

MMC LIMITED SCOPE ELECTRONIC (LSE) EXAMINATION PROCEDURES

Introduction and Background

The Multistate Mortgage Committee (MMC) is intent on creating the most efficient and effective methods for multistate mortgage regulation and implementing those methods in a manner consistent with the spirit of state cooperation. The MMC LSE is a simultaneous limited scope examination of twenty five Multistate Mortgage Entities (MMEs) using the ComplianceEase[®] suite of software. These LSE examinations will accomplish a 100% penetration of a MME's loan portfolio for compliance violations. The depth and level of detail that the technology reaches may reveal many errors in the 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.

This is important work that will contribute to the recovery of our nation's financial markets. As more examinations are completed, both the secondary and private placement markets will take note.

The MMC needs your help in making this initiative a success. Training and assistance, if necessary, will be provided by experienced examiners, and each examination will have a liaison that reports directly to the MMC and supports the examination team. The committee has learned a great deal about what does and does not work well from the latest group of examinations. These limited scope examinations will determine which companies will need full scope examinations, and how best to focus those examinations most efficiently. 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.

While the work is challenging, with your cooperation and the combined efforts of the states, we will be able to produce a comprehensive, effective and cost-efficient regulatory product that will help maintain the preeminent role of the states in mortgage regulation.

State and Examiner Roles

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

MME to participate in the examination of that MME.¹ All participating states should be aware that states who have not signed the agreement as a Joint Examination State 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 Examiner in Charge State (EIC-State) and an Examiner in Charge (EIC) has been chosen by the MMC 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.

The MMC has also assigned a Liaison to represent the MMC directly in the LSE examination. Liaisons will be responsible for more than one LSE examination. The role of the Liaison is to provide guidance and mentoring to the EIC and to facilitate communications and reporting between the examination team and the MMC. 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 is important to the overall supervisory process. 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.

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

This LSE examination initiative begins with twenty five mortgage companies that are currently licensed and registered in the Nationwide Mortgage Licensing System (NMLS), and have systems that should be enabled to upload 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®).

¹ Generally this means the MME has been granted a license to conduct business in the participating state. However, supervisory authority may exist despite 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 is operating illegally in the state.

LEF data format capabilities minimize the possibility of technical problems during the licensee's data upload. The Examiner in Charge (EIC) will complete and send the LSE letter to the company instructing the MME on data submission procedures. 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 (licensees not using ComplianceAnalyzer), the EIC can download the LEF files from RegulatorConnect. The EIC runs the analysis report on the LEF formatted data in ComplianceAnalyzer and then requests an Examination Dashboard™ report from ComplianceEase. For loans submitted through RegulatorDirect (licensees using ComplianceAnalyzer), the EIC will request an Examination Dashboard report from ComplianceEase upon receiving the delivery email notification. The EIC, in conjunction with the participating states, analyzes and reviews the report for each state and provides an executive summary report 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 exam.² If an LSE is agreed upon, the EIC and participating states will determine both the volume and significance of the identified compliance violations³ and issue 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." Once received by the MMC 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.

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

If the MMC feels the response to either the LSE or expanded LSE is adequate, and the number of violations nominal, it may issue a report informing the company that their response and approach is satisfactory and that they will not face a full scope examination in the near term.

² Note: The range 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.

³ The term "violations" when used in these procedures means "apparent violations."

If the MMC feels the response was inadequate they may elect to further expand the scope of the LSE or begin a full scope examination. For those companies that are not compatible and unable to comply, the MMC or an individual state may initiate an action to bring the entity into compliance.

At any point after the download is complete the MMC may wish to issue a statement for website or Press presentation announcing the initiative. 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.

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. 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.

LSE Examination Period for all examinations is January 1, 2011 through June 30, 2011.

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 CA program.

Step 2 – EICs

Attend the EIC/Liaison orientation meeting with the MMC. EICs and Liaisons will be notified of meeting time and teleconference information. The orientation meeting will cover these procedures and answer preliminary questions raised by EICs and Liaisons.

Step 3 – All Examiners

Attend at least one ComplianceEase training session on RegulatorConnect, ComplianceAnalyzer (including RegulatorDirect), and RESPA Auditor. CSBS and the MMC, in conjunction with ComplianceEase will provide special trainings prior to the 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@complianc ease.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. The address on file for your state will receive a notification once a licensee uploads a file. It is crucial EICs have access to, or receive messages from, the email address registered with RegulatorConnect, so they may know when a licensee has uploaded a batch file.

Important note: This 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@complianc ease.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 can be accessed by multiple examiners.

Step 5 – EICs

Obtain from CSBS support your assigned MME information 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, or has recently been licensed in 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. Confirm start dates with the MMC. If you need a conference line, contact CSBS or your Liaison for assistance.

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. 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.

Step 8 – EICs

Prepare the LSE examination letter (template included in these procedures) and deliver to the MME. 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.⁴ 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 within 30 days or the upload will be deleted from the site. If notification is not received as instructed, 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.]

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 naming convention of MArawauditresults.csv (where "MA" is your state abbreviation).

⁴ Detailed instructions for lender upload are included at www.RegulatorConnect.org.

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 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. These selections are not for the purpose of detecting compliance violations, but rather are used to verify that data has been uploaded accurately by the institution. Therefore, a purely random approach to selection is acceptable. Two 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 through 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 immediate attention of the EIC, Liaison and the MMC. 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.

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 for using RESPA Auditor are provided in the ComplianceEase training as well as tutorials at www.complianceease.com.

Step 13 – EICs

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 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.

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.

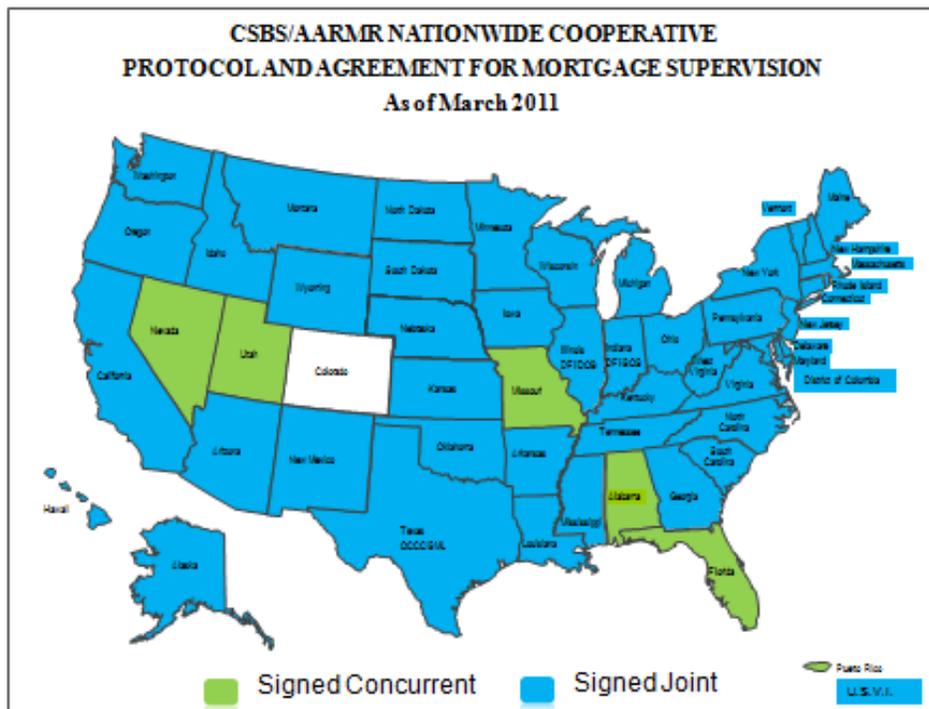
Step 17 – EICs

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. The Liaison will append the Examination Dashboard reports to the Executive Summary Report and deliver to the MMC. Provide each participating state with a copy of the Executive Summary Report. Await further instructions from the MMC and Liaison.

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 ccross@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	3/15/2003	1	Renewal Requested
	Arizona Commercial Mortgage Broker License	Approved	2/27/2010	1/20/2009	0	Renewal Requested
TC001	Arizona Mortgage Broker License	Approved	8/11/2010	7/14/2003	0	Renewal Requested
	California - DDC Finance Lenders Loan License	Approved	2/27/2010	2/27/2010	2	Renewal Requested
	California - DDC Residential Mortgage Lenders Act License	Withdrawn - Voluntary Without Licensure	8/3/2010		1	
TC001	California - DRE Real Estate Broker License	Withdrawn - Voluntary Without Licensure	8/3/2010		0	
TC002	California - DRE Real Estate Corporation License	Approved	2/27/2010	2/15/2009	0	
	Colorado Mortgage Company Registration	Pending - Incomplete	10/13/2010		0	
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	0	Renewal Requested
TC001	Kansas Mortgage Company License	Approved	8/11/2010	8/10/2010	0	Renewal Requested
	Kansas Supervised Loan License	Pending - Incomplete	11/3/2010		0	
TC002	Kentucky Mortgage Broker License	Terminated - Surrendered/Cancelled	9/22/2010	9/20/1999	1	
	Michigan 3rd Mortgage Broker/Underwriter/Service License	Pending - Incomplete	2/11/2010		1	
	Minnesota Mortgage Lender License	Approved	11/3/2010	11/3/2010	0	Renewal Requested
	Montana Except Company Registration	Pending - Incomplete	7/13/2010		0	
	Montana Mortgage Broker License	Approved - Deficient	8/1/2010	8/1/2010	0	Not Requested
MT-1234	Montana Mortgage	Approved	8/3/2004	8/3/2004	0	Not

<https://training.statemortgageregistry.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 1 (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”).⁵ 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 exam 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.⁶ 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

⁵ A copy of the Agreement is available at http://www.csbs.org/Content/NavigationMenu/RegulatoryAffairs/SupervisoryAgreementsApplications/regulatory_agreement.htm

⁶ The institution will be instructed to correct or remediate any identified violations.

Date

MMC LSE Examination

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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.
- Note: If you are a ComplianceEase client, contact ComplianceEase directly and use RegulatorDirect to deliver the required data.
- 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. This site 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).
- To eliminate the possibility of duplicate loan numbers from different licensees, the Loan Number for each record should be concatenated with the licensee’s NMLS Company ID code, with the loan number preceding the NMLS Company ID code, separated by a period. The resulting number should be reported in the Loan Number field for each record. In the event the resulting number exceeds 20 characters, remove characters from the end of the NMLS Company ID code as needed. For example: C0000123456789.99977, where “C0000123456789” is the loan number and “999776” is the NMLS number.
- 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 specifications are assumed to be borrower-paid fees. For any seller-paid fees, there is a “seller paid points and fees” field specifically allocated for that purpose. As a general recommendation on credits whether it is paid by the seller or

another party, the final fee data compiled in the LEF file should reflect the final fee data disclosed in the closing documents (i.e. HUD-1).

- Time Period for data upload: Month/Day/Year through Month/Day/Year.

You are responsible for a completely accurate submission of loan file 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 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 statements⁷ reflect:

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

⁷ 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 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 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, Examination Dashboard, and are made available through this same agreement. Throughout this manual, these tools may be referred to as the ComplianceEase suite. ComplianceEase's 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, because 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.

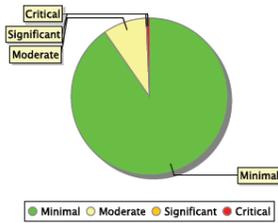
Interpreting audit reports—the Examination Dashboard:

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

RiskIndicator Distribution



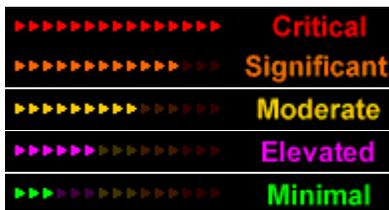
Further, the dashboard provides general portfolio information such as loan-type distribution, lien-type distribution, property-type distribution, and lending program distribution. This data allows examiners to not only locate loans with a particular compliance risk profile, but also to gain an understanding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

Interpreting Audit Reports—the Mortgage Compliance Analysis Report:

While the Examination Dashboard provides portfolio data, the system also allows a review of an individual loan's compliance results. The *Mortgage Compliance Analysis Report* displays the risk level and compliance test results for each loan processed. Exhibit 2 shows the different risk indicators within the system. Examiners are encouraged to expand examination procedures for loans with a RiskIndicator of Moderate and above.

Exhibit 2

ComplianceAnalyzer RiskIndicator™



Because each loan in a batch is processed individually through the AutoBatch process, you may select any loan from audit report to view a more detailed analysis. The detailed analysis of each loan will provide information on the specific lending tests performed, and whether or not the loan passed these tests. Tests for which a loan does not pass will be designated with the word *Fail* or a red X next to them, while loans that pass will be designated with a green *Pass* or a green checkmark. If the word *Alert* is next to a test, the loan will require additional verification by the examiner. *Alert* represents a non-quantifiable risk. If a particular lending test is not performed on the selected loan, *not tested* will appear next to that test.

Further Analysis:

When an examiner clicks on the blue question mark icon in a particular section of an audit report, the ComplianceAnalyzer system provides a more detailed explanation of how to interpret the audit results in that section. To learn more about a particular test result, an examiner can click on the heading within the relevant section of a report to learn more about the regulation that triggered the lending test failure, pass, or alert. For example, if a loan fails the RESPA GFE Disclosure Date test, the examiner can select the *Federal RESPA* link found in the header line of that section of the report. ComplianceAnalyzer will display the language found in that section of the Federal RESPA regulations that triggered that loan's failure. Similar functionality exists for state and local lending regulations. In this manner, the system serves as an effective lending regulations database that is easily accessible to examiners

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 (conventional 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,

