to discuss if that person qualifies to buy a home.”
- This agreement had an exclusivity provision.

## FACTS

- As another way to steer clients to Prospect, RM/KW had its listing agents require consumers to prequalify specifically with Prospect loan officers when submitting an offer on a property.
- The CFPB noted that there are numerous lenders in the geographic area and there is rarely any special expertise that a specific lender has that precludes other lenders in the area from offering “equally valid prequalifications”.

## FACTS

- Some agents put the requirement on the MLS agent-only section. Prospect called this being “written in” to a property listing.
- One example stated “All buyers MUST be pre-qualified with no obligation or cost with [name of loan officer] of...”
- Some brokers required prospective buyers who had already prequalified with another lender to also prequalify with Prospect.

## FACTS

- Even all-cash buyers were required to prequalify with Prospect.
- Prospect paid between \$10 and \$500 (depending on the home price, time period and type of lead) for each time Prospect received a prequalification from RM/KW.

## FACTS

- One of Prospects regional sales managers sent an email to a broker which included the suggested language for the broker to send its agents. The message read, in part, "In order to promote our relationship [with Prospect, broker] will pay each agent \$100 for each Qualified Buyer Lead that we send to Prospect."

## FACTS

- After some time Prospect stopped incorporating the required prequalification explicitly into the agreements with brokers.
- A Prospect Senior VP wrote in an email:

*“Of course we desire that our loan officers prequal all buyers, but we have to manage that outside the contract and cannot contractually require it” in the lead agreements themselves.*

## FACTS

- In addition to the lead agreements, Prospect made monthly payments to RM/KVV through desk license agreements.
- As a part of the space Prospect became the “preferred mortgage lender” and was promoted as such.
- **Prospect’s board analyzed the value of these desk agreements in terms of the number of referrals per office rather than market rates for the cost of rental space in a particular area.**



## FACTS

- Prospect also had several Marketing Service Agreements. The MSAs payments ranged from hundred dollars to over \$20,000 per month.
- Prospect based its payments on referral levels, not marketing efforts. Prospect tracked these referral levels as a percentage of the counterparty's overall business. This figure was labeled its "capture rate" of the business.

## FACTS

- If the capture rate dropped below a certain percentage, Prospect would lower the amount paid or discontinue the MSA.
- Prospect signed a contract called "Master Origination Services and Sale Agreement" with, a mortgage servicer.
- The servicer would try to persuade current clients to refinance with Prospect. In return Prospect paid a portion of the proceeds of the refinances and sent mortgage servicing rights to the servicer.

## FACTS

- Prospect stopped using its MSAs and Lead Agreements in 2015.
- It then changed to “co-marketing agreements” which involved paying for real estate agent’s advertisements on a third party website.
- **“The payments that Prospect made and that agents received under these third-party website co-marketing agreements were actually payments for referrals.”**

## FACTS

- Prospect also violated RESPA by telling brokers to “squeeze” consumers into using Prospect rather than a competing lender.
- One listing agent made a seller’s credit conditional on the buyer using Prospect.
- Others charged per diem fees if the buyer used a different lender and went over 30 days.

## SUMMARY

Fined **\$3.5 million** for violations (servicer fined **\$495,000**)

- Financial pressure on buyers from Listing agents for leads.
- Leads with payments and servicing rights from Servicer.
- Co-Marketing agreements on third-party websites.
- Desk agreements with 100+ brokers.
- Lead agreements with 200+ brokers.
- MSAs with 120+ brokers.
- Required pre-approvals.

- ReMax Gold Coast will pay **\$50,000** in civil money penalties, and Keller Williams Mid-Willamette will pay **\$145,000** in disgorgement and **\$35,000** in penalties.
- Prospect shall pay an administrative penalty of approximately **\$7.4 million** to the state mortgage regulators

Source: <https://www.bbb.org/losangelessiliconvalley/business-reviews/mortgage-lender/prospect-mortgage-in-sherman-oaks-ca-13189341/Alerts-and-Actions>



© Mortgage Educators and Compliance, 2017

# I HOUR CA-DBO SAFE CE 2017 LAW ELECTIVE #6906

CLASSROOM



**MEC** Mortgage Educators  
and Compliance

## CALIFORNIA FINANCE LENDERS LAW

### COMMISSIONER POWERS

- The commissioner may make general rules and regulations and specific rulings, demands, and findings for the enforcement of this division, in addition to, and within the general purposes of, this division.

## LICENSURE

- (a) **A finance lender license, broker license, and the license of every mortgage loan originator** employed by a lender or finance broker, along with any currently effective order of the commissioner approving a different name pursuant to Section 22155, **shall be conspicuously posted in the place of business** authorized by the license.

California Finance Lenders Law § 22151

**M|E|C** Mortgage Educators  
and Compliance

## LICENSURE

- (b) A license is not transferable or assignable. A license issued to a partnership or a limited partnership is not transferred or assigned within the meaning of this section by the death, withdrawal, or admission of a partner, general partner, or limited partner, unless the death, withdrawal, or admission dissolves the partnership to which the license was issued.

California Finance Lenders Law § 22151

**M|E|C** Mortgage Educators  
and Compliance

## LICENSURE

- A finance lender or broker licensee shall maintain only one place of business under a duplicate or original license issued pursuant to Section 22101 or 22102.
- The commissioner may issue more than one license to the same licensee upon compliance with all the provisions of this division governing an original issuance of a license.

California Finance Lenders Law § 22152

M|E|C Mortgage Educators  
and Compliance

## UNIQUE IDENTIFIER

- The unique identifier of any licensed mortgage loan originator shall be clearly shown on all residential mortgage loan application forms, solicitations, or advertisements, including business cards or Internet Web sites, and any other documents as established by rule, regulation, or order of the commissioner.

California Finance Lenders Law § 22347

M|E|C Mortgage Educators  
and Compliance

## RECORD KEEPING

- Finance lender, broker, and mortgage loan originator **licensees shall keep and use in their business, books, accounts, and records** which will enable the commissioner to determine if the licensee is complying with the provisions of this division and with the rules and regulations made by the commissioner.

California Finance Lenders Law § 22156

**M|E|C** Mortgage Educators  
and Compliance

## RECORD KEEPING

- On any loan secured by real property in which loan proceeds were disbursed to an independent escrow holder, the licensee shall retain records and documents as set forth by rules of the commissioner adopted pursuant to Section 22150. Upon request of the commissioner, licensees shall file an authorization for disclosure to the commissioner of financial records of the licensed business pursuant to Section 7473 of the Government Code.

California Finance Lenders Law § 22156

**M|E|C** Mortgage Educators  
and Compliance



## RECORD KEEPING

- Finance lender, broker, and mortgage loan originator licensees shall preserve their books, accounts, and records, including cards used in the card system, if any, **for at least three years** after making the final entry on any loan recorded therein.
- **In what format?**

California Finance Lenders Law § 22157

M|E|C Mortgage Educators  
and Compliance

## RECORD KEEPING

- Nothing contained in Sections 22156 and 22157 shall require the maintenance or preservation of original records, **provided that any information requested by the commissioner can be furnished within 48 hours**, excluding Saturdays, Sundays, and holidays as defined in Sections 6700 and 6701 of the Government Code.

California Finance Lenders Law § 22158

M|E|C Mortgage Educators  
and Compliance

## CHARGES

- No licensee shall directly or indirectly charge, contract for, or receive any interest or charge of any nature unless a loan is made.
- So, even if you spend a lot of time and effort, no loan no charge!

California Finance Lenders Law § 22300

M|E|C Mortgage Educators  
and Compliance

## CHARGES

- (a) No licensee shall directly or indirectly charge, contract for, or receive any interest or charge of any nature with respect to a loan of five thousand dollars (\$5,000) or more unless the loan is made.

California Finance Lenders Law § 22301

M|E|C Mortgage Educators  
and Compliance

## CHARGES

- (b) Notwithstanding subdivision (a), **whenever a loan** of five thousand dollars (\$5,000) or more is not consummated because of the borrower's failure to disclose outstanding liens or other information essential to making the loan or solely because of the borrower's failure to complete the loan in accordance with the loan application, a licensee may charge, contract for, and receive an amount equal to the actual expenses incurred by the licensee in connection with the preparation for the loan.

California Finance Lenders Law § 22301

M|E|C Mortgage Educators  
and Compliance

## PROHIBITED ACTS

On any loan secured by real property, a licensee may not do either of the following:

- (a) Fail to disburse funds in accordance with a commitment to make a loan that is accepted by the applicant.
- (b) Intentionally delay the closing of a loan for the sole purpose of increasing interest, costs, fees, or charges payable by the borrower.

California Finance Lenders Law § 22317.5

M|E|C Mortgage Educators  
and Compliance

## BROKER RESPONSIBILITIES

Each licensed broker shall: (a-e)

- (a) Deliver to the borrower, or any one thereof, at the time the final negotiation or arrangement is made, a statement showing in clear and distinct terms the name, address, and license number of the broker and the finance lender...

California Finance Lenders Law § 22338

M|E|C Mortgage Educators  
and Compliance

## BROKER RESPONSIBILITIES

The statement shall show the date, amount, and terms of the agreement with the broker, and all amounts paid or to be paid to the broker and to any person other than the finance lender.

- (b) Deliver to the finance lender making the loan a copy of the statement referred to and described in subdivision (a).

California Finance Lenders Law § 22338

M|E|C Mortgage Educators  
and Compliance

## BROKER RESPONSIBILITIES

- (c) Deliver to the person making any payment to the broker to be retained by the broker, a plain and complete **receipt** for each payment made, at the time it is made, showing the total amount received, and identifying the brokerage agreement and the loan contract upon which the payment is applied. If the payment is made by a person other than the finance lender, a copy of the receipt shall be delivered to the finance lender.

California Finance Lenders Law § 22338

M|E|C Mortgage Educators  
and Compliance

## BROKER RESPONSIBILITIES

- (d) When the borrower pays the loan in full, ensure that the finance lender fully complies with subdivision (e) of Section 22337.
- (e) Deliver to the potential borrower or borrowers, at the time the licensee first requires or accepts any signed instrument or the payment of any fee, a statement showing in clear and distinct terms the name, address, and license number of the broker and finance lender.

California Finance Lenders Law § 22338

M|E|C Mortgage Educators  
and Compliance

## CASE STUDY

- On or about June 7, **2010**, the Commissioner issued an MLO license to Originator **Ollie**.
- An MLO license is renewed annually between November 1 and December 31.

## CASE STUDY

- On or about June 6, **2016**, the Commissioner received information from **Company A** Home Loans (“Co. A”) concerning Ollie’s possible fraudulent activities during the course of his employment as an MLO at Co.A.
- According to Co.A, the Federal Housing Administration (“FHA”) notified Co.A that the loan payments on a loan processed by Ollie were in arrears.

## CASE STUDY

- Consequently, Co.A conducted a review of the file at issue and discovered altered bank statement entries. Co.A reported its findings to FHA and thereafter widened its investigation into Ollie's loan files and company-issued computer.

## CASE STUDY

- During the course of its investigation of Ollie's company-issued computer, Co.A found that software installed on Ollie's computer had the ability to alter any document and several forms of loan documentation that were found on the computer were in editable format, including bank statements, divorce decrees, passports, and other forms of government identification, **including two passports with Ollie's photo in two different names.**

## CASE STUDY

- Co.A also found that in several loans processed by Ollie, there was evidence indicating a significant amount of borrower information was submitted by individuals not related to the transactions in any way, violating laws regulating loan origination activities.
- In light of these discoveries, **Co.A terminated Ollie** on March 23, 2016.

## CASE STUDY

- On or about **May 17, 2016**, **“Co. B”** submitted a Form MU4 through NMLS attested by Ollie. The Form MU4 indicated that Ollie was an employee of the company as of May 2, 2016. But Ollie failed to disclose or provide any explanation concerning his termination from Co.A to the question under “Termination Disclosure,” question (Q) (1) and (2), which asked:



## CASE STUDY

- Have you ever voluntarily resigned, been discharged, or permitted to resign after allegations were made that accused you of:
    - 1) violating statute(s), regulations(s), rules(s), or industry standards of conduct?
    - 2) fraud, dishonesty, theft, or the wrongful taking of property?
- Records show that Ollie voluntarily resigned from **Co. B** on June 14, 2016.

## CASE STUDY

- On or about June 15, 2016, "**Co C.**" submitted a Form MU4 through NMLS attested by Ollie. The Form MU4 showed Ollie was employed by Broker Solutions as of June 15, 2016. **Again Ollie failed to disclose or provide any explanation concerning his termination from Co. A to the question under "Termination Disclosure," question (Q) (1) and (2).** Likewise, Ollie failed to provide any explanation about his resignation from Co. B.

## CASE STUDY

- What should happen to his license?
- Which **laws** were violated?

## CASE STUDY

- **Financial Code section 22172** in relevant part provides: (a) The commissioner may do one or more of the following: (1) Deny, suspend, revoke, condition, or decline to renew a mortgage loan originator license for a violation of this division, or any rules or regulations adopted thereunder.

## CASE STUDY

- **Financial Code section 22161** in relevant part provides: No person subject to this division shall do any of the following: . . .  
(f) Commit an act that constitutes fraud or dishonest dealings.

## CASE STUDY

- **Financial Code section 50204**, subdivision k, provides: A licensee may not do any of the following: (k) Do an act, whether of the same or a different character than specified in this section that constitutes fraud or dishonest dealings.

## CASE STUDY

- **Financial Code section 50327** provides: (a) The commissioner may, after notice and a reasonable opportunity to be heard, deny, decline to renew, suspend, or revoke any license if the commissioner finds that: (1) The licensee has violated any provision of this division or any rule or order of the commissioner thereunder.

## CASE STUDY

- (2) Any fact or condition exists that, if it had existed at the time of the original application for the license, reasonably would have warranted the commissioner in refusing to issue the license originally. (b) The power of investigation and examination by the commissioner is not terminated by the denial, nonrenewal, surrender, suspension, or revocation of any license issued by him or her.

## CASE STUDY: CALIFORNIA CODE OF REGULATIONS, TITLE 10, SECTION 1409.1

- (c) A mortgage loan originator shall file changed information contained in its Form MU4, and any exhibits thereto, through NMLS in accordance with its procedures for transmission to the Commissioner **within twenty (20) days of changes** to the information as provided in Section 1422.6 of Subchapter 6 of these rules.

## CASE STUDY: CALIFORNIA CODE OF REGULATIONS, TITLE 10, SECTION 1409.1

- Any change that cannot be submitted through NMLS shall be filed directly with the Commissioner. A mortgage loan originator may not renew his or her license under Section 1422.6.3 of Subchapter 6 of these rules until all changes to the information contained in his or her Form MU4 are filed with the Commissioner as provided in this section.

## CALIFORNIA DBO RESIDENTIAL LENDING ACT

### PROHIBITED ACTS

- It is a violation of this division for any person to make any untrue statement of a material fact in any document filed with the commissioner under this division or rules adopted thereunder, or to omit any material fact which is required to be stated in any document.

## PROHIBITED ACTS

- (a) It is a violation for any person subject to this law or any director, partner, shareholder controlling an ownership interest of 10 percent or more, trustee, officer, agent, or employee of any such person to do any of the following:

California Residential Mortgage Lending Act § 50503

M|E|C Mortgage Educators  
and Compliance

## PROHIBITED ACTS

- (l) Knowingly or recklessly disburse or cause the disbursal of trust funds, except as permitted by Section 50202, or knowingly or recklessly to direct, participate in, or aid or abet in a material way, any activity that constitutes theft or fraud in connection with any trust fund transaction.

California Residential Mortgage Lending Act § 50503

M|E|C Mortgage Educators  
and Compliance

## PROHIBITED ACTS

- (2) Knowingly or recklessly make or cause to be made any misstatement or omission of a material fact, pertaining to a loan or loan servicing.

California Residential Mortgage Lending Act § 50503

M|E|C Mortgage Educators  
and Compliance

## PROHIBITED ACTS

- (b) Any director, officer, partner, shareholder controlling an ownership interest of 10 percent or more, trustee, or employee of a residential mortgage loan servicer who abstracts or misappropriates money, funds, trust obligations, or property deposited with a licensee, commits a violation of this section.

California Residential Mortgage Lending Act § 50503

M|E|C Mortgage Educators  
and Compliance



## PROHIBITED ACTS

- If a violation results in a criminal conviction, the court shall, in addition to any other punishment imposed, order the person to make full restitution. Nothing in this section shall be deemed or construed to repeal, amend, or impair any existing provision of law prescribing a punishment for such an offense.

California Residential Mortgage Lending Act § 50503

## PROHIBITED ACTS

- Any director, officer, partner, trustee, or employee of a licensee, its holding company, or its affiliates who knowingly makes or concurs in making or **publishing any false entry in its books or records, any written report, exhibit, or statement of its affairs** or...

California Residential Mortgage Lending Act § 50507

## PROHIBITED ACTS

- ... pecuniary condition containing any material statement which is false, or having the custody of its books, willfully refuses or neglects to make any proper entry in the books as required by law or to allow the books to be inspected by the commissioner or his or her deputies or investigators, violates this division.

California Residential Mortgage Lending Act § 50507

## PROHIBITED ACTS

- (a) It is unlawful for any person to knowingly alter, destroy, mutilate, conceal, cover up, falsify, or make a false entry in any record, document, or tangible object with the intent to impede, obstruct, or influence the administration or enforcement of any provision of this division.

California Residential Mortgage Lending Act § 50512

## PROHIBITED ACTS

- (b) It is unlawful for any person to knowingly make an untrue statement to the commissioner during the course of licensing, investigation, or examination, with the intent to impede, obstruct, or influence the administration or enforcement of any provision of this division.

California Residential Mortgage Lending Act § 50512

## COMMISSIONER POWERS

- (a) **The commissioner may do one or more of the following:**
  - (1) Deny, suspend, revoke, condition, or decline to renew a mortgage loan originator license for a violation of this division, or any rules or regulations adopted thereunder.

California Residential Mortgage Lending Act § 50513

## COMMISSIONER POWERS

- (a) **The commissioner may do one or more of the following:**
  - (2) Deny, suspend, revoke, condition, or decline to renew a mortgage loan originator license if an applicant or licensee fails at any time to meet the requirements of Section 50141 or 50144, or withholds information or makes a material misstatement in an application for a license or license renewal.

California Residential Mortgage Lending Act § 50513

## COMMISSIONER POWERS

- (a) **The commissioner may do one or more of the following:**
  - (3) Order restitution against a mortgage loan originator or any residential mortgage lender or servicer licensee employing a mortgage loan originator for a violation of this division.

California Residential Mortgage Lending Act § 50513

## COMMISSIONER POWERS

- (a) **The commissioner may do one or more of the following:**
  - (4) Impose fines on a mortgage loan originator or any residential mortgage lender or servicer licensee employing a mortgage loan originator pursuant to subdivisions (b), (c), and (d).

California Residential Mortgage Lending Act § 50513

M|E|C Mortgage Educators  
and Compliance

## COMMISSIONER POWERS

- (5) **[The commissioner may] issue orders or directives to mortgage loan originators** under this division as follows:
  - (A) Order or direct a mortgage loan originator or any residential mortgage lender or servicer licensee employing a mortgage loan originator **to desist and refrain** from conducting business, including immediate temporary orders to desist and refrain.

California Residential Mortgage Lending Act § 50513

M|E|C Mortgage Educators  
and Compliance

## COMMISSIONER POWERS

- (5) **[The commissioner may]** issue orders or directives to mortgage loan originators under this division as follows:
  - (B) Order or direct a mortgage loan originator or any residential mortgage lender or servicer licensee employing a mortgage loan originator **to cease any harmful activities** or violations of this division, including immediate temporary orders to desist and refrain.

California Residential Mortgage Lending Act § 50513

**M|E|C** Mortgage Educators  
and Compliance

## COMMISSIONER POWERS

- (5) **[The commissioner may]** issue orders or directives to mortgage loan originators under this division as follows:
  - (C) **Enter immediate temporary orders to cease business** under a license issued pursuant to the authority granted under Section 50002 if the commissioner determines that the license was erroneously granted or the mortgage loan originator is currently in violation of this division.

California Residential Mortgage Lending Act § 50513

**M|E|C** Mortgage Educators  
and Compliance

## COMMISSIONER POWERS

- (5) [The commissioner may] issue orders or directives to mortgage loan originators under this division as follows:
  - (D) **Order or direct any other affirmative action** as the commissioner deems necessary.

California Residential Mortgage Lending Act § 50513

M|E|C Mortgage Educators  
and Compliance

## COMMISSIONER POWERS

- (b) The commissioner may impose a civil penalty on a mortgage loan originator or any residential mortgage lender or servicer licensee employing a mortgage loan originator, if the commissioner finds, on the record after notice and opportunity for hearing, that the mortgage loan originator or...

California Residential Mortgage Lending Act § 50513

M|E|C Mortgage Educators  
and Compliance

## COMMISSIONER POWERS

- ... any residential mortgage lender or servicer licensee employing a mortgage loan originator has violated or failed to comply with any requirement of this division or any regulation prescribed by the commissioner under this division or order issued under authority of this division.

California Residential Mortgage Lending Act § 50513

## COMMISSIONER POWERS

- (c) **The maximum amount of penalty for each act or omission described in subdivision (b) shall be twenty-five thousand dollars (\$25,000).**
- (d) Each violation or failure to comply with any directive or order of the commissioner is a separate and distinct violation or failure.

California Residential Mortgage Lending Act § 50513



## PENALTIES

- Any person who **willfully** violates any provision of this division, or any rule or order under this division, shall, upon conviction, be subject to a fine of not more than ten thousand dollars (\$10,000) or imprisonment pursuant to subdivision (h) of Section 1170 of the Penal Code, or in a county jail for not more than one year, or to both that fine and imprisonment.

California Residential Mortgage Lending Act § 50500

M|E|C Mortgage Educators  
and Compliance

## PENALTIES

- No person may be imprisoned for the violation of any rule or order **unless he or she had knowledge of the rule or order**. Conviction under this section shall not preclude the commissioner from exercising the authority provided in Section 50320.

California Residential Mortgage Lending Act § 50500

M|E|C Mortgage Educators  
and Compliance

## PENALTIES

- (a) Any person who violates a provision of this division, or any rule or order under this division, shall be liable for a civil penalty not to exceed two thousand five hundred dollars (\$2,500) for each violation.
- This penalty shall be assessed and recovered in a civil action brought in the name of the people of the State of California by the commissioner in any court of competent jurisdiction.

California Residential Mortgage Lending Act § 50501

M|E|C Mortgage Educators  
and Compliance

## PENALTIES

- (b) As applied to the penalties for acts in violation of this division, the **remedies** provided by this section and by other sections of this division **are not exclusive**, and may be sought and employed in any combination to enforce the provisions of this division.

California Residential Mortgage Lending Act § 50501

M|E|C Mortgage Educators  
and Compliance

## CASE STUDY

- On April 25, **2011**, the Commissioner first issued to Respondent (Craig) a mortgage loan originator license pursuant to the California Residential Mortgage Lending Act (CRMLA).

## CASE STUDY

- On or about December 15, **1992**, the Office of Real Estate Appraisers (“OREA”) issued Residential Real Estate Appraiser License No. AL011972 to Respondent. That license remained in full force and effect until May 7, 2013.

## CASE STUDY

- In or about September, **2012**, Respondent (Craig) and OREA entered into a Stipulated Settlement and Disciplinary Order in OREA Case No. C111209-02 (“Stipulated Settlement”). It became effective on October 15, 2012.

## CASE STUDY

- In the Stipulated Settlement, Respondent **(Craig) admitted to eleven (11) violations** of either the Uniform Standards of Professional Appraisal Practice or the California Business and Professions Code.

## CASE STUDY

- The Stipulated Settlement resulted in a revocation of Respondent's Residential Real Estate Appraisal License, but the revocation was stayed. Respondent was placed on probation for two years subject to terms and conditions.

DOES THIS HAVE ANYTHING TO DO WITH HIS  
MORTGAGE LICENSE?

DOES HE NEED TO REPORT IT ON HIS NMLS  
RENEWAL FORM (MU4)?

## CASE STUDY

- On Dec. 6, **2012** he renewed his MLO license but did not mention the settlement.
- On Dec, 5, **2013** he renewed his MLO license but did not mention the settlement.
- And again on November 28, **2014** he renewed his MLO license but did not mention the settlement.

## ATTESTATION IN EACH RENEWAL

- I [Full Name of MLO] on this date ... **swear (or affirm)** that I executed this application on my own behalf, and agree to and represent the following: (1) **That the information and statements contained herein**, including exhibits attached hereto, and other information filed herewith, all of which are made a part of this application, **are current, true, accurate and complete** and are made under the penalty of perjury, or un-sworn falsification to authorities, or similar provisions as provided by law;

## ATTESTATION IN EACH RENEWAL

- (2) To the extent any information previously submitted is not amended and hereby, such information remains accurate and complete;...
- (4) To keep the information contained in this form current and to file accurate supplementary information on a timely basis.

## CASE STUDY

- On or about November 5, 2015, Respondent (Craig) filed with the Commissioner a Mortgage Loan Originator License renewal application on Form MU4, through the NMLS, to the Department. **In this filing, for the first time, Respondent disclosed the October, 2012, OREA Stipulated Settlement.**

## CASE STUDY

- After the Department asked for clarification, **Respondent filed an amendment on November 20, 2015, wherein he attached documentation evidencing the Stipulated Settlement**

WERE ANY **LAWS** VIOLATED?

IF SO, WHAT DOES THE COMMISSIONER HAVE  
POWER TO DO IN THIS CASE?



## CASE STUDY

- The Commissioner finds that the Stipulated Settlement and Disciplinary Order in OREA Case No. C111209-02, effective October 15, 2012, is a disciplinary action taken by the State of California substantially related to the residential mortgage loan originator activity regulated under the CRMLA. The Commissioner further finds that such action constitutes grounds under **Financial Code section 50316**, subdivision (a), for disciplinary action by the Commissioner against Respondent.

## CASE STUDY

- The Commissioner further finds that by waiting over three years to disclose the OREA Action in the Regulatory Action Disclosure section of his mortgage loan originator application, Respondent failed to keep the information contained in his application current and file accurate supplementary information on a timely basis in violation of **Financial Code section 50513**.

## CASE STUDY

- Due to the issuance of the Stipulated Settlement and Disciplinary Order in OREA Case No. C111209-02 and Respondent's failure to timely and accurately update the Regulatory Action questions in his annual applications for renewal, the Commissioner finds that Respondent has failed to demonstrate the financial responsibility,...

## CASE STUDY

- ... character, and general fitness as to command the confidence of the community and to warrant a determination that he will operate honestly, fairly, and efficiently as a mortgage loan originator within the purposes of the CRMLA, as required by **Financial Code section 50141**, subdivision (a)(3).

## CASE STUDY

- Based on the Commissioner's finding that Respondent fails to meet the minimum standards for issuance of a mortgage loan originator license under **Financial Code section 50141**, subdivision (a)(3), the Commissioner cannot make the determination that Respondent satisfies the minimum standards for license renewal under Financial Code section 50144, subdivision (b)(1).
- **As such his license was revoked.**

## CALIFORNIA HOMEOWNER BILL OF RIGHTS

## PURPOSE OF LAW

- The California Homeowner Bill of Rights became law on January 1, 2013 to ensure fair lending and borrowing practices for California homeowners.
- The laws are designed to guarantee basic fairness and transparency for homeowners in the foreclosure process. Key provisions include:

Source: <http://oag.ca.gov/hbor>

## RESTRICTION ON DUAL TRACK FORECLOSURE

- Mortgage servicers are restricted from advancing the foreclosure process if the homeowner is working on securing a loan modification. When a homeowner completes an application for a loan modification, the foreclosure process is essentially paused until the complete application has been fully reviewed.

Source: <http://oag.ca.gov/hbor>

## GUARANTEED SINGLE POINT OF CONTACT

- Homeowners are guaranteed a single point of contact as they navigate the system and try to keep their homes – a person or team at the bank who knows the facts of their case, has their paperwork and can get them a decision about their application for a loan modification.

Source: <http://oag.ca.gov/hbor>

## VERIFICATION OF DOCUMENTS

- Lenders that record and file multiple unverified documents will be subject to a civil penalty of up to \$7,500 per loan in an action brought by a civil prosecutor. Lenders who are in violation are also subject to enforcement by licensing agencies, including the Department of Business Oversight, the Bureau of Real Estate.

Source: <http://oag.ca.gov/hbor>

## ENFORCEABILITY

- Borrowers will have authority to seek redress of “material” violations of the new foreclosure process protections. Injunctive relief will be available prior to a foreclosure sale and recovery of damages will be available following a sale.

Source: <http://oag.ca.gov/hbor>

## TENANT RIGHTS

- Purchasers of foreclosed homes are required to give tenants at least 90 days before starting eviction proceedings. If the tenant has a fixed-term lease entered into before transfer of title at the foreclosure sale, the owner must honor the lease unless the owner can prove that exceptions intended to prevent fraudulent leases apply.

Source: <http://oag.ca.gov/hbor>

## TOOLS TO PROSECUTE MORTGAGE FRAUD

- The statute of limitations to prosecute mortgage-related crimes is extended from one to three years, allowing the Attorney General's office to investigate and prosecute complex mortgage fraud crimes. In addition, the Attorney General's office can use a statewide grand jury to investigate and indict the perpetrators of financial crimes involving victims in multiple counties.

Source: <http://oag.ca.gov/hbor>

## TOOLS TO CURB BLIGHT

- Local governments and receivers have additional tools to fight blight caused by multiple vacant homes in their neighborhoods, from more time to allow homeowners to remedy code violations to a means to compel the owners of foreclosed property to pay for upkeep.

Source: <http://oag.ca.gov/hbor>

# JEOPARDY!

© Mortgage Educators and Compliance, 2017

## END OF COURSE CASE STUDY

You work for a new mortgage lender. The company is located in two cities in your state, the state capital and a satellite office in a suburb about an hour away. Last year (2016) your company closed about 40 loans per month, most of which were for properties located close to your main office.

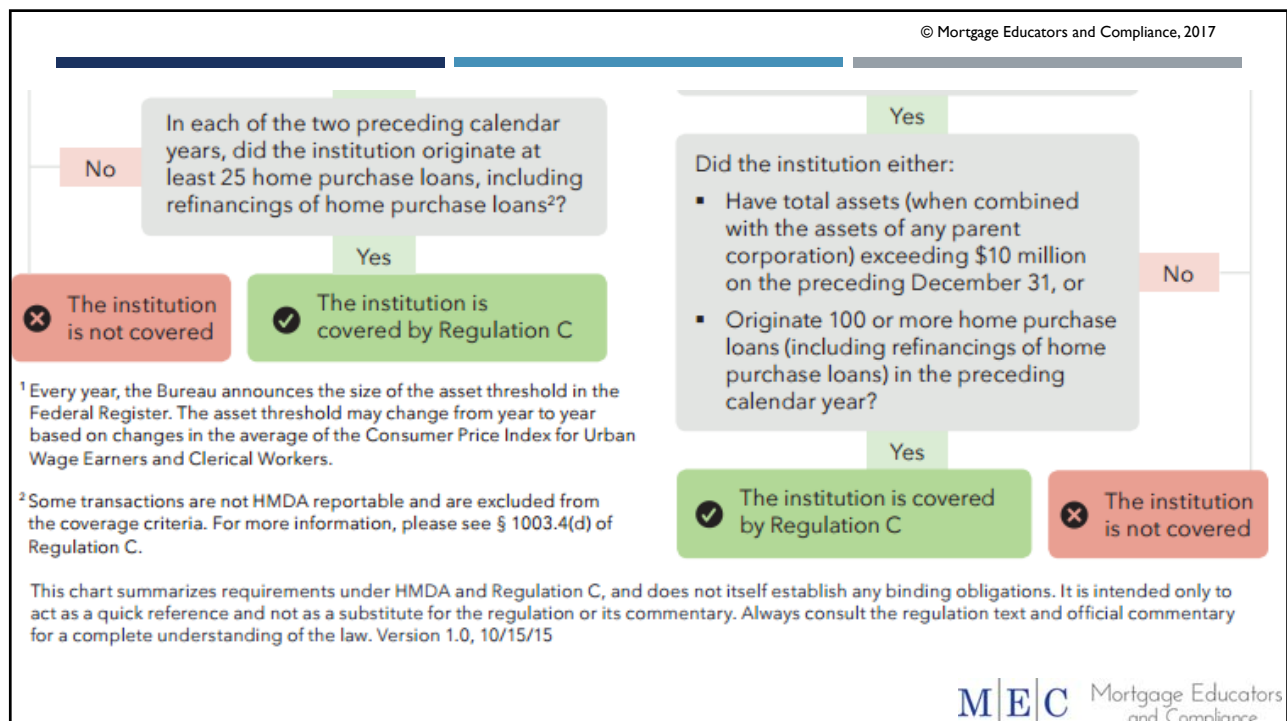
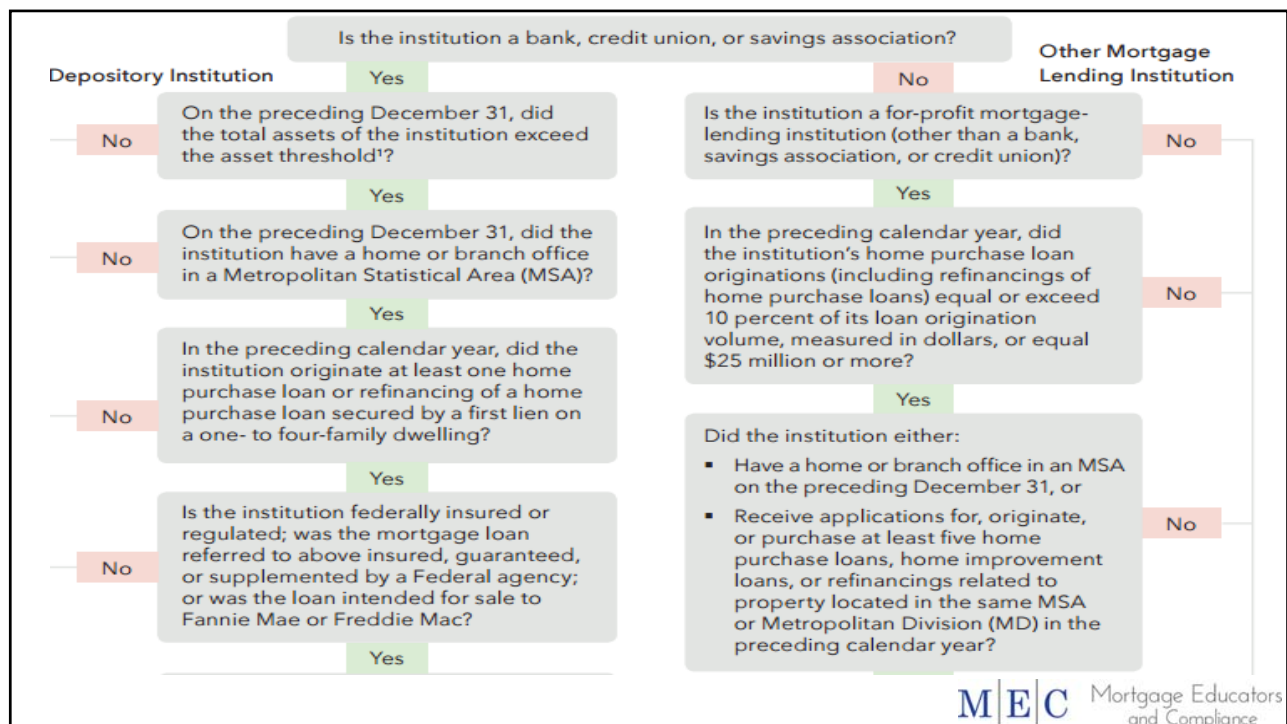


## END OF COURSE CASE STUDY

- Sometimes you still have borrowers come into your office to apply for mortgage loans, but more and more frequently they apply through your online portal and you don't meet them in person until closing.
- You just received an application from the online portal and both borrowers selected "I do not wish to provide this information" when it came to the HMDA data.

## END OF COURSE CASE STUDY

- What should you do? Would your answer be different if the borrower had come in to fill out the application?
- Do you even need to worry about it? Do you have to file HMDA reports?



## END OF COURSE CASE STUDY

The next day you receive a call from an applicant for a residential mortgage loan but the applicant is a trust. The applicant for the trust asks you how he/she should fill out the information.

**What do you tell the applicant?**

## ANSWER

For example, for a transaction involving a trust, a financial institution reports that the requirement to report the applicant's age is not applicable if the trust is the applicant.

On the other hand, if the applicant is a natural person, and is the beneficiary of a trust, a financial institution reports the applicant's age.

## END OF COURSE CASE STUDY

- The following week you receive an application from Raquel. When you ask about HMDA data, she tells you that she was born in a nearby college town, but her mother is **Columbian** and her father is **Filipino**.
- How would you report her race and ethnicity?

### Section 7: Demographic Information. This section asks about your ethnicity, sex, and race.

#### Demographic Information of Borrower

The purpose of collecting this information is to help ensure that all applicants are treated fairly and that the housing needs of communities and neighborhoods are being fulfilled. For residential mortgage lending, federal law requires that we ask applicants for their demographic information (ethnicity, sex, and race) in order to monitor our compliance with equal credit opportunity, fair housing, and home mortgage disclosure laws. You are not required to provide this information, but are encouraged to do so. **The law provides that we may not discriminate** on the basis of this information, or on whether you choose to provide it. However, if you choose not to provide the information and you have made this application in person, federal regulations require us to note your ethnicity, sex, and race on the basis of visual observation or surname. The law also provides that we may not discriminate on the basis of age or marital status information you provide in this application.

**Instructions:** You may select one or more "Hispanic or Latino" origins and one or more designations for "Race." If you do not wish to provide some or all of this information, select the applicable check box.

#### Ethnicity

- ☐ Hispanic or Latino  
☐ Mexican ☐ Puerto Rican ☐ Cuban  
☐ Other Hispanic or Latino – Enter origin: \_\_\_\_\_

Examples: Argentinean, Colombian, Dominican, Nicaraguan, Salvadoran, Spaniard, etc.

- ☐ Not Hispanic or Latino  
☐ I do not wish to provide this information

#### Sex

- ☐ Female  
☐ Male  
☐ I do not wish to provide this information

#### Race

- ☐ American Indian or Alaska Native – Enter name of enrolled or principal tribe: \_\_\_\_\_

#### Asian

- ☐ Asian Indian ☐ Chinese ☐ Filipino  
☐ Japanese ☐ Korean ☐ Vietnamese  
☐ Other Asian – Enter race: \_\_\_\_\_

Examples: Hmong, Laotian, Thai, Pakistani, Cambodian, etc.

#### Black or African American

- ☐ Native Hawaiian or Other Pacific Islander  
☐ Native Hawaiian ☐ Guamanian or Chamorro ☐ Samoan  
☐ Other Pacific Islander – Enter race: \_\_\_\_\_

Examples: Fijian, Tongan, etc.

- ☐ White  
☐ I do not wish to provide this information

#### To Be Completed by Financial Institution (for application taken in person):

Was the ethnicity of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES  
 Was the sex of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES  
 Was the race of the Borrower collected on the basis of visual observation or surname? ☐ NO ☐ YES

#### The Demographic Information was provided through:

- ☐ Face-to-Face Interview (includes Electronic Media w/ Video Component) ☐ Telephone Interview ☐ Fax or Mail ☐ Email or Internet

## END OF COURSE CASE STUDY

While talking to her, you find out that she is a first time homebuyer. She is looking to buy a townhouse that she can live in while completing a two-year fellowship in town.

She plans to have a roommate to help split the costs. When she is done with the fellowship she doesn't know if she wants to keep the property as a rental or if she will sell it to find something where she gets her permanent job.

## END OF COURSE CASE STUDY

- What other questions might you want to ask in order to help determine what the best program will be for her?

## END OF COURSE CASE STUDY

- She has enough in savings that she thinks she could make a 14 percent down payment, if needed, but she says she would rather not put that much down if possible.
- Her fellowship will pay enough for the DTI to not be a problem.
- When you run the income limit to the area median income it comes out at 114 percent.

## END OF COURSE CASE STUDY

- She does not yet have a roommate for the space, but rent for a similar space in the area is sufficient to typically cover about 40 percent of her payment.
- The property is not in a rural area.
- She has not served in the armed forces.

## END OF COURSE CASE STUDY

- What product or products would you recommend for her?
- Why did you select those products?
- Would you consider a Home Ready or Home Possible loan? Why or why not?

## END OF COURSE CASE STUDY

- She decides to go with a 5 year fixed Hybrid ARM. She is so excited with the amount that she will save in interest that she refers her friend to you.
- Her friend Jamison comes in and says that he would like to purchase a townhome near Raquel's, but he does not plan to live in it. He already has rental contracts with three individuals that would cover his monthly payment.

## END OF COURSE CASE STUDY

- As you ask additional questions you find out that Jamison appears to move quite often. When you get his address information for the past two years, he lists 5 different locations.
- You continue to ask questions and discover he also is a first-time home buyer, who doesn't own a home of his own. He insists that he is purchasing this property just as an investment.

## END OF COURSE CASE STUDY

- Jamison says he is a graduate student who works at a local restaurant part-time.
- After you pull Jamison's credit report you see that a different mortgage lender pulled his credit 3 months ago.
- Do you have any concerns with Jamison? What additional questions might you want to ask?



## END OF COURSE CASE STUDY

- You ask a few follow-up questions but nothing that he says alleviates your concerns. In fact, you are quite certain he is trying to commit fraud to get the property.
- What should you do now?

LADIES AND GENTLEMEN YOU ARE ALL...

