

MMC
LIMITED SCOPE ELECTRONIC (LSE)
EXAMINATION PROCEDURES

Introduction and Background

The Multistate Mortgage Committee (MMC) has developed the Limited Scope Electronic (LSE) examination process as an efficient and effective method for multistate mortgage supervision. The LSE examination is a limited scope examination of a Multistate Mortgage Entity (MME) using the ComplianceEase[®] suite of software. LSE examinations accomplish a 100% penetration of a MME's loan portfolio¹ for apparent compliance violations. The depth and level of detail that the technology reaches may reveal many errors in the origination and underwriting process, errors that may result in reimbursable amounts that are material to certain companies. The MMC notes that this endeavor may have safety and soundness implications for some mortgage companies that have high levels of reimbursable items as a result of poor internal routine and controls.

Training and assistance are provided by CSBS staff, experienced examiners, and ComplianceEase representatives. Each examination is assigned a MMC Liaison who reports directly to the MMC and also supports the Examiner in Charge (EIC) and examination team.² EIC States are assigned by the MMC, who in turn assigns an EIC to lead the examination. Participating states are comprised of Joint Examination State Regulators³ who volunteer to participate under the EIC's leadership.

LSE examinations may be used as stand-alone examinations or as vehicles to determine which companies will need full scope examinations, and how to focus those examinations most efficiently. Institutions demonstrating significant numbers of apparent violations should expect to be scheduled for an expanded multistate examination. If, on the other hand, a company demonstrates nominal compliance violations, a more abbreviated approach may be taken toward the exam, with an appropriately diminished level of resources.

State and Examiner Roles

Participating states are signed to the Nationwide Cooperative Protocol and Agreement for Mortgage Supervision as a "Joint Examination State Regulator." Participating states have selected the examinations they wish to participate in. Each state must possess supervision

¹ Excluding cancelled or denied loans, non-real property loans, reverse mortgage loans, or loans in which the MME acted as a broker.

² At times, Liaison resources are not available and an actual MMC member may perform this role.

³ "Joint Examination State Regulator" means a State Regulator who has agreed to the Confidentiality Sections of this Agreement.

authority over the MME to participate in the examination of that MME.⁴ A state that would like to be an EIC state must possess direct and complete supervision authority over the MME in order to assume that role. All participating states should be aware that states who have not signed the agreement as a Joint Examination State Regulator are prohibited from receiving confidential supervisory information or participating directly in a MMC examination. If you are uncertain of a particular state's status, please contact CSBS immediately for further guidance.

An EIC State and an EIC are selected for each LSE examination. The EIC is the MME's single point of contact for the examination. State examiners contacted by the MME under the LSE examination should refer the MME back to the EIC unless directed otherwise by the EIC.

The EIC will employ these procedures in conducting the LSE examination. Participating examiners should accept the EIC's lead and direction as if the EIC was from the examiner's own state. Each examiner should be familiar with these procedures and the role of the participating Joint Examination State Regulator.

The MMC also assigns a Liaison to represent the MMC directly in the LSE examination. Liaisons may be responsible for more than one examination at a time. The role of the Liaison is to provide guidance and operational and strategic direction to the EIC and to facilitate communications and reporting between the examination team and the MMC. Upon request, the Liaison may also provide support to the EIC in resolving issues with the MME. If a state or examiner has an unresolved issue with the EIC, it is appropriate to seek assistance from the Liaison in reaching resolution.

Uniformity and approach in these examinations are important to the overall supervisory process. In general, the EIC and state examiners should not depart from these procedures without consulting the Liaison. In turn, the Liaison should not authorize any substantive departure from these procedures without direct approval from the MMC. However, these procedures are primarily a guide and EICs and Liaisons should not suspend standard examination practice to blindly follow the procedures. When in doubt, do not delay in bringing a request for clarification to the MMC's attention.

Note: Nothing within these procedures is intended to limit a single state or the MMC from taking any action deemed necessary, including enforcement action.

Limited Scope Electronic (LSE) Examination Process Overview

⁴ Generally this means the MME has been granted a license to conduct business in the participating state. However, supervisory authority may exist regardless of a license. Typically this would be a situation where a license was terminated or surrendered, but loan activity took place within the examination period, or when a MME was operating illegally in the state.

In general, the LSE examination initiative encompasses MMEs that are currently licensed and registered in the Nationwide Mortgage Licensing System (NMLS), and have systems that should be capable of uploading loan portfolio data via the Licensee Examination File™ (LEF) data format through RegulatorConnect® (www.regulatorconnect.org) or through RegulatorDirect® (if licensee has previously audited their loans using ComplianceAnalyzer®). Detailed examination steps are provided in the LSE Examination Procedures below. The EIC will complete and send the LSE examination letter to the company instructing the MME on data submission procedures. The institution's steps for uploads through RegulatorConnect or RegulatorDirect are slightly different as discussed below.

RegulatorConnect Process (for non-ComplianceEase users):

The LEF data format capabilities minimize the possibility of technical problems during the licensee's data upload. LEF formatted files uploaded to RegulatorConnect must be unique batch files delivered through the portal identified by each participating state and retrievable by the EIC and each participating state.

Once the data has been submitted to RegulatorConnect, the EIC and each state will receive an email notification that the batch file is available for download.

Dear Regulator:

Stefanie Moy has submitted the following LEF file for the e-Exam. Please follow the below steps to download the file:

Email:

File:

1. Click this link to [Sign In](#) to RegulatorConnect.org.
2. Click this link <https://www.regulatorconnect.org/Tools/LEFDownload/> to download file.

If you need further assistance, please email us at Support@RegulatorConnect.org.

Once notified, the EIC and each state can then download the LEF batch files to their hard drive and then upload the LEF batch files to ComplianceAnalyzer to run the analysis report.

RegulatorDirect Process (for ComplianceEase users):

For loans submitted through RegulatorDirect, the institution must contact ComplianceEase support and request that each state participating in the examination be connected to the licensee's account. This setup is a one-time procedure and any state connected will remain connected for future examinations. Although an institution may conduct uploads on a single loan basis, the result is a tedious process for examination review. Therefore, the EIC should request that the institution perform a batch upload through RegulatorDirect to each state.

Once the data has been submitted through RegulatorDirect, the EIC and each participating state will receive an email notification that the batch file has processed in their ComplianceAnalyzer account.

Delivery Timestamp	Number of Loans Delivered	Audit Transfer ID	Delivered By
08/31/2011 08:52AM (PDT)	3	2011 Q2	Demo Company

Once the analysis report has been generated (from either batch file type) and the examination team has conducted data verification tests, the EIC requests Examination Dashboard™ reports from ComplianceEase.

With the Examination Dashboard reports in hand the EIC, in conjunction with the participating states, analyzes and reviews the analysis reports from ComplianceAnalyzer for each state and provides an Executive Summary Report (see template) through the Liaison to the MMC for consideration of next steps.

The MMC will review each Executive Summary Report and make the determination to continue with the LSE examination, conduct an expanded LSE examination, or embark upon a full scope examination.⁵ If the continuance of the LSE examination is agreed upon by the MMC, the EIC and participating states will determine both the volume and significance of the identified compliance violations⁶ and issue a Report of Examination (ROE) to the institution requesting response and corrective action (if necessary) within a certain timeframe. A standardized ROE template is provided and should be used by the EIC.

If the MMC determines that an expanded LSE examination is advisable, the EIC and participating states may expand the examination scope to include a sample of loan transactions, review of complaints, company financials, policies and procedures, enforcement actions, or other information deemed relevant. Following this review, a preliminary findings letter or ROE will be sent to the institution requesting a response and where necessary, corrective action within a certain timeframe.

The institution response to the ROE should detail both the veracity of the violations, and how the company plans on rectifying or remediating each violation or group of violations. The MME must be required to provide evidence supporting any claims of “no violation.” This is important. This is NOT the responsibility of the EIC or examination team. The MME is responsible for providing documentation that confirms or denies the veracity of the possible violation. Once received by the MMC and participating states, a judgment will be made as to the substance of the response and the effectiveness of the company’s plan to remedy the violations as a whole. At this point, the MMC may elect to go forward as addressed below.

⁵ Note: The ranges of responses by the MMC are considered guidelines only. The MMC holds the discretion to act as necessary and nothing within these procedures is intended to limit the MMC’s or a single state’s ability to take action, including enforcement action, regardless of the stage or status of a particular examination.

⁶ The term “violations” when used in these procedures means “apparent violations.”

If the MMC and the participating states determine the response to either the LSE examination or expanded LSE examination is adequate, it may issue a notice informing the company that their response and approach is satisfactory and that the examination is closed.

If the MMC and the participating states determine the response was inadequate, it may elect to further expand the scope of the LSE examination or begin a full scope examination. For those companies whose record retention systems are not compatible and are unable to fully comply with the batch file request, the MMC may determine that a full scope traditional examination is an appropriate course of action. In some cases, the MMC or an individual state may initiate an action to bring the entity and its record production capabilities into compliance.

None of these procedures will prohibit an individual state from choosing to take its own course of action, but coordination is strongly encouraged. All of the above procedures will result in a report that the company may be charged for as determined by individual states. Billable hours and other costs are not administered by the MMC or the EIC. Each state is responsible for billing and collection under its independent authority, although the MMC will track the progress of the examination in an effort to keep timeframes in line with expectations, and to assess resource allocation for future examinations.

A note about “false positive” violation results

In some situations ComplianceAnalyzer will return what is referred to as “false positive” violations. A false positive violation is a situation in which the analysis report identifies failings, errors or violations that are not actual violations. Such situations typically arise from the following:

1. When a RegulatorDirect user has run a pre-close audit of loans, corrects identified violations in the borrower file and/or origination software, but does not rerun an audit through ComplianceAnalyzer with updated data.
2. When a RegulatorConnect user submits incorrect information in the LEF fields. The most common errors here are:
 - a. Amendments made to the transaction post-underwriting not updated in the MME’s system. For example, a difference in interim interest resulting from a different closing date than projected.
 - b. Reporting seller paid or lender paid fees in the borrower paid fee fields.
3. When there is a misunderstanding about the inclusion or exclusion of fees in certain fields. Examples of this are §226.4(c)(7) fees assumed to be prepaid finance charges by the regulator, when such fees are actually not prepaid finance charges (e.g. credit report fees or lender inspection fees).

Examiners should consider the following when encountering false positive violations, or violations that are claimed to be false positive violations:

1. The institution is required to provide accurate data that is auditable. If the data provided doesn't reflect the information from the final loan documents, then the data production is erroneous. False positives resulting from an erroneous data upload will need to be addressed by the institution, not the examiner. Examiners must refer these instances directly to management of the institution and give clear expectations with regard to the time they think is reasonable for a reconciliation. In other words, the burden of reconciling the false positives is on the institution.
2. A violation the institution has previously corrected is not necessarily considered a false positive. The bell cannot be "unrung" on some violations (e.g. provision or accuracy of required disclosures). If an institution made the violation, and then corrected it prior to the examination, that doesn't mean the violation never occurred. Additionally, institutions with high numbers of apparent false positives likely suffer from internal control problems such as staff training. If the MME made restitution to borrowers in those cases where necessary, then the EIC should weigh the significance of that event taken in context with the results of the entire examination. EICs may wish to address these situations with the institution by asking management to explain any high incidence of errors or violations occurring during the origination process.
3. As with any apparent violation, the burden is on the institution to explain or correct the violation. Examiners should list all apparent violations and request explanation or correction as appropriate. In a traditional examination, examiners will also encounter false positives; situations in which the examiner first believes he/she has detected a violation, but management provides a valid explanation. The difference with LSE examinations is that the software is testing 100% of the portfolio, thereby considerably increasing the instances of false positives or apparent violations.
4. How to deal with large numbers of apparent violations, including false positive violations:
 - a. Create a list of apparent violations during the examination of the analysis reports.
 - b. Provide the list to the institution and inform management that they should begin researching explanations immediately.
 - c. Include the list of violations in the Executive Summary as an attachment. If the EIC is able to identify obvious false positive violations, segregate these from other violations on the list.
 - d. Supplement the Executive Summary with institution explanations when received.

. False positives or other data upload problems should not deter examiners from following up with the MME to determine the root cause of the issue. It is not incumbent on the examiner to correct or identify these problems, but rather to bring the matter to the MME's attention and require management to make appropriate corrections. Examiners are neither trained nor expected to solve the MME's technical or recordkeeping problems.

Further, false positives many times indicate a lack of internal routine and controls. Management should be held appropriately accountable for good recordkeeping practices and apparent

violations resulting from poor recordkeeping practices. If management is not able to explain (with support) apparent violations resulting from the MME's own data, the EIC should feel confident, after undertaking an appropriate sampling of files, in citing the findings as actual violations.

Note that small numbers of false positives should be viewed in the context of the entire examination. These instances should not automatically be viewed as invalidating the entire portfolio review. When in doubt, consult with the Liaison and MMC.

LSE Examination Procedures

These procedures are to be followed as written by all Liaisons, EICs and participating state examiners. Adherence to these procedures is crucial to the MMC's uniform approach to examination. Significant departures from these procedures should occur only upon MMC approval. Note that EICs and examiners should not blindly follow these procedures in lieu of sound examination principles. However, the rule should be: When in conflict or question, inquire before proceeding.

Step 1 – All Examiners

Read and understand these procedures, including the MMC Examination Manual section: Technology for Portfolio Review, inserted below. The Technology for Portfolio Review section provides specific software use instructions intended to supplement these procedures and enhance the examiner's use of the ComplianceAnalyzer program.

Step 2 – All Examiners

Attend an EIC/Liaison orientation meeting. Participating examiners will be notified of meeting time and teleconference information. The orientation meeting will cover these procedures and answer preliminary questions raised by EICs, Liaisons, and examiners.

Step 3 – All Examiners

Attend at least one ComplianceEase training session on RegulatorConnect, RegulatorDirect, ComplianceAnalyzer, and RESPA Auditor. CSBS and the MMC, in conjunction with ComplianceEase will provide special trainings prior to each LSE examination. Additional specialized trainings will be conducted as needed and may include advanced EIC training on software use and training focused directly on using ComplianceEase generated reports.

Step 4a – All examiners

Obtain and test your RegulatorConnect and ComplianceEase login information. If you do not have login information, contact clientsupport@complianceease.com and inform them that you are a state regulator needing a login.

Step 4b – All examiners

All state agencies have an email address registered with RegulatorConnect and RegulatorDirect. The address on file for your state will receive a notification once a licensee uploads a file. It is crucial examiners have access to and the ability to receive messages from the email address registered for their agency, so that they may know when a licensee has uploaded a batch file.

Important note: The agency email is different than your RegulatorConnect or ComplianceEase login information. It is your responsibility to obtain access to this email account. Please see your office IT staff for assistance. If you have problems with this step, contact ComplianceEase at clientsupport@complianceease.com. If you are setting up a new email notification account, you may wish to choose a generic address such as regulatorconnect@dfi.wa.gov or similar that multiple examiners can access.

Step 5 – EICs

Obtain from CSBS support your assigned MME information, expected examination dates including lender upload dates, and the contact information of examiners assigned to your team. Perform the following:

- Review the MME's NMLS licensing data and identify any issues to be raised with your team.
- Determine that the MME is supervised by each participating state.
- Review the Nationwide Cooperative Agreement map included in these procedures and ensure that only Joint Examination States (blue states) are assigned to your team.

Step 6 – EICs

Schedule an initial meeting with all examiners and your Liaison to discuss examination start date and these procedures. If you need a conference line, contact CSBS support or your Liaison for assistance. The CSBS conference line may be used throughout the examination as needed.

Step 7 – EICs

Contact the MME and inform management of the LSE examination. Discuss the start date and the general parameters of the LSE examination (these procedures may be shared with the MME).

Inform management that an examination letter will follow shortly. Also inform management that a minimal amount of loan file documentation will be requested to test the integrity of the LEF data.

Confirm start dates with your Liaison, CSBS support, or MMC representative.

Step 8 – EICs

Prepare the LSE examination letter (template included in these procedures) and deliver to the MME. This should occur immediately after the above step. There should be little to no delay in the MME's ability to produce LEF formatted files as instructed. Any request for delay or extension should be discussed with the Liaison and MMC. MMEs are expected to be able to comply as instructed.⁷ The EIC is not expected, nor trained, to directly assist the MME in its data upload.

Step 9 – All Examiners

Receive notification by email that the MME's LEF file submission is available for download in RegulatorConnect or when loans are submitted through RegulatorDirect.

Note: Submitted LEF data must be retrieved from RegulatorConnect and saved to a secure location within 30 days of receiving the notification email or the upload will be deleted from the site. If notification is not received as expected, the EIC should immediately contact the MME for an explanation and assurance of delivery. If the EIC is unable to quickly resolve MME issues with the requested upload, the EIC should contact the Liaison.

Step 10 – EICs/All Examiners [Note: EICs should perform the audit runs on all batches while the examiner performs only their individual state audit.]

Prior to retrieving the LEF data or receiving RegulatorDirect batches through ComplianceAnalyzer, verify that your state's license, DIDMCA exemption, and fee profile⁸ settings are correctly set in ComplianceAnalyzer. EICs will need to verify the state license and DIDMCA exemption settings in their own account for all states participating in their exam. In other words, the EICs settings must be the same as the individual states' settings in order to return the same results. Examiners are cautioned on this especially with the DIDMCA settings. If the EIC state has different DIDMCA settings than another state on the exam, the results may be significantly different.

⁷ Detailed instructions for lender upload are included at www.RegulatorConnect.org.

⁸ If the licensee claims an exemption for first lien mortgages under the Depository Institutions Deregulatory and Monetary Control Act of 1980 (DIDMCA), you will need to adjust the ComplianceAnalyzer setting appropriately.

Before beginning the following steps, the EIC should request the DIDMCA exemption settings from each participating state. EICs should consult with the Liaison if DIDMCA settings are noted to be different.

To check settings:

1. Log into ComplianceAnalyzer.
2. Choose the Product Settings link.
3. Choose License Profile, DIDMCA Profile, or Fee Profile and check the settings for the examination you are conducting (i.e., the license type of the company you are examining should match the license type setting in ComplianceAnalyzer.).

Note: In the Fee Profile, you will be able to indicate the default prepaid finance charge setting for each fee, depending on the party that paid the fee. ComplianceAnalyzer currently supports “Paid By” settings, allowing you to indicate for each fee the party that paid it. This is a new feature in ComplianceAnalyzer. As a result, the MME may not be able to provide loan data that contains the party that paid each fee. Once you process the MME’s loan data in ComplianceAnalyzer, you have the option to edit individual loans and provide the Paid By parties for each fee.

Retrieve your state’s LEF data and submit the file into ComplianceAnalyzer for processing via the AutoBatch™ feature for each state. Upon completion, a report with loan level audit results named “review.csv” will be generated. Save the file using a naming convention of MArawauditresults.csv (where “MA” is the state abbreviation).

For loans submitted through RegulatorDirect, generate, export and save the “Detailed RegulatorDirect Report” to review the loan level audit results. Save the file using the naming convention of MArawauditresult.csv. Although RegulatorDirect users are capable of submitting individual loans to the examination team, institutions should be instructed to only submit batch files for the examination.

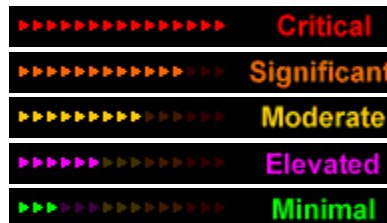
Note: In rare situations, an MME may have begun or terminated a relationship as a ComplianceEase client during the examination period, creating a situation where data can be uploaded in dual formats. In such situations, part of the portfolio can be submitted through RegulatorDirect and part through RegulatorConnect (not the same information through both). However, a preferable submission method is to request that the MME choose a full submission through one or the other. For example, the examination period is January 1 through June 30 and the MME becomes a ComplianceEase client in April. Ask the MME to run all data through either RegulatorDirect or RegulatorConnect, but not both, for the period January 1 through June

30. Keep in mind that a terminated client relationship should be handled as a full submission through RegulatorConnect.

Step 11a – EICs: Additional Document Request

Data Verification Request. Select five or more transactions from each participating state and request the MME to deliver PDFs of the file documentation listed below. Inform the MME that personal identifying information (PII) should be redacted or the documents should be password protected (same password for all file submissions is acceptable) and that the password should be submitted in a separate email. EICs should check with participating states to determine if any state wishes to conduct more comprehensive data verification. States wishing to review more files than the number sampled by the EIC should provide a list of transactions to the EIC and the EIC should facilitate the request and delivery between the requesting state and the MME.

The transactions selected within each state should be given priority by the ComplianceAnalyzer RiskIndicator below with an attempt to spread the selection as broadly as possible. A recommended approach would be to select transactions in the order of severity starting with “Critical Score,” then “Significant Score” followed by “Moderate Score.” For example, if a given state’s ComplianceAnalyzer report showed “Critical” for the HOEPA category, and “moderate” for the TILA category, the EIC should request at least one transaction from HOEPA-critical and one transaction from the TILA-moderate within that state’s selection.



The EIC should request the following documents from the MME for each transaction to be verified:

1. The Note and Rider(s).
2. The application (FNMA 1003).
3. Mortgage Insurance Certificate if applicable.
4. All GFEs provided to the borrower.
5. Final TIL provided to the borrower.
6. The Itemization of Amount Financed Document used to prepare the final TIL.
7. The entire final HUD settlement statement.
8. FHA Transmittal Summary if applicable.

The purpose of the data verification step is to test the integrity of loan file data submitted to the EIC and to perform the RESPA Auditor test (step 12). While the loan files may reflect

violations, the selections are primarily used to verify that data has been uploaded accurately by the institution. Therefore, a purely random approach to selection is acceptable. Five transactions per participating state are the minimum guidelines. EICs should use their own judgment in determining the appropriate number of transactions to request for data verification. The EIC should base the overall data verification request on the total number of closed loans and the volume of apparent violations identified by ComplianceAnalyzer.

Step 11b – EICs

Deliver the PDF files of transaction documents to each state. Provide the document password in a separate email.

Step 11c – All Examiners: Data Verification.

Once the PDF documents in Step 11a have been received, each state examiner should check the information submitted electronically for the transaction against the information provided in the PDF documentation. Any noted discrepancies should be brought to the EIC's immediate attention. Examiners may use their judgment in determining the number of requested transactions to compare as long as at least two transactions from each participating state are reviewed. For example, if a state requests 20 transactions and the first 10 test with no discrepancies, the examiner may decide that it is unnecessary to test the additional transactions.

Note: Examiners should be attentive to any possible alterations in the PDF documents that could be changes to conform file documents to electronically submitted information. Such alterations might include removing and replacing original numbers, lines or marks within the documents that appear suspicious, different fonts or text or figures that do not physically align with other information in the document. If the examiner or EIC has any reason to suspect document alterations, he/she should consider further investigation and discuss next steps with the Liaison or MMC. This should be considered an important part of the examination.

Step 12 – All Examiners

RESPA Testing. For efficiency purposes, this step should be conducted at the same time as the data verification step in 11c and performed on each loan that the examiner verifies for data accuracy. Using the GFE(s) and HUD Settlement Statement information obtained in step 11a/b, input the data fields and run the RESPA 2010 analysis using RESPA Auditor. Instructions and tutorials for using RESPA Auditor are provided in the ComplianceEase help menu at www.complianceease.com.

Step 13 – EICs

Once ComplianceAnalyzer is run, contact ComplianceEase via email at clientsupport@complianceease.com to request the following Examination Dashboard reports for the MME:

1. A composite report combining all state audit runs into a single report.
2. A single state report for each participating state.

Note: In rare situations, an MME may submit part of the portfolio through RegulatorConnect and the other part through RegulatorDirect (this may occur if the MME begins or terminates a client relationship with ComplianceEase during the examination period). In these situations, inform Client Support that both audit runs should be combined into a single Examination Dashboard.

Note: A significant number of false positive violations (discussed earlier) will affect the Examination Dashboard reports. Discuss any large numbers of false positive violations with your Liaison before ordering the reports.

Step 14 – EICs

Deliver each state's individual Examination Dashboard and the composite Dashboard report to each participating state examiner. Include the password provided by ComplianceEase in a separate email.

Step 15 – All Examiners

Review the ComplianceAnalyzer, RESPA Auditor, and Examination Dashboard reports and prepare any questions or concerns for discussion with the EIC and examination team.

Step 16 – EICs

Schedule a meeting with all examiners to discuss examination findings, concerns and Executive Summary Report recommendations to the MMC. Examiners should prepare a list of violations for the EIC. Whenever possible, identify false positive violations separately.

Step 17a – EICs (for large numbers of violations, including false positive violations)

When large numbers of violations are identified in the analysis report, it is appropriate to give the institution early notice of the violations so that management can begin research and respond as soon as possible. For examinations with moderate numbers of violations, the steps in 17a are not necessary. Follow these steps for large numbers of violations:

1. Create a list of apparent violations identified from the analysis reports. Where possible, identify obvious false positive violations and segregate these from other violations on the list.
2. Provide the list to the institution and inform management that they should begin researching explanations immediately.
3. Include the list of violations in the Executive Summary (see Step 17b) as an attachment.

Step 17b – EICs and Liaisons: Executive Summary Reports

1. EIC: Prepare the Executive Summary Report (template included in these procedures) and deliver to the Liaison along with all Examination Dashboard reports. Include any necessary passwords in a separate email.
2. Liaison: Review the Executive Summary Report and discuss any necessary amendments with the EIC.
3. Liaison: When complete, append the Examination Dashboard reports to the Executive Summary Report and deliver to the MMC.
4. EIC: Provide each participating state with a copy of the Executive Summary Report. Await further instructions from the MMC and Liaison.
5. MMC/Liaison: Provide the EIC with instructions for expanding the examination or drafting the ROE.
6. EIC: If instructed to draft the ROE, obtain section drafts from the participating states, obtain participating state agreement on the ROE, and deliver the ROE for Liaison review.
7. Liaison: Work with the EIC to finalize the ROE, if necessary, and deliver the finished ROE to the MMC for review.
8. Liaison and EIC: Follow any MMC instructions for amending the ROE and seek final approval for delivery to the MME.
9. EIC: Deliver the ROE to the MME. Confirmation of the delivery, and receipt from the MME, should be sent to the MMC for verification purposes.

Step 18 – EICs

Identify any issues or concerns your team had with using the software. Go to www.RegulatorConnect.org and download the ComplianceAnalyzer Post-exam Evaluation Form. Complete the form and submit to clientsupport@complianceease.com. Submit a copy of the survey form to jprendergast@csbs.org for tracking and reporting purposes.

Below is the map you should use to determine if all of your team states are signed to the Agreement as Joint Examination State Regulators.

Example of NMLS Deficiency Report

View License/Registration List

Rainy Days Mortgage (14799)

License Number	License Name	Status	Status Date	Original License Date	License Items	Current Renewal Status
TC001	Arizona Commercial Mortgage Broker License	Approved	8/11/2010	3/15/2009	1	Renewal Requested
	Arizona Commercial Mortgage Broker License	Approved	2/27/2010	1/20/2009	1	Renewal Requested
TC001	Arizona Mortgage Broker License	Approved	8/11/2010	7/14/2009	1	Renewal Requested
	California - DDC Finance Lenders Law License	Approved	2/27/2010	2/27/2010	2	Renewal Requested
	California - DDC Residential Mortgage Lending Act License	Withdrawn - Voluntary Without Licensure	8/3/2010		1	
TC001	California - DRE Real Estate Broker License	Withdrawn - Voluntary Without Licensure	8/3/2010		1	
TC002	California - DRE Real Estate Corporation License	Approved	2/27/2010	2/15/2009	1	
	Colorado Mortgage Company Registration	Pending - Incomplete	10/13/2010		1	
TC002	Connecticut Mortgage Broker	Approved - Conditional	2/27/2010	5/21/2000	1	Not Requested
TC001	Iowa Mortgage Broker License	Approved	8/18/2002	8/18/2002	1	Renewal Requested
TC001	Kansas Mortgage Company License	Approved	8/11/2010	8/10/2010	1	Renewal Requested
	Kansas Supervised Loan License	Pending - Incomplete	11/3/2010		1	
TC002	Kentucky Mortgage Broker License	Terminated - Surrendered/Cancelled	9/22/2010	9/20/1999	1	
	Michigan 1st Mortgage Broker/ender/Service License	Pending - Incomplete	2/11/2010		1	
	Minnesota Mortgage Lender License	Approved	11/3/2010	11/3/2010	1	Renewal Requested
	Montana Exempt Company Registration	Pending - Incomplete	7/13/2010		1	
	Montana Mortgage Broker License	Approved - Deficient	8/1/2010	8/1/2010	1	Not Requested
MT-1234	Montana Mortgage	Approved	8/3/2004	8/3/2004	1	Not

<https://training.statemortgageentity.com/ViewCompany/LicenseInfo.aspx?CompanyId=14799> [5/26/2011 10:29:27 AM]

[Remove these instructions: Yellow highlights indicate information that is to be entered in replace of existing text. With the exception of contact and signature information, no other text should be altered without consulting the Liaison.]

**NOTICE OF LIMITED SCOPE ELECTRONIC EXAMINATION PROCESS
BY THE MULTISTATE MORTGAGE COMMITTEE
Officially on Behalf of the Identified Joint States**

[DATE]

The state of **[insert EIC State here]**, in concert with the states listed in Attachment A (hereafter “Joint Examination States”) are conducting a joint Limited Scope Electronic (LSE) examination of **[INSTITUTION]**. This LSE examination is being conducted under the agreed authority of the CSBS/AARMR Nationwide Cooperative Agreement for Mortgage Supervision (“Agreement”).⁹ The authority to examine and share resources exists under individual state authority.

This coordinated supervisory effort is intended to minimize regulatory burden and expense, and foster consistency, coordination and communication among the State Regulators. Rather than subject **[INSTITUTION]** and its management to multiple state requests for electronic data uploads, the Joint Examination States are conducting this examination under a single Examiner In Charge State (EIC State) and a coordinated request for information upload. The purposes of the LSE examination are:

1. To test the electronic data upload capabilities of the institution.
2. To familiarize institution management with the MMC processes for offsite monitoring of Multistate Mortgage Entities (MMEs).
3. To risk assess the institution for future examination scheduling.
4. To conduct a limited scope assessment of the institution’s compliance with certain state and federal laws.

This LSE examination may not replace any regularly scheduled or special examinations of an institution by any state; however, at the end of the LSE examination the MMC will issue an individual analysis report, which may dictate the need for more or less scrutiny. For example, an institution exhibiting nominal compliance failures may be scheduled by the MMC for a limited scope offsite monitoring examination or no examination in the coming cycle.¹⁰ On the other hand, institutions exhibiting significant compliance failures will likely be scheduled for a near term regular multistate examination by the MMC.

The Joint Examination States have agreed to the EIC State signatory of this letter as the lead state and MMC representative for this LSE examination. This agreed coordination does not preempt an individual State’s authority; however, the participating states have agreed to

⁹ A copy of the Agreement is available at <http://www.csbs.org/regulatory/Cooperative-Agreements/Pages/Agreements.aspx>

¹⁰ The institution will be instructed to correct or remediate any identified violations.

coordinate requests and communications through the EIC State unless determined otherwise by the MMC.

Please review the following data upload instructions and perform the requested data upload by **Month XX, 2011**. All data and results of this LSE examination are confidential and proprietary to you and the Joint Examination States.

Instructions

- The Licensee Examination File (“LEF”) format is the only acceptable format for the LSE examination for lenders not using ComplianceEase.
- Note: If you are a ComplianceEase client, contact ComplianceEase directly and use RegulatorDirect to deliver the required data. Do not submit individual loan files to the examining states – submit batch uploads only.
- If you are not a ComplianceEase client, go to the RegulatorConnect portal (www.RegulatorConnect.org). Register and/or sign in to the site. This site contains all the instructions and information needed to create, validate, and submit LEF formatted data. It will also be used to transfer the requested loan data to the Joint Examination States.
- Contact all technology vendors that you employ or software providers which you have utilized to determine if they have the ability to create LEF formatted files. Doing so could save you time and effort.
- A separate LEF file must be created for each state agency identified in Attachment A. Each LEF file will need to be uploaded and submitted to both that participating state and the EIC State. (Example: Wisconsin LEF files are submitted to both Wisconsin and the EIC State).
- Include all real estate secured loans funded or closed by **[INSTITUTION]** in each Joint Examination State. Do not include cancelled or denied loans, non-real property loans, reverse mortgage loans, or loans in which you acted as the broker.
- All fees listed in the LEF Specification are assumed to be borrower-paid fees, unless the party paying for each fee is specified (as described in the LEF Specification). For any seller-paid fees (if the PaidBy is not specified in the LEF), there is a “seller paid points and fees” field specifically allocated for that purpose. The final fee data compiled in the LEF file should reflect the final fee data disclosed in the closing documents (i.e. HUD-1).
- All loans should include all NMLS ID numbers for the company, branch and loan originator where applicable.
- Time Period for data upload: **Month/Day/Year through Month/Day/Year.**

You are responsible for a completely accurate submission of loan file data. A complete submission includes all final file data in the transaction (e.g. closing/settlement date, funding/disbursement date, final TIL and HUD data). Following the data submission, the Examiner in Charge (EIC) from the EIC State **[Note: Use “I” in place of preceding phrase if EIC**

will sign this letter] will contact you to request selected file documents for data comparison against the information submitted electronically.

The EIC [or "I"] will be contacting you in the next few days to answer any questions or concerns you may have about the LSE examination process. The EIC [or "I"] will be available throughout the data upload process to assist you in a successful upload. In the meantime, you may contact the EIC or me with any questions at XXX-XXX-XXXX or jwitherspoon@pabanking.gov.

Sincerely,

Jonathan Witherspoon

Title

Pennsylvania Department of Banking

Attachment A
MMC LIMITED SCOPE ELECTRONIC EXAMINATION
PARTICIPATING STATES

Joint Examination States

Arizona Department of Financial Institutions

2910 North 44th Street

Phoenix, AZ 85018

Phone: (602) 771-2800

North Carolina Office of Commissioner of Banks

4309 Mail Service Center

Raleigh, NC 27699-4309

Phone: (919) 733-3016

Pennsylvania Department of Banking

17 N. Second Street

Harrisburg, PA 17101-2290

Phone: (717) 787-2665

EXECUTIVE SUMMARY TO MULTI-STATE MORTGAGE COMMITTEE

Limited Scope Electronic Examination of:

INSTITUTION

Jonathan Witherspoon, EIC PA

Introduction

The MMC scheduled the LSE examination of INSTITUTION to begin [May XX, 2011], with a data upload requirement date of [June XX, 2011] (see Status section below). The multi-state examination team is comprised of PA (EIC), MA, NC, LA, MS, AZ and IA. The period under examination is January 1, 2011 through March 31, 2011. This Executive Summary is intended to be an overview and status synopsis for the MMC and will be updated as needed.

Examination Status

The LSE examination letter was sent to the company May XX, 2011, with data upload requirement date of June XX, 2011. The MME requested a one week extension for the data upload due to IT manager vacation. The Liaison addressed the extension request with the MMC and the extension was granted. Data upload was successful on June XX, 2011. The company had no significant problems in completing the data upload.

Examination Team

The MMC examination team consists of 7 examiners plus the EIC assigned from the 8 participating states. The Liaison for the examination is Judith Knockworst. The EIC and Liaison held team meetings at each significant step of the examination.

Institution Background

INSTITUTION is a small/medium/large mortgage origination institution headquartered in XXXXX with licenses held in at least XX states. Initial records from INSTITUTION indicate that the company closed XX,XXX residential mortgage loans during the examination period. As of December 31, 2010, the company's financial statements¹¹ reflect:

Assets	\$XXX,XXX
Liabilities	XXX,XXX
Net Worth	\$ X,XXX
Earnings	\$ X,XXX

¹¹ Source: Company upload to NMLS.

INSTITUTION reported a net loss for the periods ending December 31, 2008 and 2009
Company appears to be returning to a stable position . . . etc, etc.

INSTITUTION has been in business since 1984, beginning first under the name Acme Lending in Beaumont, TX. It's founder, Gordon Sumner, sold the company to Criterion Financial, Inc. in 1997 and the name was subsequently changed to INSTITUTION. Current senior management consists of Barry White, President and CEO and John Nefferdorf, CFO. The EIC's primary examination contact is George Musclemann, General Counsel.

Licensing Deficiencies

A review of NMLS shows the following deficiencies or outstanding items for the company:

MA: Pending incomplete branch application.

AZ: Bond lapse.

NC: Incomplete financials.

Apparent Violations Identified by ComplianceAnalyzer and RESPA Auditor

ComplianceAnalyzer was run for all states participating in the examination. The attached Examination Dashboard report shows apparent violations in a number of areas.

Summary of Apparent Violations:

TIL-Finance Charge:	137
TIL-APR:	263
RESPA:	12 of 32 tested GFEs out of tolerance with refunds due
MA High Cost:	33

Additional Issues of Note

- NC reports a high level of consumer complaints filed between November 2010 and February 2011.
- AK (not participating) filed a license revocation action in 2010.

EIC/Liaison Recommendation to MMC

The EIC and Liaison should determine a recommended course of action for MMC consideration. The possible range of recommendations include:

1. Continue with the LSE Examination based on the following . . .

If an LSE examination is recommended, the EIC and participating states should determine both the volume and significance of the identified compliance violations. The recommendation should include follow up with a preliminary findings letter or report to the institution requesting response and corrective action (if necessary) within a certain timeframe. The response should detail both the veracity of the violations, and how the company plans on rectifying or remediating each violation or group of violations. The MME must be required to provide evidence supporting any claims of “no violation.”

2. Conduct an expanded LSE Examination based on the following . . .

If the EIC determines that an expanded LSE examination is advisable, the EIC and participating states should recommend an expanded examination to include a review of complaints, company financials, outstanding enforcement actions, or other information deemed relevant. The recommendation should include the intent to issue a preliminary findings letter, or report to be sent to the institution requesting a response and where necessary, corrective action within a certain timeframe.

3. Begin a full scope examination based on the following . . .

If the EIC feels the situation warrants, the EIC may recommend a further expansion of the scope of the LSE examination or a full scope examination.

4. Any other action deemed appropriate if adequately explained.

Technology for Portfolio Review

The *Technology for Portfolio Review* module provides guidance to examiners on how to utilize aspects of ComplianceEase software to aid the compliance monitoring process.

Introduction

Automated compliance tools make the examination of mortgage loans more effective and uniform. With their ability to process large amounts of data quickly, these tools allow examiners to scope a portfolio of loans and focus their review efforts on those loans exhibiting the highest risk characteristics. Automated loan review tools are a supplement to the procedures outlined in this manual. As such, these tools do not replace traditional examiner review and judgment.

The primary electronic examination (e-Exam) tool used by state regulators is known as ComplianceAnalyzer and is made available to state regulators through an agreement between CSBS and LogicEase Solutions Inc (dba ComplianceEase). Additional e-Exam tools include HMDA Analyzer, RESPA Auditor, and Examination Dashboard that are made available through this same agreement. Throughout this manual, these tools may be referred to as the ComplianceEase suite. The ComplianceEase suite is available to both regulators and licensees. It is important to recognize that there are many commercially available compliance solutions from which licensees may choose. The use of ComplianceEase tools by CSBS and AARMR should not be viewed as an endorsement of these products. However, since the ComplianceEase suite was selected by the CSBS and AARMR as the regulatory tools for use by state regulators, the steps below explain how these e-Exam tools may be incorporated into an examination.

ComplianceAnalyzer uses both internal and external data to complete its compliance analysis. The external data is provided by licensees or institutions while the internal data is embedded within the system. The external data received from the licensee must be provided in a specific format. This format is known as the Licensee Examination File (LEF) data format and is available for license free of charge on www.regulatorconnect.org. Once registered, a licensee can obtain the necessary information to generate their data in LEF format. This same site also facilitates the file exchange between the regulator and the licensee. Once the licensee has generated the requested data in LEF format, the data can be delivered electronically to the regulatory agency. The online portal www.regulatorconnect.org provides more detail on how a license can produce an LEF and using the RegulatorConnect system to deliver loan information.

Using ComplianceAnalyzer for Portfolio Audit

Examination Notification:

The use of ComplianceAnalyzer in an examination begins with the notification of an upcoming examination. The licensee should be informed that the examination will use an e-Exam process to review loan data. A licensee's first step in preparing for this process is to check with their

existing software vendor(s) to see if the vendor(s) supports an LEF export. Many software vendors in the mortgage origination industry already provide this functionality. If their vendor does not provide the ability to export data in LEF format, the licensee should visit www.regulatorconnect.org and follow the steps to generate their data in LEF format.

Delivery of Loan Data:

Once a licensee's data has been generated in the LEF format, the licensee can transmit that data electronically to regulators via www.regulatorconnect.org. The regulator will receive an email notification once the licensee's LEF data has been submitted into the RegulatorConnect system.

Note: Licensees already using ComplianceAnalyzer can use a built-in feature within ComplianceAnalyzer called RegulatorDirect to submit the loan data to regulators.

Processing the data:

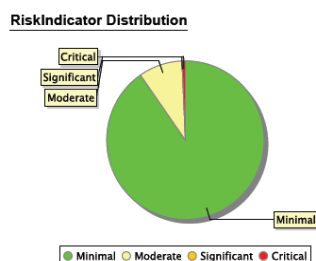
Licensee data is processed through a function of ComplianceAnalyzer known as AutoBatch. This function accepts the data in LEF format provided by licensees and processes the entire file automatically. The resulting output from AutoBatch is a series of loan-level audits, as well as high-level reports that summarize a licensee's entire portfolio.

Interpreting audit reports—the Examination Dashboard:

Loan-level audit reports and the Examination Dashboard contain the results of a ComplianceAnalyzer AutoBatch audit. These reports contain information to assess a portfolio's compliance with laws and regulations.

The Examination Dashboard displays portfolio level data, allowing examiners to assess the types of loans and risks present in the entire portfolio, as well as the pass/fail rates for the various tests performed by ComplianceAnalyzer. Exhibit 1 is an example of a risk distribution chart found within the dashboard.

Exhibit 1



Further, the dashboard provides general portfolio information such as loan-type distribution, lien-type distribution, property-type distribution, and lending program distribution. This data allows examiners to not only locate loans with a particular compliance risk profile, but also to gain an understanding of the types of loans an institution is originating.

Using ComplianceAnalyzer to Scope a Loan Portfolio

Once ComplianceAnalyzer has processed a portfolio of loans, an examiner can use the resulting reports to select loans for examiner review. The audit reports and Examination Dashboard identify loans and types of loans that an examiner may wish to include in the examination's scope. It is recommended examiners review all loans with Critical, Significant, or Moderate RiskIndicator risk score levels. These loans exhibit characteristics that warrant additional examiner review. Loan numbers and other identifying information can be easily found within the audit reports. Examiners may also want to select a sample of loans that have been assigned Minimal and Elevated RiskIndicator levels, in order to perform general verifications on the data integrity of the loan information in the portfolio.

Using ComplianceAnalyzer for Single Loan Audits

ComplianceAnalyzer can be used to analyze an individual loan file without going through the batch audit (AutoBatch) process explained above. To begin, the examiner should select the appropriate link from ComplianceAnalyzer's main menu, depending on the type of loan to be reviewed (closed-end mortgage loan or HELOC) and when the loan was originated (pre-1/1/2010 or post-1/1/2010). From here, the process is straightforward. Examiners complete the onscreen form with data found in the loan file. To complete a review of most mortgages, examiners will need to refer to (1) the note, (2) the Good Faith Estimate or HUD-1 settlement statement, (3) the Truth in Lending disclosure, and (4) the mortgage insurance certificate. From these four documents, the examiner will be able to enter the necessary loan information into ComplianceAnalyzer for processing. If an examiner needs clarification on a particular data field, selecting the blue question mark in the upper right corner of that section will display additional information on the data collected within that particular section. Once entered, examiners should select the *Save and Check* button to save and process the entered data. The result of a single loan audit is the *Mortgage Compliance Analysis Report*. Interpretation of this report and the terms used within it is explained above.

Using RESPA Auditor for Single Loan Audits

The RESPA Auditor system complements ComplianceAnalyzer by focusing on post-2010 RESPA compliance and fee tolerance and reimbursement reviews. Using loan data from ComplianceAnalyzer and the final GFE, examiners can check any individual loan against the appropriate fee tolerances. Each RESPA Auditor report will return a RiskIndicator™ similar to ComplianceAnalyzer along with both qualitative and quantitative results, allowing the examiner to easily identify transactions that require additional review. Exhibit 3 explains the different RiskIndicator levels reported by the RESPA Auditor. It is recommended that examiners review all loans that have been assigned any RiskIndicator level other than Minimal score.

Exhibit 3

RESPA Auditor RiskIndicator™



Using HMDA Analyzer to Scope a Loan Portfolio

The HMDA Analyzer system is a separate tool that examiners can employ to analyze, review and investigate both published HMDA data from the FFIEC and ongoing, current (non-filed) HMDA data from an institution. Import functionality allows loan application data to be loaded into the system and collected into “files,” either as a single large file or a set of smaller files as required by the examiner. HMDA Analyzer files can be truncated, merged, and extended. The data within them can then be evaluated and modified as needed. Search features let examiners quickly locate a particular loan record or filter to a set of records. Numerous static report templates are available directly within HMDA Analyzer for examiners to dissect and study trends and areas of potential non-compliance. Additional custom or user-defined reports are available based on the data within the system and data from the U.S. Census and other sources. The edit checks function allows an entire portfolio of loan applications to be analyzed for compliance with the latest FFIEC reporting requirements.