



Financial Institutions Non-Depository Division

Mortgage Originator and Servicer Examination Policy

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Minnesota Mortgage Originator and Servicer Examination Policy

Introduction

This mortgage examination policy outlines the process used by the Minnesota Department of Commerce Financial Institutions Non-Depository Division to examine Mortgage companies for compliance with SAFE Mortgage Licensing Act (SAFE MLA) and federal and state regulations. This policy is subject to change based on examination practices, state rules and statutes, and changes to federal regulations.

Policy Authority and Purpose

The State of Minnesota, Department of Commerce, specifically the Financial Institutions Division, is authorized to conduct routine and special examinations, including investigations, under the Regulatory Authority of the Commissioner according to Minnesota Statute §46.04, Subdivision 1. Based on examination findings, the Commissioner shall make a determination as to whether the financial institution is being operated in a safe and sound manner. The Commissioner may make requirements as to records as deemed necessary to facilitate the carrying out of the Commissioner's duties and to properly protect public interest. The Commissioner may examine, or cause to be examined by examiners, on oath, any officer, director, trustee, owner, agent, clerk, customer or depositor of any financial institution touching the affairs and business thereof. Each institution examined may be subject to all or part of the procedures in this manual as determined by the Commissioner, Deputy of Financial Institutions, and Supervisor of Non-Depository on a case by case basis.

Minnesota Examiners should be familiar with the following:

1. Applicable governing law and associated rules.
2. The appropriate naming conventions and codifications of applicable law and rules.
3. The breadth and limits of the authorizing authority.
4. The Minnesota Department of Financial Institution's procedures for conducting examinations.

Authority to Examine for State and Federal Laws and Regulations

The Commissioner of Commerce has the authority to examine for State and Federal Laws and Regulations under Minnesota Statutes §46.04, Subdivision 1. During a mortgage examination, the examination team will examine the institution for compliance with applicable State and Federal Laws

and Regulations. See Minnesota Statutes §58.13, Subdivision 1(8), and §58A.16, Subdivision 1 (7) and (8).

Authority to Examine for Financial Condition, Risk Management and Executive Management

During a mortgage examination, the examination team will examine the institution for issues, problems or practices related to financial condition, general risk management and quality of performance by management. See Minnesota Statute §46.04, Subdivision 1. Challenges to such authority shall be escalated to the Legal Services Division.

Institution Responsibilities during Examinations

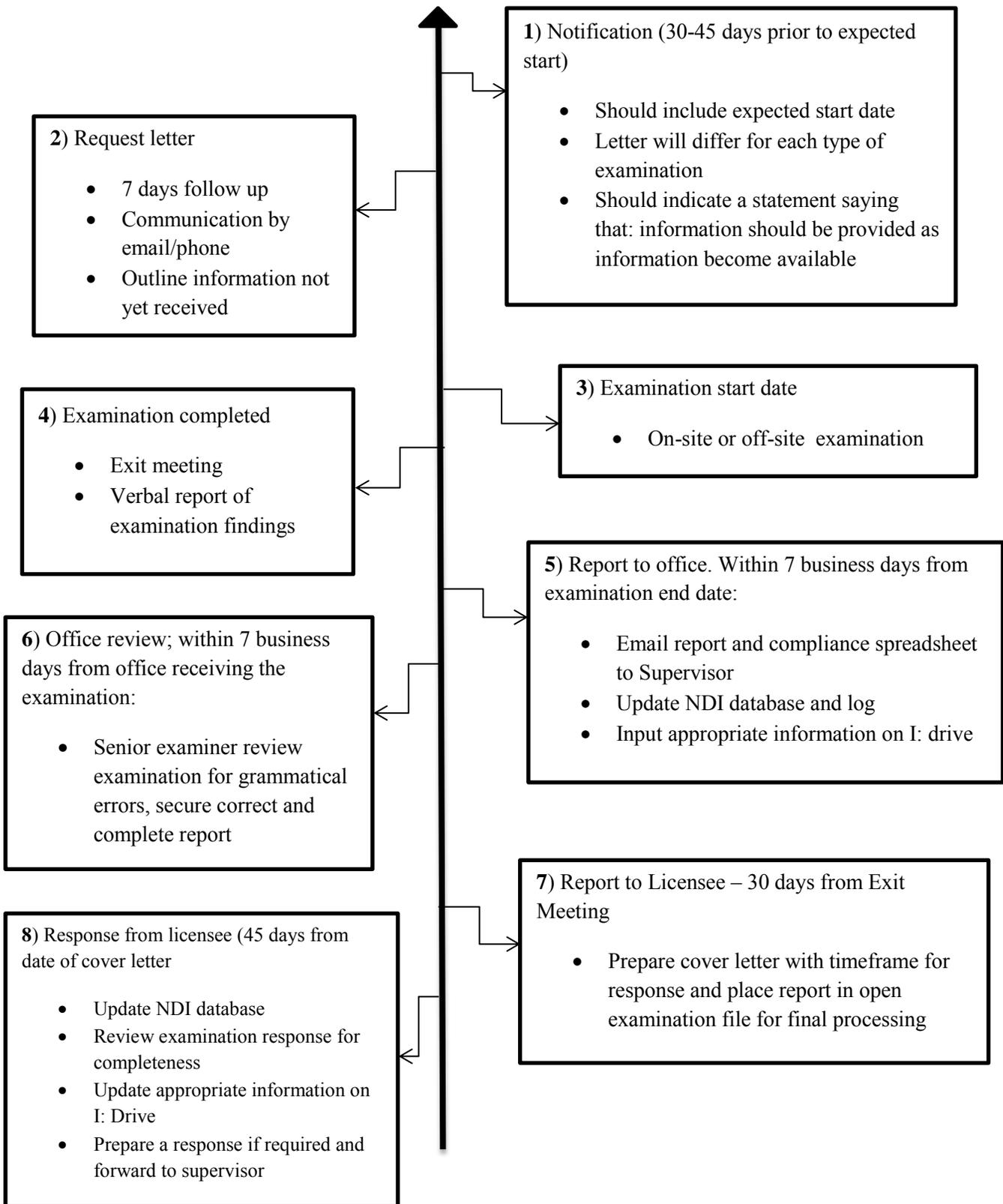
Institutions are expected to have policies and procedures in place to facilitate examinations and assure that each of the institution's staff members are aware of the procedures as necessary to assist in the examination process. Meritless obstacles or resistance to the examination should be avoided as such actions or non-compliance may result in additional time, burden and cost to the institution, as well as impede the spirit of cooperation and efficiency between the examination team and the institution.

An institution's cooperation with examinations and investigations is factored into the management component rating. However, if an institution refuses to provide an examiner with applicable documents and company information in a timely manner for exam purposes, examiners may take certain actions if the issue is detrimental to the conducting of the exam. Institutions that refuse to provide pertinent information may be tampering with the requested information. It is important that examiners not allow an institution extended periods of time to produce important information without a reasonable explanation. Generally, the initial documentation request is thirty to forty-five days prior to the examination start date. After the original request deadline, if the institution does not provide the examiner with requested information 72 hours after the examiner's request, there are measures the Department can take, including a demand letter. If the institution continues to withhold or fails to provide the requested information, examiners should report the situation to the Supervisor of Non-Depository to refer to the Legal Division and Enforcement Division for a possible enforcement action.

Minnesota law requires that institutions give full access to all premises, books, records and information deemed necessary under Minnesota Statute §46.04. The Examiner In Charge (EIC) is responsible for assisting the institution in understanding the requirements and obligations associated with a state examination.

See [Demand Letter](#) in [Appendix III](#)

EXAMINATION TIMELINE



Examination Objectives

The overall objective of the examination process is to:

- Evaluate the institution's financial condition, personnel administration, and quality of management.
- Ensure compliance with state and federal laws and regulations.
- Investigate possible consumer protection issues.
- Assess the overall safety and soundness performance of the institution.
- Examination reports and enforcement actions should be meaningful to all stakeholders.

Each institution should be examined in sufficient depth to satisfy these objectives. The examination scope will support the examination objectives to the level prescribed by the Commissioner.

Examination Scope

In "scoping" the examination, the EIC will consider what issues the examination will cover, how deep the team will examine the issues, the historical time frame, and how many of what type of transactions will be reviewed. In general, we will examine based on the following two basic scopes:

- **Full Scope Examination:** A full scope examination would consist of off-site preparation and meeting, followed by an on-site examination of records and practices, including interviews of staff and possibly borrowers. Follow up to the on-site examination would normally consist of an exit meeting review, a Report of Examination and a response by institution management.
- **Limited Scope Examination:** Similar to the full scope examination, the limited scope examination will consider a more narrow coverage of issues, time spent or numbers of transactions reviewed. When appropriate, a limited scope examination may be conducted primarily or entirely off-site. Despite the limits of this type of examination, this can be a valuable tool for monitoring or in situations where the issues or risk do not merit a full scope examination of the institution.

The risk-based examination method employed is an efficient method of establishing the scope of an examination. Consequently, the resulting Reports of Examination will include an assessment of each compliance area, each component of financial condition, management and personnel administration. Sufficient analysis is performed within each component to ensure risk is adequately identified and addressed. Examination activities will be prioritized to provide cost-effective and efficient examinations within resource constraints. The EIC will identify key areas to examine regarding regulatory compliance, financial condition, and management and personnel administration that should be assessed during an exam.

Examination Frequency

The frequency of full, non-cause examinations for certain institutions will be based on the level of risk. The NMLS Mortgage Call Report will provide timely, comprehensive and uniform information of the non-depository mortgage industry, thereby allowing state mortgage regulators to monitor both licensees and mortgage activities. Data is submitted by companies on a quarterly basis covering the financial condition and mortgage loan volumes by type and state. The Call Report information will be a key tool in determining examination frequency.

The Supervisor of Non-Depositories is responsible to determine a monthly schedule to provide advance notice to the EIC and the examination team of planned examinations. The policy of this Department will be to examine each licensee, either in full or with limited scope, no less than once every twenty-four (24) months according to **Minnesota §46.04, Subdivision 1.**

In addition to regular ongoing examination work, special examination activities may occur at any time if there is evidence for good cause. Special examination activities are usually directed toward a specific issue, and typically result from unique conditions within the individual institution that warrant distinct attention. In such cases, the same risk-based principles are applied to determine the scope and depth of examination activities.

Institution Risk Profile

Each institution has a unique risk profile determined by the level and severity of risk within the institution. The risk profile identification is established through a risk rating process and documented on a matrix. The risk profile is based on the level of high risk loans, origination volume, prior violations, prior enforcement actions, complaints and other relative criteria. The following Risk Rating Matrix will be used to assign each institution an estimated risk rating:

Risk Criteria	Description	Points
# of States in Which Business is conducted	Points assigned per state	XX
Number of Years Licensed	Subtract points for each year	<X>
Time since last examination	Add points per year	
Examination Findings		
Prior Report Rating	Add	XX
Origination Activity - Call Report		
# Loans Originated	Add per loan	X
\$ Loans Originated	\$0-\$10MM add 1 point	X
\$ Loans Funded	\$10MM-\$50MM add 2 points	X
	>\$50MM add 3 points	

Loan Purpose Distribution		
Purchase	Add per loan	X
Refinanced	Add per loan	X
Subordinate	Add per loan	X
Risk Indicator Distribution		
Critical: Fail a HOEPA test	Add per failure	X
Significant: Fail any state or local anti-predatory test	Add per failure	X
Moderate: Fail a TILA, RESPA, or state test	Add per failure	X
Minimal: Pass all quantifiable tests	No points assigned	
Fraud Indicator Distribution	Add per failure	X
Ability to Repay Indicator Distribution	Add per failure	X
Complaint History	Add per complaint	X
Enforcement History	Subjective	X

While risk rating, the types of mortgage licensees peer group will be considered based on the following analytics:

1. Broker: Broker-only companies
2. Lender-1: Lenders with an average of fewer than 100 loans per quarter
3. Lender-2: Lenders with an average of 101-500 loans per quarter
4. Lender-3: Lenders with an average of 500+ loans per quarter
5. Reverse: Companies who primarily originate reverse loans
6. No Loans: Companies who do not originate loans

The total risk rating will effectively determine the high, medium, and low risk companies operating in Minnesota. Therefore, the high risk entities will be prioritized in the exam scheduling process. At the direction of the Supervisory, the risk rating evaluations will be conducted annually in order to properly assess or re-assess a company's risk profile.

Examination Process

The examination process is designed to ensure each institution receives the proper level of regulatory and supervisory review to identify all issues proactively. The examination process centers on an ongoing oversight approach. This ongoing oversight may be accomplished through formal and informal contacts with institutions by examiners who monitor and analyze conditions in their assigned institutions.

Efficient use of resources is a primary goal of the examination process. This goal is accomplished by utilizing the risk-based examination approach. Risk-based examinations permit judgment in determining the scope and depth of work to be performed for an examination; as well as, the specific examination areas. For example, a high-risk institution would command greater resources than a low-risk institution. Likewise, high-risk examination areas would require greater resources.

Additionally, institutions are expected to have an internal program to identify, measure, monitor and control risk as a first line of defense in managing and addressing risk.

Supervision of the Examination Process

Supervision should occur early and continue throughout the examination process. Various methods of supervision, such as face-to face meetings, workpaper review, on-site visits by the EIC's supervisor, and report drafting meetings can be used to ensure that appropriate communication takes place between the EIC, his/her supervisor, and participating examiners. These communication tools assist the EIC in establishing appropriate examination objectives; determining the proper focus, tone, and balance of the report; and ensuring that the findings are accurate and adequately supported. The extent of supervision should be differentiated based on factors of institution risk.

Workpaper review is an important part of supervision. Completed workpapers must be reviewed to determine that the intended scope of the examination was carried out, that adequate evidence was gathered to support the work performed, and to validate that the conclusions and opinions are accurate and supported. The EIC is responsible for the completion, uploading and storage of the workpapers. The Supervisor of Non-Depository will be responsible to perform the final report review. The Supervisor will also audit the workpapers at least quarterly to ensure accuracy and completeness. To ensure efficient resource use, the depth of workpaper audit will be based on factors, such as:

- Nature of the work and its relative importance to the overall examination objectives;
- Extent to which the EIC was involved with the area during the examination;
- Experience of the EIC and examiners who carried out the various activities and/or performed initial review of the work; and
- Examination and institution risk involved.

General Examination Procedures

The risk-based examination approach provides examiners with a structured flow of examination duties. Some activities may be performed while other activities are applicable regardless of the institution or area being examined, including the following:

- Conducting discussions with management as needed to obtain information applicable to the area being examined. These discussions are utilized for identifying and evaluating internal controls governing the examined area to ensure the adequacy of management direction and guidance. This procedure also includes review of applicable policies and procedures to identify any potential weaknesses/deficiencies.
- Identifying the cause and effect of weaknesses. Determining the underlying cause of weaknesses helps ensure that the appropriate corrective action will be taken. Identifying the effect of weaknesses assists the examiner in determining materiality of findings, and the impact these findings have on the institution's financial condition and risk management, the institution's compliance with laws and regulations, and its consumer protection practices.

NOTE – If the examination indicates an unsatisfactory level of compliance with applicable regulation or if the activities of the licensee or an individual registrant may be subject to disciplinary action the EIC should immediately contact the Supervisor of Non-Depository or the Deputy Commissioner for further instruction.

- Conducting discussions with management to resolve concerns, discuss findings, and/or obtain commitment to correct weaknesses, as appropriate.
- Summarizing and documenting the scope and depth of testing, findings, conclusions, management responses, and recommended actions.
- Reviewing institutions based on the Exam Rating System, which provides guidance on the various aspects of the examination process and the method for evaluating institutions.

These activities promote consistency in the examination process and should be completed as applicable during examination work.

Examination Functions

This policy describes the typical activities that may take place during the examination process. These activities can be broken down into the four general examination functions previously discussed (examination planning, off-site activities, on-site activities, and reporting). There are extensive interrelationships among these functions. For example, planning provides the foundation for examination activity and vice versa. Examination activities result in reporting, which provides a basis for institution examination planning, and so on. These examination functions are described below.

Institution Examination Planning

Institution examination planning is the process of adequately planning for the examination and its related activities. The planning should cover all facets of the process, including both off-site activities and on-site activities. The examination process must be adequately planned to ensure effective and efficient use of resources. In general, this involves scoping the examination, establishing objectives and strategies to address those areas of significant risk, and allocating sufficient resources to accomplish these objectives.

Off-site Examination – For some licensees we will conduct an off-site examination. Many of the procedures in the manual still apply but will need to be modified by the examiner. A copy of the off-site Information Request letter is included as Appendix B.

Institution Examination Off-Site Activities

Off-site activities include both monitoring and off-site examination. The primary objectives are to provide timely recognition of risks associated with an institution and to gain efficiencies by performing examination functions while off-site. Monitoring activities consist of the activities associated with ongoing oversight of institutions to keep apprised of significant changes in an institution's risk profile. Examples of such activities include review of an institution's correspondence, financial reports, loan activity reports, etc. Examiners should also review an institution's policies and procedures to ensure that they reflect current laws and the procedures are adequate. Through the use of technology and examination software, monitoring may also include an electronic review of all or a portion of the institution's loan portfolio. Monitoring activities often progress into an off-site examination. Although reviewing a policy is an illustration of a monitoring activity, analyzing and concluding the adequacy of the plan constitutes an examination activity. The type, frequency, and documentation required for off-site activities should be tailored to the degree of risk present in the institution and the type of activity being performed.

Institution Examination On-Site Activities

On-site examination efforts should focus on what cannot be effectively analyzed and concluded off-site. What is critical in on-site work is the examiner's interaction with company personnel, including the personnel that complete applicable tasks and their supervisors. On-site visits to the institution are really an extension of off-site activities, and these activities may be used in a number of ways, such as:

- To examine areas not practically examined off-site;
- To test, reach, and affirm a conclusion about the reliability of the institution's systems, controls, and reports so that off-site examination and analysis techniques may be conducted with confidence;
- To investigate changes or anomalies disclosed by off-site activities and analysis;
- To conduct more comprehensive or full scope examinations; and

- To meet with boards of directors and management.

In-Active Report

If during the course of the pre-examination request it is determined that the licensee has not done any Minnesota Residential Mortgage Loans in the last 24 months, the Department may elect to send the licensee an In-Active Report. The time spent preparing the pre-examination information and recording the in-activity reports will be billed to the licensee at the normal hourly rate. A copy of the in-active report is included as Appendix II.

Institution Examination Reporting

This phase of the examination process communicates the results, findings and recommendations for management and stakeholders. When completing any report, the EIC should address issues of concern and analyze the interrelationship of findings. Results are communicated in several ways, including:

- Reports of Examination--Completed subsequent to the "as of" date of the examination and conclusion of all necessary examination work. The purpose of the Report of Examination is to provide the institution's management and the Department of Commerce with a clear, concise evaluation of the institution's overall condition and to provide recommendations for any improvement that may be needed. The nature and depth of the Report of Examination reflects the level of identified risk. Management should understand the conclusions and recommendations and commit to executing appropriate corrective measures. This may be accomplished by a presentation of the report to management, or through other methods of contact as suitable to the circumstances.
- Risk Rating System Summaries--Completed as part of the internal reporting function and are confidential. The primary objective of the rating system is to ensure a uniform evaluation of the main characteristics of all institutions. The Exam Rating System is incorporated into the examination work program to provide a continuous evaluation of the components to determine an overall rating of the institution examined. When an examination is complete, the EIC recommends a rating for the institution to the Supervisor based on the component criteria outlined below as: Management, Personnel Administration, Financial and Compliance. An examiner's evaluation of the four components serves as a guide to the composite rating for the institution. Each of these components will receive an individual rating of 1-5, 1 being the best rating and 5 the worst. Examiners should consider the individual strength of each component as well as the interconnectedness of the components in determining the overall condition of the institution. Composite and component ratings may be shared with the institution. The composite rating is not an average of the component ratings. Assigning composite ratings is not an exact science and as such, the examiner should be mindful of the severity of findings in the various examination components. The rating, if issued, will be contained in the Report of Examination. See the Financial Institutions Non-Depository Division established definitions for component risk ratings in each of the component sections in this policy (pages 22-38).

Note: The Reports of Examination, ratings and discussions of examination findings are considered to be Confidential Supervisory Information covered under the Nationwide Cooperative Agreement for Mortgage Supervision and Minnesota Statute §46.07 Subdivision 2. Examiners and institution's management should take great care to protect the confidentiality of the information and the documents. Any accidental release of all or parts of a Report of Examination should be reported immediately to the Supervisor of Non-Depository and the Deputy Commissioner of Financial Institutions.

Workpapers

Workpapers are the primary documentation to support the aforementioned Examination Process. They include printed and electronically stored information prepared or obtained during the examination process, and they are useful for the following purposes:

- Identifying and documenting the condition and trends of an institution;
- Providing evidence of work performed, findings, and conclusions;
- Supporting documentation, comments, and conclusions in the Report of Examination;
- Assuring examination objectives and agency policy standards are achieved;
- Supporting agency positions during litigation;
- Evaluating quality of work performed and examiner performance; and
- Planning and conducting future examination activities.

Workpaper Preparation

Workpapers prepared during the examination process typically include many different types of documents. Emphasis must be given to workpapers drafted by examiners, such as, planning documents, completed pro forma workpapers, violation summary sheets, and referenced Reports of Examination. However, useful workpapers can also be obtained from many other sources to provide documented support of examination conclusions. Most commonly, this information will consist of correspondence and reports from the institution, and photocopies of institution's documents.

The extent of workpaper documentation should vary based on different factors. For example, examination scope, risk profile of the institution, and experience level of examiners. At a minimum, workpapers should demonstrate completion of each examination objective and substantiate all conclusions reached in the Report of Examination.

Examiners should analyze and summarize pertinent information gathered during the examination process. These tasks are often best achieved through a violation summary sheet. A violation summary sheet may be prepared for each violation identified although several violations may be addressed together

Workpapers should be clear and accurate; thus, providing a reliable representation of the examiner's analysis, findings, and conclusions regarding conditions existing in the institution. The examiner should also take care to ensure workpapers are legible and neat. Whenever possible, workpapers should be prepared on standard-size (8-1/2" x 11") paper. Only one side of the paper should be used, and all temporarily-affixed notes should be permanently attached. The preparer and completion date must be listed on all workpapers prepared by the examiner.

Workpaper File Organization

Workpapers should be logically organized, numbered, and bound upon completion of examination work to facilitate quality assurance processes and future use. Because examinations typically produce sizable quantities of information, the examiner should take care to file only those documents that are relevant to the work performed. As a general rule, if a workpaper is needed to support work performed within an examination objective or to support a conclusion in the Report of Examination, it should be maintained in the workpaper files. Additionally, documents resulting from the quality assurance process should be retained in the workpaper file. Files should not be overburdened with irrelevant material.

The method and sophistication of the numbering and bundling system used is at the discretion of the Supervisor of Non-Depository. The system will usually correspond to the complexity of the examination and volume of workpapers accumulated. Examiners are responsible that all information is readily accessible for internal or, in the event of an enforcement action, external review.

The electronic name for each examination should be clearly labeled. Each electronic file name should contain the name of the institution, the license number, file type (exam report) and date. See the following file name examples:

- XYZ Mortgage 202020 ROE 3.1.15
- ABC Lender 191919 Correspondence 1.15.15
- 123 Loan Co 313131 C&D 5.1.15

Workpaper Security and Retention

Examination workpapers maintained in workpaper files should be safeguarded and retained to satisfy legal and administrative time requirements. Workpapers should be maintained by the Minnesota retention requirement of ten (10) years. According to Minnesota §46.21 DESTRUCTION OF CERTAIN RECORDS. Subdivision 1.Reports, correspondence. After ten years, the commissioner of commerce may dispose of any examination report, call report of the condition of state banks, earnings and dividend report, oath of office of director, examining committee report, or any correspondence with reference to any examination report. After a period of two years the commissioner of commerce need not retain the examiner's original pencil copy of any examination report. Pencil copies are saved to I:\FE\Pencile Copy\Mortgage\2015 (or respective year).

Electronic workpapers require additional measures to alleviate safekeeping concerns. To minimize risk, electronic workpapers should be stored on the Department of Commerce network drive I:\FE\Mortgage Company Exams - FINAL . Hard copies of electronic workpapers can be generated for further risk control. Workpapers are the property of the State of Minnesota and should be safeguarded at all times to prevent unauthorized access. The EIC is responsible to ensure workpapers are secured at all times during the course of on-site work.

See [Appendix](#) for copies of all workpapers.

Examination Report Quality Control

Quality controls over examination work products represent a fundamental element of generally accepted auditing standards and are crucial to the integrity of the examination process. The accuracy of any process involving evaluation of conditions and operations to identify and measure risk in an institution is itself vulnerable to risk. This risk, referred to as examination risk, is the risk of not identifying or incorrectly diagnosing conditions that threaten the level of compliance in an institution that can lead to errors or omissions in Reports of Examination. Examination risk can be reduced by having an effective quality control program.

An essential precursor to effective quality assurance is clear and appropriate delegation of examination authorities. The EIC has an objective to delegate authority to the lowest practical level based on institution risk and examiner expertise. This necessitates formal establishment of authority at all operational levels. These authorities are typically accomplished by state directives, operating plans, or memoranda from the Supervisor of Non-Depositories.

There are numerous levels and types of quality assurances that can be utilized to control examination risk. It is important; however, to ensure that the cost of quality assurance does not exceed the expected benefits. As such, the resources devoted to quality assurance should vary based on factors such as institution risk, derived from elements of portfolio composition, past exam results, complaint activity, enforcement actions, possibility of litigation, and the expertise of the EIC and examiners assigned to the institution.

Regardless of risk levels, there are three basic activities that must be performed:

- Supervision of the examination process;
- Cross-referencing of examination documents; and
- Review of examination documents.

It is the responsibility of each EIC to execute a quality control program that meets established requirements, ensures efficient resource use, and is best suited to the organizational structure and staff experience levels. Requirements and guidelines in each of the above areas are further discussed in this section. Additionally, the Supervisor of Non-Depository or appointee may provide supplemental direction as deemed necessary.

Cross-Referencing of Examination Documents

The primary objective of cross-referencing is to ensure the Report of Examination is substantiated by adequate, accurate, and relevant documented evidence. The Report of Examination is the official record of the examination findings. As such, it is imperative that the report be checked, verified and censored for every word, date or number included. Additional benefits of cross-referencing activities include verifying achievement of examination objectives and ensuring supporting evidence will be easily located and reviewed.

Examiners should use sound judgment to ensure that the extent of cross-referencing activities is consistent with examination risk. At a minimum, however, the following cross-referencing must be completed:

- Report of Examination (including the transmittal letter) to supporting workpapers;
- Violation summary sheet or other summary type workpapers (directly supporting Report of Examination comments and figures) to any significant underlying workpapers; and
- Each examination objective in the examination plan to the supporting workpapers which evidence completion of the objective.
- When cross-referencing, it is important to ensure consistency between comments and figures within documents. For example, when cross-referencing a Report of Examination, it is important to ensure consistency among the body of the report, and the appendices. If a comment or figure occurs more than once, it is appropriate to cross-reference the comment or figure to another part of the report which has in turn been cross-referenced to the supporting documentation. This will commonly occur in the case of figures in an appendix. Typically, an appendix would be cross-referenced to supporting workpapers, and the body of the report would then be cross-referenced to the appendix as appropriate. Likewise, comments in a transmittal letter may be cross-referenced to the body of the report and would be cross-referenced to supporting workpapers or appendices. The EIC is responsible for ensuring cross-referencing is accurate, sufficient, and completed in a timely manner. Cross-referencing should be completed prior to audit review of examination documents.

Audit Review of Examination Documents

Audit Reviews should provide for an objective assessment of examination documents to ensure examination risk is minimized and quality control is achieved. The following discussion expands on the aspects of review previously addressed under supervision by focusing on the accuracy and quality of the end examination documents.

The Audit Review function must ensure:

- Facts, figures, and calculations are correct;
- Comments are adequately supported by the workpapers;
- Comments are consistent with agency standards, directives, and regulations;
- Comments and conclusions are adequately developed and stated, commensurate with the risks identified, and consistent within each document and between all documents; and
- Focus, balance, tone, and clarity are appropriate.

Each EIC must establish an effective and efficient means for completing reviews, ensuring appropriate independence and objectivity, and avoiding duplication of effort where possible. Due to the importance of the audit review function, all reviewers should possess sufficient knowledge, skills, and abilities with respect to the examination process and be familiar with Department of Commerce, Financial Institutions' policy standards. Documentation which evidences completion of reviews should be placed in the workpaper files. See Report Review Checklist and Quality Control Report in Appendix for example forms.

Upon approval and immediately prior to distribution, the EIC should review the final copy of the examination report as a last quality assurance check. Report turnaround, calculated from the time the EIC has concluded an exit meeting with management to the date of transmittal, should average no more than thirty (30) days. Problematic institutions may take longer than thirty (30) days, but should be concluded no later than forty-five (45) days.

The Examination Process, Report Turnaround and Response tracking will be prepared by the Department's appointed Administrator and reported to the Supervisor of Non-Depository monthly.

COMPONENT – Management

The primary functions of management are:

1. To ensure that policies, procedures, and internal controls are formally established and outlined in writing.
2. To oversee policies, procedures and internal controls related to financial condition, operations, regulatory compliance, and consumer practices.
3. To govern mortgage company actions to adequately protect consumer interests.
4. To determine if personnel are compliant with prescribed standards of conduct.

Examiner should be able to answer the following question and follow the following in the examination process of management.

- a. Are policies and procedures, and risk limits adequate?
- b. Is the management program adequate and appropriately designed?
- c. Does management have internal control and complaint resolution procedures?
- d. Does management properly enforce policies and procedures related to regulatory compliance?
- e. Does the institution provide requested information in a timely manner?

To answer to the above question examiner should:

- Determine how well management has complied with outstanding enforcement actions and examination. From time to time, management will fail to provide examiners with needed information and records for examination purposes. Such practice is a reflection of management's lack of corporation.
- Determine if management have an established and robust internal policies for controlling risks related to financial condition, operations and complying with regulatory laws and consumer protection standards. Policies and procedures should be in writing so that management and examiners can easily refer back to the plans. Management's internal plans and policies should cover Regulatory Compliance and Consumer Contact/Direct Origination.
- Determine if management have in place third party risk policies that should provide for:
 - a. Due diligence in selecting software and other vendors, indirect originators, financial institutions to provide warehouse lines of credit, and contractors to provide loan processing and other types of services
 - b. Periodic review of the performance and financial strength of third party providers
 - c. Lists of approved third party providers for the use of employees
- Determine if management has internal control and complaint resolution procedures in place. Complaints give management a viewpoint in considering the effectiveness of its operations and may point to areas of policies and procedures that can be improved upon. And, most importantly, management's care in addressing consumer complaints is

a critical component of operations. Examiner should take into consideration the following in resolving compliant by management:

- a. Number of outstanding consumer complaints in relation to the size of the institution.
- b. Pro-activeness of management to address consumer complaints.
- c. Timeliness of resolving consumer complaints.
- d. Reputation of the institution in the community as a “good citizen.”

Rating Definitions for Management Component

Examiners should rate the overall condition of the institution’s operations and management taking into consideration the following:

A rating of “1” indicates **strong** performance by management and the board of directors and strong risk management practices relative to the institution’s size, complexity, and risk profile.

Management has strong policies, procedures, and internal controls related to financial condition, operations, regulatory compliance, and consumer contact/direct origination, and management adheres to those policies and controls. Systems for modification of policies and cooperation with examinations and investigations are strong.

A rating of “2” indicates **satisfactory** management and board performance and risk management practices relative to the institution’s size, complexity, and risk profile. Policies, procedures, and internal controls related to financial condition, operations, regulatory compliance, and consumer contact/direct origination may demonstrate some weaknesses. Adherence to those policies and controls is satisfactory. Systems for modification of policies and cooperation with examinations and investigations are satisfactory.

A rating of “3” indicates management and board performance **that need improvement** or risk management practices that are **less than satisfactory** given the nature of the institution’s activities. The capabilities of management or the board of directors may be insufficient for the type, size, or condition of the institution. Policies, procedures, and internal controls related to financial condition, operations, regulatory compliance, and consumer contact/direct origination may be inadequate. Systems for modification of policies and cooperation with examinations and investigations are less than satisfactory.

A rating of “4” indicates deficient management and board performance or risk management practices that are inadequate considering the nature of an institution’s activities. The level of problems and risk exposure is excessive. Policies, procedures, and internal controls related to financial condition, operations, regulatory compliance, and consumer contact/direct origination are deficient. Adherence to those policies and controls is weak. Systems for modification of policies and cooperation with examinations and investigations are **deficient**.

A rating of “5” indicates critically deficient management and board performance or risk management practices. Management and the board of directors have not demonstrated the ability to correct problems and implement appropriate risk management practices. Policies, procedures, and internal controls related to financial condition, operations, regulatory compliance, and consumer

contact/direct origination are critically deficient or nonexistent. Adherence to those policies and controls is also critically deficient or nonexistent. Systems for modification of policies and cooperation with examinations and investigations are unacceptable.

Rating Definitions for Composite Rating

A rating of “1” indicates that the licensee is strong in all areas. Management has strong controls and policies in all areas of operation. Compliance with federal consumer laws and regulations is strong and no violations are present.

A rating of “2” indicates that institution maintains satisfactory operations. Management has satisfactory controls and policies in place in areas of operation. Compliance with federal consumer laws and regulations is satisfactory as few or no violations are present.

A rating of “3” indicates that institution is less than satisfactory. Management has less than satisfactory controls and policies in place in areas of operation. Compliance with federal consumer laws and regulations is less than satisfactory as violations may be numerous.

A rating of “4” indicates that institution is deficient. Management has marginal controls and policies in place in areas of operation. Controls and monitoring of all institution personnel are such that abusive lending practices are likely to develop. Compliance with federal consumer laws and regulations is deficient as numerous violations are present.

A rating of “5” indicates that institution is critically deficient. Management has failed to develop policies and procedures necessary to ensure operation. Controls and monitoring of all institution personnel do not exist and abusive lending practices are evident. Compliance with federal consumer laws and regulations is ignored and violations are pervasive. Financial Condition is insufficient to sustain continued operations.

See [Management Workpaper](#) in [Appendix I](#).

See [Fraud Workpaper](#) in [Appendix J](#).

COMPONENT - Personnel Administration

The primary functions of Personnel Administration include:

1. Provide processes for recruiting, hiring, training, evaluation and terminating employees in compliance with labor law.
2. Provide guidelines, qualifications employees must possess for the different types of jobs available in the organization.
3. Provide procedures to protect data from employees that have been terminated.
4. Provide guidance for paying terminated employees for loans that are “in the pipeline.”
5. Provide compliant compensation guidelines that retain well qualified individuals.

Examiner should be able to answer the following questions related to Personnel Administration.

- a. Are written policies in place for recruiting, hiring, evaluation and termination of employees and is it in compliance with labor laws?
- b. Is there any training program for MLOs, processor and other employees?
- c. How are employee compensated and retained?
- d. Does the compensation guideline avoid incentives for employees to “sell” higher price loan to consumers who qualify for lower price loan?
- e. Does the company have a compensation guideline or policies?

To answer the above questions, examiner should:

- Review the company training policies to determine if it meets the required training needed for MLOs
- Have a conversation with MLO, (during an on-site examination) to affirm information in the training policy, and check NMLS.
- Review information provided to questions to lender’s questionnaire.
- Review compensation structure, and make sure it is in compliance with regulations (avoid incentives for employees to “sell” high price loans to consumers who qualify for lower price loan) Minnesota Statute § 58.13, Subdivision 1(18).

Rating Definitions for Personnel Administration Component

A rating of “1” indicates strong policies and procedures regarding personnel relative to the institution’s size, complexity, and risk profile. These policies and procedures should include the hiring and firing of employees. The company has strong training and employee evaluation practices. There is an established compensation structure.

A rating of “2” indicates satisfactory policies and practices regarding personnel relative to the institution’s size, complexity, and risk profile. Minor weaknesses may be present in employee policies and procedures; however, they do not present a risk to the continued operation of the company.

A rating of “3” indicates that personnel practices are less than satisfactory relative to the institution’s size, complexity, and risk profile, and are in need of improvement. The current personnel procedures and policies may be insufficient for the size of the company.

A rating of “4” indicates that personnel practices are deficient relative to the institution’s size, complexity, and risk profile. Lack of training or written policies and procedures may cause confusion and negatively affect the company. Strengthening the personnel practices may be necessary.

A rating of “5” indicates that personnel practices are critically deficient relative to the institution’s size, complexity, and risk profile. Training and written policies and procedures may be insufficient or even non-existent. Employee evaluation and compensation may have no formal procedures. Improvement is required.

See [Personnel Administration Workpaper](#) in [Appendix K](#)

COMPONENT - Financial Analysis

The primary functions of Financial Analysis include:

1. Ability to fund daily activities.
2. Ability to fund loans in the pipeline.
3. Ability to meet debt obligations.
4. Manage capital and earnings to support liquidity.

Examiner should be able to answer the following questions related to Financial Analysis:

- a. What is the level and trend of capital levels?
- b. Are there additional sources of capital available?
- c. Are there any contingent liabilities?
- d. Is the level of capital sufficient for the existing and potential liabilities and risks?
- e. Is the surety bond correct?
- f. What is the level and trend of earnings?
- g. What is the level and trend of liquidity?
- h. What sources of liquidity are available?
- i. Are those sources sufficient to fund operations?

To answer the above questions, the examiner should:

- Identify current capital level and potential sources.
- Identify contingent liabilities.
- Compare surety bond to loan production.
- Analyze key ratios for Capital, Earnings, and Liquidity.

Rating Definitions for Financial Analysis Component

The examiner should assign a risk rating taking into consideration the level of capital, liquidity and funds management practices, and the trend and level of earnings.

A rating of “1” indicates strong liquidity levels, excellent earnings and well-developed and practiced funds management policy. Such institutions demonstrate reliable access to sufficient sources of funds on favorable terms to meet present and anticipated liquidity needs. Capital levels and trend are strong.

A rating of “2” indicates satisfactory sources of funds on acceptable terms to meet present and anticipated liquidity needs; satisfactory capital and earnings, and modest weaknesses from funds management practices.

A rating of “3” indicates less than satisfactory liquidity management, relatively low levels of capital or decreasing earnings. Such an institution may lack ready access to funds on reasonable terms or may evidence significant weaknesses in funds management practices.

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

A rating of “5” indicates the institution has serious liquidity practices. Liquidity is critically deficient, capital has deteriorated to a critical level or earnings are non-existent. The continued viability of the institution is threatened, and requires immediate external financial assistance to meet funding obligations.

See [Financial Analysis Workpaper](#) in Appendix L

COMPONENT – Regulatory Compliance

The primary functions of Compliance include:

1. Provide processes for maintaining compliance with applicable rules and regulations.
2. Provide guidelines and clarification for staff to assure full compliance.
3. Provide procedures to protect consumers from harm.
4. Provide quality control and ongoing monitoring guidelines.

The Examiner should be able to answer the following questions related to Compliance:

- f. Are there written policies, procedures and a system of internal controls in place provide adequate assurance that state and federal regulatory requirements will be met?
- g. Are there any training programs for personnel to stay informed about new or changing state or federal regulations?
- h. Is there a compliance officer? What are their duties and effectiveness?
- i. Does management provide monitoring for quality control of compliance?
- j. Does the company have any apparent violations to applicable regulations or rules?

To answer the above questions, examiner should:

- Review all compliance policies to determine if the system of internal controls is effective.
- Have a conversation with Management, Compliance Officers and MLOs, (during the on-site examination) to affirm information in the policies is being implemented.
- Review information provided to questions to lender's questionnaire.
- Review Loans utilizing the ComplianceEase® system and/or other prescribed means to determine the Compliance Component rating.

Rating Definitions for Regulatory Compliance Component

Examiners should rate the overall condition of the institution's compliance mechanisms taking into consideration the following characterizations:

A rating of "1" indicates that compliance with federal laws and regulations is strong. Management has strong internal controls and monitoring for regulatory compliance. Policies are in writing, determined to be effective, and operations are tested for compliance. Management is pro-active in addressing areas of weakness.

A rating of "2" indicates that compliance with federal laws and regulations is satisfactory. Management has satisfactory internal controls and monitoring for regulatory compliance. Some areas of weakness may be noted but are not material in nature and are easily corrected.

A rating of “3” indicates that compliance with federal laws and regulations needs improvement. Management’s implementation of internal controls and monitoring for regulatory compliance is in need of improvement. The situation presents an undue risk to the institution’s operations if not corrected.

A rating of “4” indicates that compliance with federal laws and regulations is deficient. Management implementation of internal control and monitoring in place for regulatory compliance is inadequate. Material areas of operations do not have written policies and procedures or have ineffective policies and procedures. Immediate actions must be taken to preserve the viability of the institution.

A rating of “5” indicates that compliance with federal laws and regulations is critically deficient. Management has poor or no internal controls and monitoring in place for regulatory compliance. The risks present are to the degree that the institution may cease operations.

Compliance: Home Mortgage Disclosure Act (HMDA)

Examination Objectives

Determine that policies, procedures, and internal controls have been developed and implemented to provide reasonable assurance of compliance with the various provisions of FRB Regulation C and the HMDA, if applicable.

Examination Procedures

Examiners should be able to answer the following question during the examination:

- A. Did the institution have a home office or a branch office in an MSA on the preceding December 31, and did the institution have more than \$10 million in assets on the preceding December 31, or did the institution originate 100 or more home purchase loans in the preceding calendar year?
- B. Did the institution originate home purchase loans which equaled or exceeded 10 percent of its total loan origination volume, measured in dollars, in the preceding calendar year?

If the institution did not have an office in an MSA, then it is not required to complete a HMDA-LAR and no further examination work is required. If the institution does have an office in an MSA and the answer to either the asset size or number of loans questions is affirmative, then the HMDA-LAR must be completed and further examination work may be required. If the institution does have an office in an MSA and the answer to both asset size and number of loans is negative, the HMDA-LAR is not required and no further examination work is required. Furthermore, regardless of location, size, or number of loans originated, the institution is not required to complete a HMDA-LAR if the answer to the second question regarding the 10-percent loan origination rule is negative.

See [Home Mortgage Disclosure Act Workpaper](#) in [Appendix M](#).

Compliance: USA Patriot Act (USAPA)

Examination Objectives

Determine that policies, procedures, and internal controls have been established and implemented, and evaluate their adequacy to provide reasonable assurance of compliance with the USAPA, if applicable.

Examination Procedures

The examination procedures in the workpaper are provided to facilitate an evaluation of compliance with USA Patriot Act Consistent with risk-based examination principles, examiners should add, delete, or modify procedures as needed based on the particular circumstances of the institution:

See [USA Patriot Act Workpaper](#) in [Appendix N](#).

Compliance: Fair Credit Reporting Act (FCRA)

Examination Objectives

1. Determine whether the institution makes the disclosures required of users of consumer reports when adverse action is based wholly or partly on information obtained from outside sources.
2. Determine whether the institution's activities make it subject to the consumer reporting agency requirements of the FCRA, and, if so, ensure it is in compliance with those requirements.

Examination Procedures

The following procedures in the workpaper are provided to facilitate an evaluation of an institution's compliance with the FCRA. Consistent with risk-based examination principles, examiners should add, delete, or modify procedures based on the particular circumstances of the institution.

See [Fair Credit Reporting Act workpaper](#) in [Appendix O](#).

Compliance: Home Ownership and Equity Protection Act (HOEPA)

Examination Objectives

Examiners determine that institutions have established adequate policies, procedures, and internal controls to provide reasonable assurance of compliance with the Home Ownership and Equity Protection Act.

Examination Procedures

Examiner is responsible for enforcing compliance with this Act. When examiners encounter a violation of the Act, they will notify the lender of the violation and require that it adjust the borrower's account to compensate for the violation. Corrective steps include requiring the lender to return any unearned PMI premiums to the borrower. The following procedures in the workpaper are provided to facilitate an evaluation of an institution's compliance with the Act. Consistent with risk-based examination principles, examiners should add, delete, or modify procedures based on the particular circumstances of the institution.

See [Home Owners and Equity Protection Act Workpaper](#) in [Appendix Q](#).

Compliance: Gramm-Leach-Bliley Act

Examination Objectives

- Insure the security and confidentiality of customer records and information.
- Determine that the institution has established an adequate written information security program.
- Assess the quality of the institution's compliance management policies and procedures for implementing the privacy and safeguard regulations; specifically, ensure consistency between what the institution discloses to consumers in its notices about its policies and procedures and what the institution actually practices.

Examination Procedures

Pursuant to the applicable state law and the National Cooperative Protocol and Agreement, the Minnesota Department of Commerce has specific authority to enforce the GLB Act over Minnesota licensed institutions.

The following procedures in the workpaper are provided to facilitate an evaluation of an institution's compliance with the Act. Consistent with risk-based examination principles, examiners should add, delete, or modify procedures based on the particular circumstances of the institution.

See [Gramm-Leach-Bliley Act Workpaper](#) in [Appendix R](#).

Compliance: Fair Housing Act Policy

Exam Objectives

- Determine that policies, procedures, and internal controls have been established and implemented, and evaluate their adequacy to provide reasonable assurance of compliance with the nondiscrimination requirements of the Fair Housing Act.
- Evaluate the institution's compliance with the regulatory requirements applicable to nondiscrimination in lending and housing.

Examination Procedures

The following procedures in the workpaper are provided to facilitate an evaluation of an institution's compliance with the Fair Housing Act. Consistent with risk-based examination principles, examiners should add, delete, or modify procedures based on the particular circumstances of the institution.

Qualification

Examiners should begin the evaluation of an institution's compliance with nondiscrimination regulations by determining whether:

1. The institution makes or purchases loans for the purchase, construction, improvement, repair, or maintenance of a dwelling (rural residence);
2. The institution makes or purchases loans secured by residential real estate; or
3. The institution sells or appraises residential real property.

Examination

If the answers to all of the above are negative, then no further review is required for the purposes of evaluating compliance with the Fair Housing Act. However, if the answer to any of the above is affirmative, then examiners should consider completing the FHAct workpaper in the Appendix.

See [Fair Housing Credit Act Workpaper](#) in [Appendix S](#).

Compliance: Equal Credit Opportunity Act

Examination Objectives

- Determine that policies, procedures and internal controls relating to FRB Regulation B have been established and evaluate their adequacy to provide reasonable assurance of compliance with ECOA and FRB Regulation B.
- Evaluate adherence to established policies, procedures, and internal control guidelines.

Examination Procedures

The following procedures in the workpaper are provided to facilitate an evaluation of an institution's compliance with the Equal Credit Opportunity Act. Consistent with risk-based examination principles, examiners should add, delete, or modify procedures as needed based on the particular circumstances of the institution.

See [ECOA Workpaper](#) in [Appendix T](#).

Compliance: Real Estate Settlement Procedures Act (RESPA)

Examination Objectives

1. Determine that policies, procedures, and internal controls have been established and evaluate their adequacy to provide reasonable assurance of compliance with the requirements of RESPA / Regulation X.
2. Evaluate adherence to established policies, procedures, and internal control guidelines.

Examination Procedures

The following procedures in the workpaper are provided to facilitate an evaluation of an institution's compliance with RESPA. Consistent with risk-based examination principles, examiners should add, delete, or modify procedures based on the particular circumstances of the institution.

See [RESPA Workpaper](#) in [Appendix U](#).

Compliance: Truth-in-Lending Act

Examination Objectives of Truth-in-Lending Act

1. Determine that appropriate policies, procedures, and internal controls relating to FRB Regulation Z have been established and evaluate their adequacy to ensure compliance with the regulation
2. Evaluate adherence to established policies, procedures, and internal control guidelines.
3. Determine that the disclosures prescribed by FRB Regulation Z are given on all loans subject to the regulation.
4. Determine that the required disclosures were made timely and accurately in accordance with the regulation.

Examination Procedures

The following procedures are provided to facilitate an evaluation of an institution's compliance with FRB Regulation Z. Consistent with risk-based examination principles, examiners should add, delete, or modify procedures based on the particular circumstances of the institution which will enable examiner to meet the objective of the TILA.

See [TILA Workpaper](#) in [APPENDIX V](#)

ComplianceEase

ComplianceEase® is an automated compliance tools that 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. But automated loan review tools are a supplement to the procedures outlined in this policy. 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® (ComplianceAnalyzer) and is made available to state regulators through an agreement between CSBS and LogicEase, Inc (dba ComplianceEase®).

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) format and is available for license on www.regulatorconnect.com. 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 delivery loan information.

How does it work?

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. 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.

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.

Licensee data is processed through a function 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 as series of loan-level audits, as well as high-level reports that summarize a licensee’s entire portfolio.

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 Risk Indicator risk 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 the below listed risk indicator levels, in order to perform general verifications on the data integrity of the loan information in the portfolio.

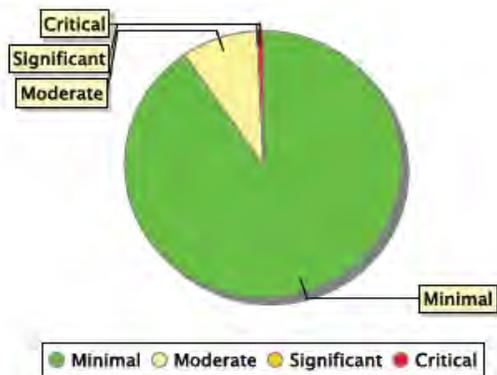
- Significant
- Moderate
- Critical

Analyzing 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 (as shown below) 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.

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.

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.

Different risk indicator provided by the system:

- Critical
- Significant
- Moderate
- Elevated
- Minimal

For detail on the causes of a particular risk indicator, examiners should refer to the *Findings Summary Report*, which explains which failed test(s) cause a particular risk indicator. Examiners are encouraged to expand examination procedures for loans with a risk indicator of moderate and above.

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 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.

Different risk indicator levels reported by RESPA auditor:

- Significant
- Moderate
- Minimal

It is recommended that examiners review all loans that have been assigned any Risk Indicator level other than Minimal.

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-10/3/2015 or post-10/13/2015). 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 and mortgage
2. The Loan Estimate or Closing Disclosure statement
3. The Truth in Lending disclosure
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* option to save and process the entered data. The result of a single loan audit is the *Mortgage Compliance Audit Report*. Interpretation of this report and the terms used within it is explained above.

Mortgage Examination Policy: APPENDIX

Appendix A

On-Site Pre-Exam Notification Letter

Financial Institutions Division
651-539-1720

September 2, 2015

Via email: xxx@gmail.com

Mortgages LLC
Louis B.
10 Justice Way
Lakeville, MN 55044

Dear _____,

The examination of _____ Company Name_____ has been scheduled to begin on _____ **DATE** _____, at your location at _____ ADDRESS_____. The examination procedures will be completed by a team from the Financial Institutions Division of the Department of Commerce (DOC). You can expect the Minnesota DOC team to be at your office during normal business hours (8am-5pm) until the conclusion of the review.

The primary purpose of this notification is to permit your company adequate time to assemble the needed records and to make reasonable accommodations required for the examinations. To further facilitate the examination, please designate one person from the company to be designated as the primary contact for all examination matters. At least one person should be on-site at all times during the examination. The examination process begins with completion of the following two steps:

STEP 1: Complete the **Examination Questionnaire-Appendix A** in its entirety **no later than December _____ DATE_____**. There are two options for submitting the completed Examination Questionnaire and the supporting documentation requested:

1. Send Appendix A and Supporting Documentation via secured email to: _____ Email_____; OR
2. Upload to Department of Commerce Secure File Transfer Protocol Website (See attached **Appendix B** instruction guide to request login information).

STEP 2: Upload the **Loan List** requested in item “N” of the Appendix A - Questionnaire to <https://www.regulatorconnect.org/> with encryption for security. Please see the included **Appendix C, Appendix D, and Appendix E** for further instructions. Due to TRID effective October 3, 2015, please upload the loan list into two separate files: Loan Applications taken before TRID and after TRID became effective.

Please upload loan data no later than _____ DATE_____.

Pursuant to **Minnesota Statute § 46.04**, the examination team will need full access to all records, files, and computers for all branches while conducting the examination. Examiners may also interview employees by phone to obtain information relevant to the examination. Minnesota Statutes requires the company to be billed for the cost of the examination.

If company operations are conducted out of a residence or restricted work space, we ask for cooperation with the following:

- 1.) Access to at least one electrical outlet;
- 2.) Workstation with space and chairs for up to two examiners;
- 3.) At least one company representative present during normal business hours of the examination; and,
- 4.) All pets must be contained in an area away from the workstation.

The Examiner-in-Charge (EIC) will be ___EIC Name___ and is the best person to contact with any questions you may have concerning the examination.

In the effort to protect consumers, the Financial Institutions Division appreciates your timely completion of the questionnaire and submission of the supporting documentation. If you have any questions, please contact EIC via email or by phone at ___Phone Number___.

Please reply to this email to confirm receipt of this examination notification and delivery of the Appendix A, B, C,D & E.

Sincerely,

Examiner Electronic Signature

EIC XXXXX

Appendix B

Off-Site Pre-Examination Notification Letter

Financial Institutions Division
651-539-1720

September 2, 2015

Via email: xxx@gmail.com

Mortgages LLC
Louis B.
10 Justice Way
Lakeville, MN 55044

Dear _____,

Via email: xxx@gmail.com

Mortgages LLC
Louis B.
10 Justice Way
Lakeville, MN 55044

Dear _____,

The examination of Highland Federal Finance, Inc. has been scheduled to begin on **February 16, 2016**, at the Commerce Department in St. Paul, MN. The examination procedures will be completed by a team from the Financial Institutions Division of the Department of Commerce. The Examiner-in-Charge (EIC) will be Sarah Butler and is the best person to contact with any questions you may have concerning the examination.

The primary purpose of this notification is to permit your company adequate time to assemble the needed records and to make arrangements for information that is routinely required for the examinations. To further facilitate the examination, it would be helpful if a person on your staff would be designated as the primary contact for examination matters.

STEP 1: Complete the **Examination Questionnaire-Appendix A** in its entirety **no later than February 8, 2016**. There are two options for submitting the completed Examination Questionnaire and the supporting documentation requested:

1. Send Appendix A and Supporting Documentation via secured email to: [examiner name@state.mn.us](mailto:examiner_name@state.mn.us); OR
2. Upload to Department of Commerce Secure File Transfer Protocol Website (See **Appendix B** instruction guide to request login information).

STEP 2: Upload the **Loan List** requested in item “N” of the Questionnaire to <https://www.regulatorconnect.org/> with encryption for security. Please see the included **Appendix C, Appendix D, and Appendix E** for further instructions. Due to TRID effective October 3, 2015, please upload the loan list into two separate files: Loan Applications taken before TRID and after TRID became effective.

Please upload loan data no later than February 8, 2016.

Pursuant to Minnesota Statute 46.04, the examination team will need full access to all records, files, and computers for all branches while conducting the examination. Examiners may also interview employees by phone to obtain information relevant to the examination. Minnesota Statutes requires the company to be billed for the cost of the examination.

In the effort to protect consumers, the Financial Institutions Division appreciates your timely completion of the questionnaire and submission of the supporting documentation. If you have any questions, please contact EIC via email or by phone at 651-539-1720.

Please reply to this email to confirm receipt of this examination notification and delivery of the Appendix A, B, C, D & E.

Sincerely,
Sarah C. Butler

Sincerely,

Examiner Electronic Signature

EIC XXXXX

APPENDIX C

LOAN PORTFOLIO REQUEST

Prior to beginning the onsite portion of the examination, the Examination Team will conduct an offsite review of your loan portfolio using ComplianceEase examination software. Use of the ComplianceEase software is intended to make our review more efficient and lessen your regulatory burden and overall cost. Please provide the electronic transaction data as instructed below for all real estate secured loans originated or closed in Minnesota for the period beginning _____Date_____ through _____Date_____.

Directions:

1. Launch www.RegulatorConnect.org.
2. Click on Register on the top right hand corner. Enter all of the required information to register and configure a user ID and password to access the resources available in RegulatorConnect.
3. Once you have logged into RegulatorConnect, in the Instructions page, confirm whether the loans that are being requested for review have been processed through the ComplianceAnalyzer application already.
 - a. If the loans have been processed through ComplianceAnalyzer, contact ComplianceEase to utilize RegulatorDirect.
 - b. If the loans have **not** been processed through ComplianceAnalyzer, there are two options.
 - i. Confirm whether your loan origination system is certified with RegulatorConnect using the RC Certified Systems tab. If the loan origination system is certified with RegulatorConnect, functionality is available to directly export all of the necessary loan information for ComplianceAnalyzer.
 - ii. If the loan origination system is not certified with RegulatorConnect, download the appropriate CSV templates available on the Instructions page. Separate templates are available for fixed rate mortgages (FRM), adjustable rate mortgages (ARM), and home equity lines of credit (HELOC). For pay option ARM, utilize the ARM template. For buydown and construction loans, utilize the FRM template.
4. Within each template, complete instructions are provided on what loan information is required.
 - a. Please note that all of the information mandatory for examination purposes are marked "REQUIRED". If the information is not applicable, the field can be left blank.
5. Please note that the requested loan data must be separated into two files:
 - a. Originated or closed with a Minnesota consumer.
 - b. Originated or closed on a dwelling in Minnesota.

6. Once all of the appropriate information is populated into the CSV template, utilize the Data Validation tool in RegulatorConnect. Click on [Data Validation](#) and follow the instructions on the page.
 - a. Please note that **all** data validation errors must be corrected prior to delivering the file to the regulator/examiner.
 - b. Please also note that RegulatorConnect has a 30 minute timeout security setting. Large CSV files in excess of 500 loans may require more than the allotted time to validate. It is suggested to split the loans into separate files if possible.
7. Save the CSV template(s) after all of the validation errors are corrected.
8. Zip the individual CSV template(s) and assign a password to the file.
9. In RegulatorConnect, click on [Submit File](#) and follow the instructions on the page to deliver the CSV template(s) **directly to the EIC State**.

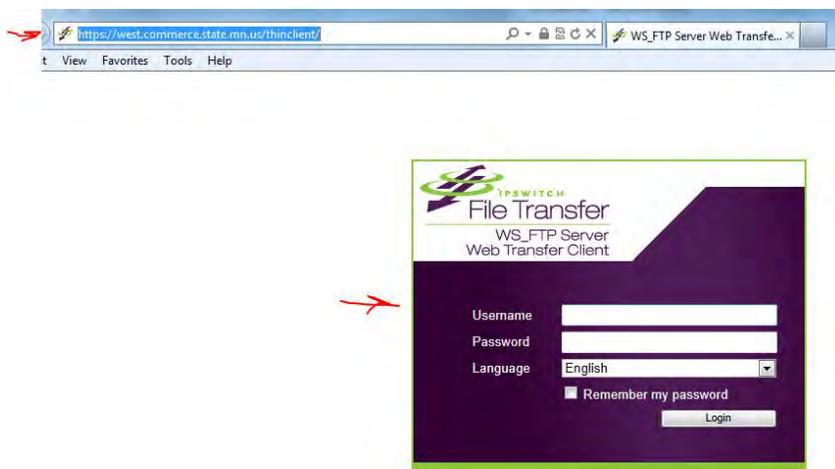
Appendix D

Using the Minnesota Department of Commerce File Transfer Protocol (FTP) Website

In connection with the upcoming examination of your company, the Examination Team has requested various documents from your staff. These documents should be sent electronically using the File Transfer Protocol Website. These instructions will show you how to use the website:

Step 1: Follow this link to the website: <https://west.commerce.state.mn.us/thinclient>

The page will look like this:

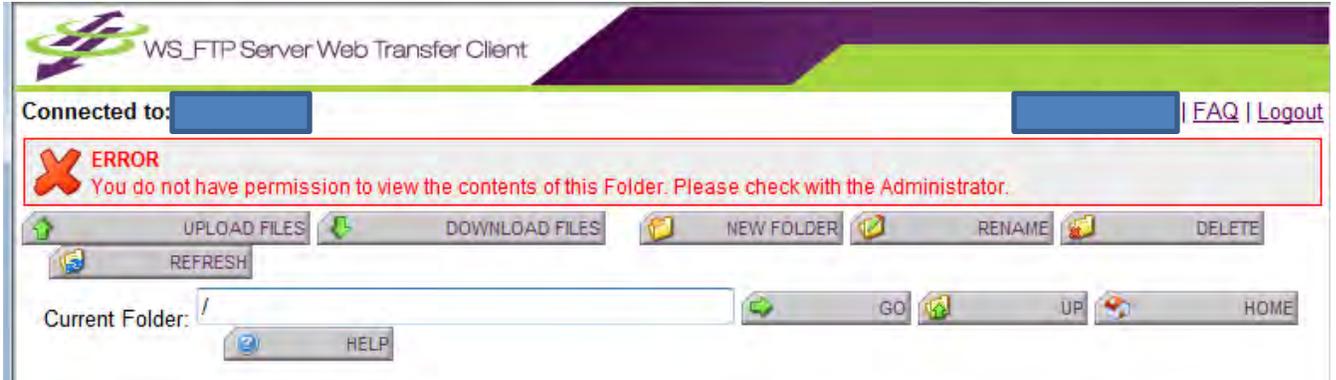


Step 2: Add this website to your Trusted Websites list: <https://west.commerce.state.mn.us/thinclient>

Step 3: Request the Username and Password from the examiner in charge. Then enter the Username and Password that you were provided by the Examination Team.

Step 4: Click "Login"

Step 5: You will see the Home Screen:



Step 6: Click "Upload Files". You will see Upload screen:



Step 7: Click "Browse" and select the files that are needed.

Note: If you have a large amount of files to upload, creating a ZIP file may allow you to condense many documents into a single file.

Step 7: Click “Upload” to upload the requested files.

Step 8: Log out by clicking the “Logout” button in the upper right hand corner.

STATE OF MINNESOTA

DEPARTMENT OF COMMERCE
Financial Institutions Division

85 7th Place East, Suite 500

St. Paul, MN 55101-2198

LICENSED MORTGAGE ORIGINATORS

EXAMINATION QUESTIONNAIRE MINNESOTA § 58.115

All licensees must complete the Licensed Mortgage Originators Examination Questionnaire in conjunction with the examination conducted pursuant to **Minnesota § 58.115**. All questions are to be answered. If not applicable, insert N/A or check the box marked N/A. If there is inadequate space or attachments are required, attach additional sheets or material to this questionnaire and reference the section to which it refers.

GENERAL INFORMATION

1. State the principal name under which the licensed entity has been organized:

2. MN License # NMLS #

3. List all “doing business as” or “trade names” and web sites under which residential mortgage business is conducted, include a copy of the DBA filed with the Minnesota Secretary of State:

4. List of all affiliates/subsidiaries of the Company

5. Provide Licensee's parent company and organizational structure

6. Provide the following information for the contact person for this examination:

Name and title:

Address:

Telephone number:

Facsimile number:

E-mail address:

7. (a) Provide the principal office physical address and list all branch offices in MN:

Street:

City State & Zip:

b) Provide the mailing address if different than (a) above:

c) Provide the address or addresses where the residential mortgage files, financial records and employment records are maintained if different than (a) above:

d) How are your records maintained? Please explain the type(s) of software system(s) used to maintain borrowers' loan files and servicing records, and how the system(s) can be accessed either at your licensed location or from the offices of the State?

-
8. How is the licensee incorporated? Sole Proprietorship
 Partnership
 Corporation
 Limited Liability Company
 Other (specify) _____

9. List the name, title, and responsibilities of all officers, principals, partners, owners, directors and 10% or greater stockholders of the licensee on –**Schedule A**.
-

10. Does the licensee or any officer, principal, partner, owner, director or employee receive financial remuneration from, or own more than 1% of the service providers listed below, or do any of these listed service providers own 1% or more of the licensee? If the company does not have any, principal, partner, owner, director, or employee that owns more than one percent of any of the companies list above—check the box N/A If YES to any of the listed companies, complete attached **Schedule B**.

<u>Type of Company</u>	<u>YES</u>	<u>NO</u>
Title Company	<input type="checkbox"/>	<input type="checkbox"/>
Appraisal Company	<input type="checkbox"/>	<input type="checkbox"/>
Real Estate Company	<input type="checkbox"/>	<input type="checkbox"/>
Credit Reporting Company	<input type="checkbox"/>	<input type="checkbox"/>
Credit Counseling Company	<input type="checkbox"/>	<input type="checkbox"/>
Credit Service Company	<input type="checkbox"/>	<input type="checkbox"/>
Insurance Company	<input type="checkbox"/>	<input type="checkbox"/>
Securities Company	<input type="checkbox"/>	<input type="checkbox"/>
Builder	<input type="checkbox"/>	<input type="checkbox"/>
Home Improvement Contractor	<input type="checkbox"/>	<input type="checkbox"/>
Real Estate Developer	<input type="checkbox"/>	<input type="checkbox"/>
Escrow Company	<input type="checkbox"/>	<input type="checkbox"/>
Any other settlement service provider	<input type="checkbox"/>	<input type="checkbox"/>
Bi-Weekly or Amortization Reduction Company	<input type="checkbox"/>	<input type="checkbox"/>
Notary Service or Signing Service Company	<input type="checkbox"/>	<input type="checkbox"/>
Loan Origination Company	<input type="checkbox"/>	<input type="checkbox"/>

TYPE OF BUSINESS

11. a) Indicate the type(s) of residential mortgage and personal loan business in which the licensee is engaged:

<input type="checkbox"/> First Mortgage Brokering	<input type="checkbox"/> Secondary/Junior Mortgage Brokering
<input type="checkbox"/> Table Funded First Liens	<input type="checkbox"/> Table Funded Secondary/Junior Liens
<input type="checkbox"/> First Mortgage Lending	<input type="checkbox"/> Secondary/Junior Mortgage Lending
<input type="checkbox"/> First Mortgage Servicing	<input type="checkbox"/> Secondary/Junior Mortgage Servicing
<input type="checkbox"/> Other - Explain	<input type="checkbox"/> Reverse Mortgage
	<input type="checkbox"/> Auto Loan Servicing
	<input type="checkbox"/> Personal Loan Servicing

b) Indicate the location of all trust records, complaint resolutions, and advertisements records and how long these files are retained:

b) TOTAL LOANS MADE BY TYPE

	Year to Date		2015		2014	
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
Brokered loans						
Table Funded loans						
Warehouse Funded loans						
Loan Modifications						
TOTALS						

c) TOTAL LOANS BY LIEN

	Year to Date		2015		2014	
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
First Lien Mortgages						
Second Lien Mortgages						
TOTALS						

d) TOTAL LOANS BY TYPE

	Year to Date		2015		2014	
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
Conforming						
FHA						
VA						

Reverse Mtg						
USDA / RD						
TOTALS						

e) LOANS SERVICED

	Year to Date		2015		2014	
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
Loans Serviced						

12. Is any business other than residential mortgage loan business conducted at the licensee's office locations? Yes No

If YES, provide the nature of the business(es) and the location(s).

13. Has licensee been approved with any of the following?

	NUMBER	YEAR ISSUED	YEAR SURRENDERED RESTRICTED OR REMOVED	REASON FOR ACTION
GNMA (direct seller to)				
FHLMA (direct seller to)				
FHA				
VA				
MHFA				

If any boxes were checked, state the date of approval, and the date the approval was surrendered, restricted, or removed (if applicable)

14. Surety Bond Company _____ Bond # _____
 Renewal / Expiration date _____ Amount _____

15. Has licensee had consumers sign a security agreement or a promissory note for residential mortgage loans, prior to all conditions being satisfied to fund the loan, a practice often referred to as conditional or accommodation closings? Yes No

ORIGINATION

16. What were licensee's sources of business during the past three (3) years indicate the top three?

- | | |
|--|---|
| <input type="checkbox"/> Internet/ web site | <input type="checkbox"/> Trade Publications |
| <input type="checkbox"/> Referral | <input type="checkbox"/> Telephone Solicitation |
| <input type="checkbox"/> Print Advertisement | <input type="checkbox"/> Third party loan brokers |
| <input type="checkbox"/> Television/Radio Advertisements | <input type="checkbox"/> Other (specify) _____ |

17. Have any independent entities brokered residential mortgage loans to licensee? Has the licensee purchased leads? Yes No

If YES, provide the name(s) and address(es) of the entities.

18. Has licensee or employee received any monies, prior to loan closings from consumer other than for credit report? Yes No

If YES, state the types of fees and how the fees are handled: include types of trust accounts the funds are held and where. Include the details of the process or include the policy.

SALE OF LOANS AND LOAN FUNDING

19. Are all warehouse lines of credit repaid directly by the investor? Yes No N/A
If the company does not maintain warehouse lines—check N/A

If NO, provide details.

20. Has licensee made or brokered any loans that defaulted within the first three (3) months? Yes No

21. Has the licensee had any warehouse lines of credit?
Or other borrowings terminated within the past three (3) years? Yes No

If YES, provide details.

22. Has the licensee been requested or required to repurchase any mortgage
loan, pay a settlement in lieu of repurchasing the mortgage loan,
or return any payments to a lender/investor? Yes No

If YES, provide details.

SERVICING

If the company does not service residential mortgage loans, Skip to question no. 25.

23. Does the licensee maintain any borrower escrow accounts for
property taxes, homeowners insurance, or any other purpose,
in connection with its servicing of residential mortgage loans? Yes No

24. Does the licensee service residential mortgage loans for others? Yes No

CIVIL, CRIMINAL, AND ADMINISTRATIVE ACTIONS

25. Has the licensee or any officer, principal, partner, owner,
director or employee been denied a license/registration or
approval by any state or federal governmental agency to
engage in any regulated activity? Yes No

If YES, provide details and copies of applicable documentation.

a) Has the licensee been the subject of material litigation
or any litigation related to consumer protection issues? Yes No
If YES, provide details.

26. Has the licensee or any officer, principal, partner, owner,

director or employee had a license/registration, to engage in any regulated activity, suspended or revoked or otherwise restricted by any state or federal governmental agency? Yes No

If YES, provide details and copies of applicable documentation.

a) Has the licensee or any officer, principal, partner, owner, director or employee been the subject of any administrative action by any state or federal governmental or regulatory agency? Yes No

b) Has any such administrative action resulted in the payment of fines or penalties? Yes No N/A

e) Has any such administrative action resulted in required consumer refunds? Yes No N/A

If YES to any of the above, provide details and copies of applicable documentation.

d) Is the licensee currently under investigation by either a state or federal government? Yes No
If yes, by whom?

27. a) Has the licensee or any officer, principal, partner, owner, director (since the application or renewal on NMLS) or any employee ever been charged or been indicted in any criminal or civil litigation? Yes No

b) Has there been a conviction or judgment that has resulted from litigation? Yes No N/A

If YES to any of the above, provide details and copies of applicable documentation.

28. Has any officer, principal, partner, owner, director, or employee criminally misused, embezzled, absconded with or willfully misapplied any funds or valuables for which the licensee was responsible? Yes No

If YES, provide details and copies of applicable documentation.

29. Has the licensee had a claim filed against its surety bond or other similar instrument during the past three (3) years? Yes No

a. Provide copy of current bond in force.

If YES, provide details and copies of applicable documentation.

FINANCIAL INFORMATION

30. When does the licensee's fiscal year end? _____

31. Has the licensee's fiscal year end changed in the last three (3) years? Yes No

If YES, provide details.

32. How frequently are un-audited financial statements prepared?

33. Is an internal auditor or compliance officer employed by the licensee? Yes No

If YES, describe the reporting procedure and the audit program used.

34. Is the licensee currently delinquent (more than 90 days past due) on **any** account owed to any creditor or vendor? Yes No

If YES, provide a list of the creditors and vendors, the amount of the delinquency, and the reason for the delinquency.

35. Has any corporate stock or asset of the licensee been pledged to secure the indebtedness of any other entity during the past three (3) years? Yes No

If YES, provide details.

36. Is the licensee, on its own behalf, or any officer, principal, partner, owner, director or employee, on the licensee's behalf, contingently liable to a bank, finance company, factor, or other as endorser, guarantor, or otherwise? Yes No

If YES to contingent liabilities, provide details

TRUST ACCOUNTING

37. Does the originator collect payments from consumers for credit reports, appraisals, or any other third party fees? Yes No

38. Has the licensee received third party payments from the title/closing company that should have disbursed to the third party? Yes No

If YES provide an explanation how the fees were handled and paid to the third party.

39. Does the licensee collect advance fees, hold third party fees or maintain a trust account? Yes No

If YES provide an explanation how the fees are held and reported.

I hereby certify that the forgoing statements are true and correct to the best of my knowledge and belief.		
Officer's Name and Title	Institution's Name and Location	
Officer's Signature	Date Signed	Date Information Provided As of

--	--	--

ADDITIONAL INFORMATION REQUIRED TO BE SENT FOR THE EXAMINATION

A. List of all prior and existing employees, in entirety, employed through June 30, 2016.

COMPANY BRANCHES

B. List and all leases for MN operations and branch offices, if applicable.

PERSONNEL

C. Attach a list (Please provide in Excel Spreadsheet.) of all individuals licensed as mortgage originators in Minnesota:

- Last name
- First name
- Date Employed
- Office or branch location where employed
- NMLS Number
- Last date employed
- Position
- Individual employee compensation plan

PERSONS NOT ISSUED W-2 FORMS

D. If any person or entity acting or performing a service behalf of the licensee is not issued a W-2 statement by the licensee, provide the name(s), services provided and contact information in an Excel spreadsheet.

If there are no 1099 persons—indicate here as N/A

FINANCIAL

E. The licensee's last two year-end and the most recent year to date audited financial statements. If none indicate here as N/A .

F. If year to date financial statements are not audits, provide compilations signed and dated by an executive officer. If none indicate here as N/A .

G. A listing of all off-balance sheet assets that the licensee owns (assets and liabilities).
If there are no off-balance sheet assets—indicate here as N/A

H. A listing of all bank accounts utilized by the licensee during the past twelve (12) months. Include:

- Name and address of the depository institution;

- Account number;
 - Type of account;
 - Interest bearing Yes/No
 - Purpose of each account.
- a) Provide the most recent quarterly payroll statement and the most recent year-end payroll recap listing all employees paid compensation for Minnesota transactions.
If none indicate here as N/A .
- b) Provide last 12 months of operating and trust account bank statements.
If none indicate here as N/A .

FUNDING

- I. How is the company funded? Does the company use their own funds, warehouse lines, or secondary market commitments? Indicate here:
- J. If applicable, provide listing of all loans outstanding under warehouse lines of credit at the end of the last quarter. Please provide in Excel Spreadsheet. Include:
- Borrower name; (Last, First)
 - Property address;
 - Dollar amount of loan; and
 - Total number of days outstanding.
- K. If applicable, provide listing of all secondary market sources and commitments, as of the end of the last quarter. Please provide in Excel Spreadsheet. Include:
- Name of the investor; (Last, First)
 - Amount of the commitment;
 - Expiration date; and
 - Amount currently available under the commitment.

ORIGINATIONS

Provide the following:

M. A **sample, blank** residential mortgage loan application package in entirety, with all disclosure forms.

N. A listing of **ALL** residential mortgage loans made to Minnesota Consumers, from **September 30, 2013 to September 30, 2016**. These loans should have been reported to Minnesota in the MCR on NMLS. See the Step 2 instructions from the initial request letter to provide encrypted files uploaded to <https://www.regulatorconnect.org/> Due to TRID effective October 3, 2015, please upload the loan list into two separate files: Loan Applications taken before TRID and after TRID became effective.

O. Real estate secured loans renewed/refinanced **for same borrower** in past 12 months. Please provide in Excel Spreadsheet. If none indicate here as N/A .

- Name (Last)
- Name (First)
- Loan #
- Date of Origination
- Settlement date
- # of renewals/refinances with your company
- Total broker fees including any YSP or SRP
- Interest rate of loan paid off
- Date of previous loan closing
- Interest Rate of new loan
- Loan program of loan paid off
- Loan Program of new loan
- Contemporaneous second mortgage loan with first mortgage
- Contemporaneous unsecured loan with first mortgage

P. Provide a list of all loans **rescinded by borrowers**. Please provide in Excel Spreadsheet. If none, indicate here as N/A .

- Loan #
- Date of Origination
- Date Loan Rescinded
- Total Cost Paid by borrower

Q. Provide a list of all sellers of property where your company brokered or funded the purchase money mortgage loan on more than three occasions within the past 18 months.

INSURANCE SALES

R. Does the licensee finance single premium credit health insurance, single premium credit involuntary unemployment insurance or single premium credit life insurance? Yes No

SERVICING

S. Does the company service loans Yes No
* If so, provide a sample monthly statements and
* Trust Account Reconcilements and Escrow analysis, respectively.

REGULATORY/COMPLIANCE

T. Provide a listing of the states in which the licensee conducts residential mortgage loan business but is not required to be licensed or registered.

MISCELLANEOUS

Provide the following:

AA. The most recent quality control report prepared either internally or externally.

If no quality control reports have been prepared—indicate here

BB. A letter from legal counsel describing pending litigation. The letter should include:

- Whether the licensee is the plaintiff or defendant;
- The dollar amount involved;
- A brief description of the suit;
- The status of the suit; and
- An opinion on the probable outcome.

If you have no pending litigations against your company—indicate here

CC. Copies of all advertisements and solicitations concerning mortgage business directed at Minnesota Residents during the past 60 months, include all print, electronic and media (verbal or visual), in the format they were distributed to the public. Include where or how the advertisement was placed before the public. In the event the advertisement involves the presentation of interest rates and APR's include documentation of your ability to offer that rate of interest and the calculations that arrived at that APR.

If no advertisements and solicitations exist—indicate here

DD. An organizational chart detailing ownership and affiliate relationships of the licensed entity. Also include an organization chart of any related entities organized through the parent that conduct residential mortgage loan activity.

If no organizational charts exist—indicate here

EE. Licensee's disaster recovery plan.

If no disaster recovery plan exists—indicate here

FF. Licensee's information technology, records and internet security policy information. (Gramm-Leach Bliley Act)

If no Information Technology Policies exist—indicate here

GG. Licensee's personnel policies and procedures that demonstrate reasonable care in insuring the loan applications file progression from point of origination, processing through funding and quality control to include what staff position is responsible for that step in the progression. Include hiring, ongoing training and terminations. Also include an explanation of who in the organization arranges for appraisal and title orders. **If no lending policy exists—indicate here**

HH. Copy of the company consumer complaint policy, documentation and resolution file log.

II. Copy of all loan originator compensation plans, corresponding to the loan data file dates.

If no compensation plans exist—indicate here

JJ. Copy of all compensation plans with individual originators, third-party or originating brokers agreements, corresponding to the loan data file dates.

If no compensation agreements exist—indicate here

KK. List of all enforcement actions, including outcomes, taken or pending by any state or federal regulatory authority.

If no enforcement actions exist—indicate here

LL. Provide most recent BSA/AML report, company policy and training log.

If no policy exists—indicate here

MM. List of all business, marketing, referral, and affiliate entities and provide copies of all written agreements.

If no affiliate policy or agreements exists—indicate here

OO. Does your company hold unclaimed property? (i.e. unknown payee) If so, provide copies of abandoned property notice for the prior three years to ensure compliance with Minnesota Unclaimed Property Statute §345.31 to §345.60

If unclaimed property is not held—indicate here

PP. Policies and procedures used to identify and mitigate Identity Theft as required by the Red Flags Rule Program (FCRA Covered Institutions).

If not a covered institution—indicate here

This is an official document. Any false information contained in it may be grounds for prosecution and may be punishable by fine or imprisonment. Minnesota §45.027

Appendix F

Mortgage Examination EIC Checklist

Company Name: _____

Exam Start Date: _____

Pre-Examination:

_____ Meet with Non-Depository Supervisor to determine which Mortgage Company to examine

_____ Log exam and Company info in Exam Log

I:/FE/Mortgage Company Exams – IN PROCESS – Yearly MO Exam Logs

Include following information:

Date of Pre Exam Letter: _____

NMLS Number: _____

Company Name: _____

Company Location: _____

EIC: _____

Exam Commence Date: _____

_____ Review previous examination

_____ Review previous workpapers

_____ Update Risk Rating Matrix

_____ Call Contact Person listed for Company

_____ Send Pre-Exam Letter and Minnesota Mortgage Company Questionnaire to Company

_____ Receive Questionnaire and Loan Data from Company

_____ Check for complaints against company

_____ Put electronic data into folder for Company on I Drive. City, then Name (AVON – Example Mortgage Company)

I:/FE/Mortgage Company Exams – PRELIMINARY

_____ Review Questionnaire

_____ Scope Loans

_____ Send Scoped Loan List to Company

_____ Review information that company sent

_____ Review Surety Bond

During Examination:

_____ Personnel Administration

_____ Complete Personnel Administration work paper

_____ Determine Rating for Personnel Administration

_____ Write Comment

_____ Financial Analysis

_____ Complete Financial Analysis work paper

_____ Determine Rating for Financial Analysis

_____ Write Comment

_____ Compliance

_____ Complete work papers

_____ Determine Rating for Compliance

_____ Write Comment

_____ Management

_____ Complete Management work paper

_____ Determine Rating for Management

_____ Write Comment

_____ Exit meeting with management: Confidentiality of all Report items

Examination Wrap Up

_____ Move exam into IN PROCESS folder

I:/FE/Mortgage Company Exams – IN PROCESS

Notify the supervisor via email with link to document for review process.

_____ Save the PENCIL Copy in the I:/FE/Pencil Copy/Mortgage/2015 folder and retain for two years according to: § 46.21 DESTRUCTION OF CERTAIN RECORDS. Subdivision 1. Reports, correspondence. After ten years, the commissioner of commerce may dispose of any examination report, call report of the condition of state banks, earnings and dividend report, oath of office of director, examining committee report, or any correspondence with reference to any examination report. After a period of two years the commissioner of commerce need not retain the examiner's original pencil copy of any examination report.

_____ After Supervisor approval, send Email to Support Staff stating that exam is ready for final processing.

Appendix G

Mortgage Company Examination Loan Scoping Guide

Company Name: _____

Exam Start Date: _____

Common Scoping Characteristics

Loans with:

- High Dollar Amounts
- High Loan to Value
- Low Credit Scores
- Late Payments
- Accrued Interest
- Changing Property Values
- First and Second Mortgages
- Multiple Loans to same borrower
- Denied loans
- Large Rate Fluctuations
- Insiders

Sample Size Guidelines:

No. of Loans (past 12 months)	Minimum	Plus:	Maximum
Under 99	10	Total number of loans if smaller	10
100-299	10	10% of number above 100	30
300-499	30	7% of number above 300	44
500-749	54	6% of number above 500	59
750-999	59	5% of number above 750	72
1000-1999	72	4% of number above 1000	112
2000-2999	112	3% of number above 2000	142
3000-4999	142	2% of number above 3000	182
5000-9999	182	1.5% of number above 5000	257
10000 or more	257	1% of number above 10000	

Number of Loans in Previous 12 Months: _____

Number of Loans Sampled: _____

How many of each loan was sampled?

Characteristic	Number Sampled
High Dollar Amounts	
High Loan to Value	
Low Credit Scores	
Late Payments	
Accrued Interest	
Changing Property Values	
First and Second Mortgages	
Multiple Loans to same borrower	
Denied Loans	
Large Rate Fluctuations	
Insiders*	

*Insider is defined as an owner of the company or a manager who has policy making power.

- **Compliance Risk Scoping:** There are a number of factors the EIC should consider in determining examination scope for evaluating compliance risk in an institution. Among other types of available information, the EIC should consider prior exams, external audits, and complaints in determining scope. Compliance areas are examined as necessary to achieve and/or maintain a reasonable assurance of the institution's adherence with state and federal laws and regulations. Additionally, the Supervisor of Non-Depository will provide guidance and direction to the EIC regarding key areas of examination emphasis and priority to assist in making scope determinations.
- **Financial Risk Scoping:** The risk-based examination method requires efficient scoping for financial condition risk. While examiners should reference the Examiner-In-Charge for direction on financial risk scoping, the following points reflect some guidelines for financial risk scoping:
 - ✓ Review prior exams/file correspondence for previously identified financial condition issues.
 - ✓ Review available data to develop a preliminary assessment of applicable trends and risk. Identify trends or changes in sources and use of funds requiring further analysis.
 - ✓ Review available documentation for evidence of oversight, responsibility, management reports, and any identified financial condition concerns.
 - ✓ Review/Discuss strategic planning and the financial condition implications of any new changes in direction.

Financial risk scoping requires examiners to gather most, but not limited to, the following documentation:

- Prior exams/file correspondence regarding financial condition component
- Policies and procedures relating to component and component management

- Any written internal controls regarding financial condition component
- Written audit program related to financial condition component
- External audit reports
- Internal/External reviews of component function
- Internal component monitoring documentation
- Internal reports showing sources and uses of funds
- Internal reports showing liquidity/earnings/capital levels and ability to meet unanticipated needs
- Financial statements for all relevant periods reviewed
- Legal documentation for all company loans – warehousing or working capital
- Internal/External reporting on compliance with loan covenants
- Internal reports showing loan turnover on the warehouse lines
- Internal reports showing the level of management involvement and effectiveness in supervising the component function
- Strategic planning documentation

Once the preliminary review is complete, the examiner can revise the scope of necessary.

The next step is to complete a work program where the following questions are answered in detail:

1. Are policies, procedures, and risk limits adequate?
2. Are internal controls adequate?
3. Are the audit or independent review functions adequate?
4. Are information and communication systems adequate and accurate?
5. Specific to liquidity: Does the overall assessment of liquidity, including provisions for back-up funding sources, indicate liquidity needs can be met without adversely affecting operations or financial condition?
6. Does the Board/Management effectively supervise financial condition?

Once all of the questions are answered, the examiner would compose a detailed comment regarding all relevant aspects of financial condition. The detailed comment is then pared down to a short one or two paragraph statement conveying the information necessary to support the function's rating

- Programmatic Scoping: Additionally, focus will be given to systemic programmatic issues when warranted. Scoping for such issues includes reviewing any existing complaints or

litigation. Examiners should also review the policies and procedures that management has in place for performing certain functions. Examiners should survey the actual facilities and observe employees in each area in order to ensure that the institution has adequately trained employees. Additionally, examiners should request that management verbally communicate the institution's policies and procedures in order to ensure that management is very familiar with the company's plans for maintaining a successful operation.

- **Scope Expansion:** To the extent practical, examiners will utilize the work performed by others, such as, external and internal auditors/reviewers, the degree of reliance on this work is based upon the examiner's judgment of the competence and independence of the individuals involved with audits or reviews and the overall adequacy of the institution's system of internal controls.

On occasion, the examination scope can be expanded to meet special objectives. This could mean the examination would include an activity in the examination scope even if that particular area does not pose significant risk to the institution being examined.

APPENDIX: H

Pre-Examination Complaint Research Workpaper

Company Name: _____

Exam Start Date: _____

There may be complaints or actions being taken against the mortgage company. There are many ways to check for complaints.

1. Use the Commerce Actions and Regulatory Documents Search (CARDS) system
 - a. Go to the CARDS website
 - b. Select “Enforcement Actions” using the “Pick your area of Interest” drop down menu
 - c. For Industry Type, select “Mortgage”
 - d. Fill in Company name
 - e. Search
2. Verify via the PULSE System and/or contact Enforcement to request assistance
 - a. Matt Boyer
 - b. Nick Kulpa
 - c. Scott Parks
3. Check the Consumer Financial Protection Board Website for complaints
 - a. <http://www.consumerfinance.gov/complaintdatabase/>
 - b. Click “View Complaint Data”
 - c. Search for the Company in the search box located in the top right corner.

APPENDIX: I
Management Workpaper

Statute and number(s)	Question	Y	N	Examiner Notes [Supporting document and evidence and note determination and finding made]
1	Are policies, procedures, and risk limits adequate?			
2) MN Stat. 58.13, Subd.1 (b)(1)	Does the company have a Trust account?			
3) MN Stat. 58.13, Subd. 1 (b)(6)	Has the company charged a fee for a service not provided?			
4) MN Stat. 58.13, Subd. 1 (b) (10)	Does the company use any other names?			
5) MN Stat. 58.13, Sub. 1 (b)(13)	Does the company offer loans with the intent of not receiving repayment?			
6) MN Stat 58.13, Subd. 1 (b)(14)	Does the company allow loans to be originated or processed by unlicensed employees?			
7) MN Stat. 58A.06	Is there any document to show that individuals who are engaged in residential mortgage origination or making residential mortgage loan have completed the education requirement approved by the NMLS?			
8) MN Stat. 609.822	Is there any act of mortgage fraud committed?			
9.)	Does management properly enforce policies and procedures related to operations?			
10.)	Does management properly enforce policies and			

	procedures related to regulatory compliance?			
11.)	Does management properly enforce policies and procedures related to financial condition?			
12.)	Does management have internal control and complaint resolution procedures?			
13.)	Is management program adequate and appropriately designed?			
14.)	Does the institution have a written Cyber Risk Management and Governance Process?			
15.)	<p>Has the institution conducted a Risk Assessment to identify threats to information or information systems? (If so, how often and when was the last one)? Components of the Risk Assessment should include:</p> <ul style="list-style-type: none"> • Classification of Information • Identification of Threats and Vulnerabilities • Measurement of Risk • Communication of Risks (to senior management and board of directors) 			
16.)	What actions or processes exist to manage risks and mitigate damage to customers or the institution due to cyber threats or data breaches?			
17.)	Describe the institution's Incident Response Plan to deal with a cyber-attack or data breach incident.			
18.)	Describe what actions the institution takes to audit third party contractors who may have access to the institution's private or confidential information to ensure their systems are secure and they have procedures for dealing with cybersecurity protections and incidents.			

State Regulatory Compliance Minnesota Statute Review Checklist

Company Name: _____

Start Date of Exam: _____

Number	Statute	Question	Answer	Comments
1	MN §47.03	Is the company using the name banker, Banking, or banking?	YES NO	
2	MN §47.206	Is the company using an interest rate and discount Point agreement?	YES NO	
3	MN §58.04 sub 1	Is the company properly licensed in MN?	YES NO	
4	MN §58.04 sub 3	Is the company using of multiple names?	YES NO	
5	MN §58.125	Do any LO's show any criminal activity on their personal MU filings?	YES NO	
6	MN §58.13, sub 1 (b)(2)	Does the company deposit money received within 3 days?	YES NO	
7	Mn §58.13, sub 1 (b)(9)	Has the company made any false statements to borrowers?	YES NO	
8	Mn §58.13, sub 1 (b)(11)	Does the company compensate an appraiser for work done?	YES NO	
9	Mn §58.13, sub 1	Does the company participate in subprime	YES NO	

	(b)(18)	loans?			
10	MN §58.13, sub 1 (b)(19)	Has the company use any false or deceptive advertising?	YES	NO	
11	MN §58.13, sub 1 (b)(20)	Does the company advertise loans not available?	YES	NO	
12	MN §58.13, sub 1 (b)(21)	Does the company list themselves as (or associated with) a government agency?	YES	NO	
13	MN §58.13, sub 1 (b)(22)	Does the company allow a refinance of special mortgages?	YES	NO	
14	MN §58.13, sub 1 (b)(24)	Does the company show a borrower's ability to pay?	YES	NO	
15	MN §58.13, sub 1 (b)(25)	Does the company demonstrate a Net Tangible Benefit for the borrower?	YES	NO	
16	MN §58.137, sub 1	Does the company charge above the state max fees (5% conforming, N/A FHA and VA)?	YES	NO	
17	MN §58.137, sub 2	Does the company charge a prepayment penalty on its conforming loans?	YES	NO	
18	MN §58.14, sub 5	Is the company keeping files for 5 yrs?	YES	NO	
19	MN §58.15, sub 2	Does the company use non-agency agreements?	YES	NO	

20	MN §58.16, sub 2	Does the company use an agency agreement?	YES	NO	
21	MN §58.03A	Has the LO met all licensing requirements?	YES	NO	
22	MN §58A.17	Are the NMLS reports accurate?	YES	NO	
23	FCRA 615 (a) & (b)	Does the company provide a form to the client if the file is denied?	YES	NO	
24	FACTA USC212 (g)	Does the company use a Notice to Homeowner disclosure?	YES	NO	
25	Section 3500.7 (b)	Does the company provide a change in circumstance to borrowers?	YES	NO	
26	Section 3500.7 (h)(1)	Does the final GFE exceed tolerance vs CLOSING DISCLOSURE?	YES	NO	
27	Section 3500.15 (b)(1)	Does the company have an affiliated business arrangement?	YES	NO	
28	Section 3500.21	Does the company use a transference of servicing form?	YES	NO	
29	Section 3500 app C	Are the important dates on the GFE accurate?	YES	NO	
30	Section 226.18 Sub B of Reg Z	Is the amount financed correct?	YES	NO	

31	Section 226.18 Sub C of Reg Z	Is the itemization of amount financed correct?	YES	NO	
32	Section 226.18 Sub D of Reg Z	Are the finance charges accurate?	YES	NO	
33	Section 226.18 Sub H of Reg Z	Are the total payments accurate?	YES	NO	
34	Section 226.18 Sub K of Reg Z	Is the prepayment penalty section completed?	YES	NO	
35	Section 226.18 Sub L of Reg Z	Are the charges for late payments accurate?	YES	NO	
36	Section 226.18 Sub M of Reg Z	Is the security interest in property complete?	YES	NO	
37	Section 226.18 Sub Q of Reg Z	Is the assumption of obligations complete?	YES	NO	
38	Section 226.36 Sub E	Is there a prohibition of steering form used?	YES	NO	
39	Section 336 US Patriot Act	Is there a verification of the customer ID?	YES	NO	
40	12 CFR 1024.8 (b)	Where is the location of settlement listed on the CLOSING DISCLOSURE?	YES	NO	

APPENDIX: J

FRAUD Workpaper

1	Fraud for property	Fraud for property typically represents illegal accounts conducted solely by the borrower, who is motivated to acquire and maintain ownership of a house under false pretense such as misrepresented income and asset information on a loan application.
2	Fraud for profit	Involves more complex schemes, and may involve more than one party. Those who commit fraud for profit are often industry insiders, such as bank officers, appraisers, mortgage brokers, and attorneys, using their specialized knowledge or authority to commit or facilitate the fraud. Fraud for profit, is making false representations that result in financial gain for perpetrators.
Red Flags		
<ul style="list-style-type: none"> ○ Investment property is represented as owner-occupied ○ Name were added to the purchase contract ○ Good assets, but gift used as down payment ○ Power of attorney for borrower ○ Sale involves a relative or related party ○ Two or more closing occur almost simultaneously ○ Parties to the transaction are affiliated 		<ul style="list-style-type: none"> ○ High FICO score ○ The borrower is barely qualified or unqualified ○ Multiple sales to same person ○ There is an indication of default by the property seller ○ Borrower buying investment property, but does not own current residence ○ Post office box is the only address listed for employer (especially on the handwritten application)
Debt elimination schemes: phony debt elimination programs in which homeowners pay advance fees and are given bogus documents, or are instructed to contact their lenders with assertions that the original mortgage debt was illegal under various laws		Loan modification schemes: scammers purport to assist homeowners who are delinquent in their mortgage payments and are on the verge of losing their home by offering to renegotiate the terms of the homeowners' loan with lender. The scammers, however, demand large fees up front and often negotiate unfavorable terms for the clients, or do not negotiate at all. Usually, the homeowners ultimately lose their homes.
Seller-assistance schemes		Short-sale schemes
CLOSING DISCLOSURES <ul style="list-style-type: none"> ○ Large disbursements that are not loan payoffs (Right side of CLOSING DISCLOSURE) ○ Loan payoffs to banks you have never head off. (Right side of CLOSING DISCLOSURE) ○ Signatures are on a separate page from CLOSING DISCLOSURE 		Kickbacks <ul style="list-style-type: none"> ○ Settlement Statement (CLOSING DISCLOSURE) ○ Appraisal ○ Ledger

APPENDIX: K

Personnel Administration Workpaper

Statute and number(s)	Questions	Y	N	Examiner Notes [Supporting document and evidence and note determination and finding made]
1	Are written policies in place for recruiting, hiring, evaluation and termination of employees and is it in compliance with labor laws?			
2	Is there any training program for MLOs, processor and other employees?			
3	How are employee compensated and trained?			
4 MN Stat. 58.13 Subd. 1(18)	Does the compensation guideline avoid incentives for employees to “sell” higher price loan to consumers who qualify for lower loan?			
5	Does the company have a compensation guideline or policies?			
6 MN Stat. 58A.16 Subd. 2	Does any individual representing to the public, through advertising or other means, that an individual can or will perform any of the activities of a mortgage loan originator?			
7 MN Stat. 58A.20	Do all originators display the unique NMLS identifier number on all residential mortgage loan application forms, solicitations, advertisements, business cards, and websites?			
8				
9				

Employee Training Program

The institution's employee training program should include training on the institution's policies and employee skills development programs. Examples of skills development programs would include training to improve interactions with fellow employees, interactions with the general public, computer hardware skills and computer software skills.

Education Requirements

Minnesota Section §58A.06 requires individuals who engage in residential mortgage origination or making residential mortgage loans, to complete at least 20 hours of pre-licensure (PE) education approved by the NMLS. The training must include at least:

- 3 hours of federal law and regulations
- 3 hours of ethics, which includes instruction on fraud, consumer protection, and fair lending issues, and
- 2 hours of training related to lending standards for the nontraditional mortgage protection marketplace.

In addition to the initial educational requirements, the Secure and Fair Enforcement of Mortgage Licensing Act of 2008 (SAFE Act) requires state licensed mortgage loan originator (MLOs) to complete 8 hours of continuing education (CE) annually. The 8 hours NMLS approved continue education include:

- 3 hours of Federal law and regulations
- 2 hours of ethics that shall include instruction on fraud, consumer protection, and fair lending issues
- 2 hours of training related lending standards for the nontraditional mortgage product market, and
- 1 hour of undefined instruction on mortgage origination.

Examiner should answer the following question relating to MLO training

- a. Is there any document to show that individuals who are engaged in residential mortgage origination or making residential mortgage loan have completed the education requirement approved by the NMLS?
- b. If so how many hours of pre-licensure (PE) education, and continue education were completed?

To answer the above questions, examiner should:

- Request for the list of all MLOs employees or individual who are making residential loans with their NMLS ID: And a list of employees who have obtained certification for required compliance education for the current year, including the name of the provider of courses and a copy of the certificate of completion.
- Check the NMLS to affirm MLOs license, and if possible have conversation with MLO during an on-site examination.

APPENDIX: L

Financial Analysis Workpaper

Number	Question	Y	N	Examiner Notes
1	Are there any previous State exam recommendations or concerns?			
2	When is the licensee's fiscal year end?			
3	Has the licensee's fiscal year end changed in the last three (3) years?			
	If there has been a change:			
	Why was the fiscal year end changed?			
	What discussions were had by management before the decision?			
	Are there plans to change the year end in the future?			
4	How frequently are un-audited financial statements prepared?			
5	Is an internal auditor employed by the licensee?			
	If yes:			
	What is the reporting procedure?			
	What is the auditing program that is used?			
6	Is licensee currently delinquent on any accounts payable?			

During Exam:

Capital

Capital is the ownership interest in the business. It represents the ownership's "stake" in the business and, through retained earnings, is a long-term indicator of the adequacy of operations.

Capital performs several very important functions:

- Absorbs losses
- Promotes public confidence
- Helps restrict excessive asset growth, when employed with capital ratio limitations

Business partners may also require that certain capital ratios be maintained. Large volume providers of services may require that capital ratios be maintained in order to allow an institution to pay for services monthly. An institution that is hired as a sub-contractor to service or process loans may be required to maintain capital ratios as well.

Ways in which a financial institution may increase its capital:

- **Increased Earnings Retention** through higher earnings, lower cash dividends, tighter controls over expenses, and upgrading credit standards to reduce loan losses. Note, however, that retained earnings only improve capital ratios when the increase exceeds asset growth.
- **Sale of Additional Capital Stock.**
- **Reduce Asset Growth** below that of capital formation. Note, this reduction results in a relatively higher capital-to-assets ratio, but may leave the institution with a strained liquidity posture further deteriorating the institution’s Safety and Soundness.

Number	Question	Y	N	Examiner Notes
7	What are additional sources of capital?			

Surety Bond

Upon filing of the mortgage call report as required by Minnesota Statute [58A.17](#), a licensee shall maintain or increase its surety bond to reflect the total dollar amount of the closed residential mortgage loans originated in this state in the preceding year according to the table in this paragraph. A licensee may decrease its surety bond according to the table in this paragraph if the surety bond required is less than the amount of the surety bond on file with the department.

Dollar Amount of Closed Residential Mortgage Loans	Surety Bond Required
\$0 to \$5,000,000	\$100,000
\$5,000,000.01 to \$10,000,000	\$125,000
\$10,000,000.01 to \$25,000,000	\$150,000
Over \$25,000,000	\$200,000

Number	Question	Y	N	Examiner Notes
8	What is the amount of the licensee's Surety Bond?			
9	Is it appropriate?			

Contingent Liabilities

When assessing capital, the examiner should be careful to consider contingent liabilities. Contingent liabilities affect the adequacy of capital through both their volume and the likelihood that they will become true liabilities.

Contingent liabilities can arise through:

- Lawsuits
- Contractual agreements (retention of some liability for loans sold in the secondary market)

Additionally, especially in large institutions that hold loans long-term, the adequacy of loan loss reserves is critical. Inadequate loan loss reserves have the capacity to erode capital in the event of asset classification or loan losses.

In general, examiners must ask the question, “Considering existing and potential liabilities and risks, does this institution have sufficient capital to sustain operations?” If not, examiners may choose to criticize management and recommend that the institution increase its capital to a sufficient level.

Number	Question	Y	N	Examiner Notes
10	Are there any contingent liabilities?			

Ratio Analysis

Detail information about **Prolonged Negative Earnings** for previous 4 Quarters:

	Q:	Q:	Q:	Q:
Prolonged Negative Earnings*				

*Prolonged Negative Earnings = Tangible Net Worth / Average Assets

- When an institution is experiencing negative and prolonged earnings it is important to know how long it can survive before capital disappears.
- To calculate the capital burn rate:
 - Average out the loss experience
 - Divide tangible net worth by the average losses.
 - Average losses can be calculated based on how thorough the data is.
 - Examiners could make it weekly, monthly, or quarterly depending on the severity of the losses.
 - The resultant figure will reveal:
 - How many periods you have remaining before regulatory capital minimums are breached.
 - How long you've got until insolvency.
 - How quickly you need to react as a regulator with orders, information requests, etc.
- It is important to keep in mind an appropriate time frame (weekly, monthly, quarterly) for losses.

Earnings

The essential purpose of earnings, both current and accumulated, is to absorb losses and augment capital. Additionally, earnings are an immediate source of liquidity generated primarily from the normal operations of the business. Earnings are also a short-term indicator of the adequacy of operations. Earnings are the initial safeguard against the risks of engaging in the mortgage business, and represent the first line of defense against capital depletion resulting from shrinkage in asset value. Earnings performance should also allow the institution to remain competitive by providing the resources required to implement management's strategic initiatives.

Earnings quality is the ability of an institution to continue to realize strong earnings performance. It is quite possible for an institution to register impressive profitability ratios and high dollar volumes of income by assuming an unacceptable degree of risk. An inordinately high ROA may be an indicator that the institution is engaged in higher risk activities relative to peers.

Ratio Analysis

Detail information about **Return on Assets** for previous 4 Quarters:

	Q:	Q:	Q:	Q:
Return on Assets*				

*Return on Assets = Net Income / Total Assets

- The ROA is a common starting point for analyzing earnings because it gives an indication of the return on the institution's overall activities. Traditionally, return on assets is the primary measure of an association's profitability. Examiners should review the level, trend, and peer comparison of this ratio since it is a critical determinant of long-term viability.
- Generally, an adequate ROA in mortgage institutions is above 10%, while a moderate ROA is 0-10%, and an inadequate ROA is below 0%.

Detail information about **Return on Equity** for previous 4 Quarters:

	Q:	Q:	Q:	Q:
Return on Equity*				

*Return on Equity = Net Income / Shareholders Equity

Shareholders Equity = Total Assets – Total Liabilities

- Return on equity indicates a corporation's profitability by depicting how much profit an institution creates with the money shareholders have invested.

Investors and capital markets use the return on equity ratio to determine investment options.

- Generally, an adequate ROE in mortgage institutions is above 32%, while a moderate ROE is 0-32%, and an inadequate ROE is below 0%.

Detail information about **Quick Ratio** for previous 4 Quarters:

	Q:	Q:	Q:	Q:
Quick Ratio*				

*Quick Ratio = (Cash and equivalents + marketable securities + accounts receivable) / current liabilities

- The Quick Ratio is good indicator of an institution’s short-term liquidity. It gauges an institution’s capacity to meet short-term debt obligations with its most liquid assets.
- Generally, a satisfactory Quick Ratio is above 1.3%, while an above average Quick Ratio is 1.0-1.3%, a below average Quick Ratio is 0.1 to 0.9%, and an Unsatisfactory Quick Ratio is below 0.1%.

Turnover Rate:

Measures about how many times in a month the warehouse line is drawn upon and paid-off. In looking at the data for this ratio it also becomes quickly evident whether the institution is constantly hitting the ceiling on its borrowing capacity on any particular line.

Number	Question	Y	N	Examiner Notes
11	How often is the line paid out every month?			
12	How much of the line is used?			

Liquidity

The financial strength of a lending institution is largely determined by its ability to fund loans that are in the pipeline. Liquidity risk is the risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. The typical institution does not portfolio loans and depends on quick turnaround on the sale of originated loans; therefore, liquidity is very crucial when analyzing the financial condition of an institution. In the context of analyzing the institution's liquidity, the examiner should verify the level of capital. An institution with a strong capital positions and earnings fundamentals that are trending up is likely to be able to easily fund ongoing operations and have no difficulty raising liquidity for even unforeseen events from other money center financial institutions. Conversely, institutions with low levels of capital, weak earnings that are not growing or trending low or whose assets are deteriorating, may find financing to be more expensive or borrowing line maturities reduced. The examiner should also inspect for the quality of the assets the institution works with and their potential impact on liquidity sources.

To provide funds to satisfy liquidity needs, one or a combination of the following must occur:

- Disposal of assets.
- Increase in short-term borrowings.
- Increase in long-term liabilities.
- Increase in capital through earnings, capital injection, stock issuance, or issuance of other capital instruments.

Liquidity is also necessary to fund daily activities. Cash is necessary to pay workers, pay third party service providers, pay for the acquisition of assets (including leasing or buying equipment or premises), pay for supplies and pay creditors. For a lending institution, it is important that the business have cash reserves to cover loan commitments and to fund loans that are going to closing but have not been funded. Trends in cash reserves can be observed through the NMLS Mortgage Call Report Cash Flow Statement. Sources of liquidity for a residential mortgage institution include retained earnings, sales of assets, warehouse lines of credit, other loans and paid in capital.

It is important that examiners determine if sources of liquidity (i.e. lines of credit) are viable and likely to continue to support operations; not just availability.

Good management information systems, strong analysis of funding requirements under alternative scenarios, diversification of funding sources, and contingency planning are crucial elements of strong liquidity management.

Ratio Analysis

Examiners should calculate the ratios listed below and consider them in the liquidity evaluation.

	Q:	Q:	Q:	Q:
Current Ratio*				

*Current Ratio = Current Assets / Current Liabilities

The higher the ratio, the more liquid the company is.

Satisfactory = >1.8 percent

Above Average = 1.3 - 1.8 percent

Below Average = 1.0 - 1.2 percent

Number	Question	Y	N	Examiner Notes
13	What is the level and trend of the Current Ratio? Increasing? Decreasing? Relatively level?			
14	Total Cash on Hand?			
15	Dollar amount of loans in pipeline?			
16	Does the company have enough cash on hand to meet their short term liabilities?			
17	Dollar amount of long term liabilities?			
18	Can company meet long-term debt obligations?			
19	Are earnings and capital sufficient for the current level of liquidity?			

APPENDIX: M
 COMPLIANCE - HMDA Workpaper

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
1	Coordinate compliance examination activities with other members of the examination team and the examiner-in-charge (EIC). Emphasis should be on identifying violations of law and regulation; integrating those findings with the examination; and concluding on management's compliance with laws and regulations. http://www.ffiec.gov/hmda/default.htm		
Examiner Notes:			
2	Review and evaluate the adequacy of policies, procedures, and internal controls to ensure the identification of applicable applicants and compliance with the requirements of HMDA and FRB Regulation C.		
Examiner Notes:			
3	Determine if the institution is ensuring that home mortgage loan information and records are properly compiled, maintained, and accurately disclosed.		
Examiner Notes:			
4	Ascertain whether management ensures that policies, procedures, and training, on an ongoing basis, are adequate and help facilitate awareness among responsible staff.		
Examiner Notes:			

	Examination Procedures		
	[Document supporting evidence noting determinations and findings made]	Y	N
5	Determine whether the correct HMDA-LAR form or format being used. If so, determine if it is in machine-readable format. https://www.ffiec.gov/hmda/forms.htm		
Examiner Notes:			
6	Determine if the institution has posted notices in the lobbies of its home and branch offices that are located in MSAs on the availability of the HMDA disclosure statement and the modified HMDA-LAR. Find out if the disclosure statement and HMDA-LAR is actually available at the home office and at least one branch office, if any, in each MSA.		
Examiner Notes:			
7	Determine whether HMDA disclosure statements are retained for 5 years, and if the HMDA-LARs are retained for 3 years.		
Examiner Notes:			
8	Determine whether the necessary census tract information is available and if the census tracts and/or county designations are accurate on the HMDA-LAR.		
Examiner Notes:			

	Examination Procedures		
	[Document supporting evidence noting determinations and findings made]	Y	N
9	Ascertain whether the latest disclosure statement was available to the public by March 31 following the calendar year for which the data were compiled.		
Examiner Notes:			
10	<p>Determine if the institution also reports data regarding the race or national origin, sex, and annual income of applicants for loans originated or applied for (does not include loans that are purchased). If the information is not provided, determine if the institution notes the data based on visual observation or surname.</p> <p>NOTE: Alternatively, the form used to obtain monitoring information under Section 202.13 of FRB Regulation B (Equal Credit Opportunity Act) may be used.</p>		
Examiner Notes:			
11	Conclude whether the institution is adequately complying with FRB Regulation C. If not, ascertain whether the conclusion of noncompliance is supported by adequate documentation of the specific noncompliance.		
Examiner Notes:			

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
12	Utilize discussions with institution managers as needed to gather information and discuss procedures and practices followed by institution personnel to ensure compliance with laws and regulations.		
Examiner Notes:			
13	Discuss items of concern, scope of work performed, and conclusions with the EIC.		
Examiner Notes:			
14	Utilize HMDA Analyzer as described in the <i>Technology for Portfolio Review</i> Section to check for violations.		
Examiner Notes:			
15	Organize and compile, if necessary, violations of law and regulation into a Violation Summary Sheet.		
Examiner Notes:			

APPENDIX: N

COMPLIANCE - USA Patriot Act Workpaper

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
1	<p>Coordinate compliance examination activities with other members of the examination team and the examiner-in-charge (EIC). Emphasize identifying violations of law and regulation; integrate those findings with the examination; and draw conclusions on management's compliance with laws and regulations.</p>		
Examiner Notes:			
2	<p>Review and evaluate the adequacy of policies, procedures, and internal controls to ensure the identification of applicable applicants and compliance with the requirements of the USAPA.</p> <p>https://www.federalregister.gov/articles/2012/02/14/2012-3074/anti-money-laundering-program-and-suspicious-activity-report-filing-requirements-for-residential</p>		
Examiner Notes:			
3	<p>Determine if the institution has implemented a written risk-based CIP that includes four minimum requirements:</p> <ol style="list-style-type: none"> 1. Identity verification procedures, 2. Properly document the identity verification, 3. Provide notice to the customer, and 4. Compare verified identities with government lists. <p>http://www.fincen.gov/financial_institutions/lfc/</p>		
Examiner Notes:			

	Examination Procedures		
	[Document supporting evidence noting determinations and findings made]	Y	N
4	Assess application of CIP.		
Examiner Notes:			
5	Utilize discussions with institution managers as needed to gather information and discuss procedures and practices followed by institution's personnel to ensure compliance with laws and regulations.		
Examiner Notes:			
6	Discuss items of concern, scope of work performed, and conclusions with the EIC.		
Examiner Notes:			
7	Organize and compile, if necessary, violations of law and regulation into a Violation Summary Sheet.		
Examiner Notes:			

APPENDIX: O

COMPLIANCE Fair Credit Reporting Act Workpaper

Examination Procedures	
[Document supporting evidence noting determinations and findings made]	
Coordinate compliance examination activities with other members of the examination team and the examiner-in-charge (EIC). Emphasize identifying violations of law and regulation; integrate those findings with the examination; and conclude on management's compliance with laws and regulations.	
Examiner Notes:	
Review and evaluate the adequacy of policies, procedures, and internal controls to ensure the identification of applicable applicants and compliance with the requirements of the FCRA. https://www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/fair-credit-reporting-act	
Examiner Notes:	
Discuss with management the institution's activities related to collecting, reporting, supplying, and using credit information, and determine whether: a. The institution uses credit information obtained from credit bureaus or other outside sources in evaluating consumer credit applications; and b. The institution's activities make it subject to the consumer reporting agency requirements of the FCRA.	
Examiner Notes:	

Examination Procedures	
[Document supporting evidence noting determinations and findings made]	
If the institution uses information from credit bureaus or other outside sources in evaluating consumer credit applications, coordinate the testing for compliance with the testing of rejected applications, and determine that the institution makes the disclosures required by FCRA as users of credit information.	
Examiner Notes:	
Conclude whether the institution is adequately complying with the FCRA. If not, ascertain whether the conclusion of noncompliance is supported by adequate documentation of the specific noncompliance.	
Examiner Notes:	
Utilize discussions with managers, as needed, to gather information and discuss procedures and practices followed by institution personnel to ensure compliance with laws and regulations.	
Examiner Notes:	
Discuss items of concern, scope of work performed, and conclusions with the EIC.	
Examiner Notes:	

Examination Procedures

[Document supporting evidence noting determinations and findings made]

Organize and compile, if necessary, violations of law and regulation into a Violation Summary Sheet.

Examiner Notes:

APPENDIX: P

COMPLIANCE - Definitions of Fair Credit Reporting Act

USC § 604, Permissible Purposes of Reports	USC § 606, Disclosure of Investigative Consumer Reports
<p><u>§604(a) - Consumer Reporting Agency May Furnish a Consumer Report under Certain Circumstances</u></p> <ul style="list-style-type: none"> • <u>§604(a)(2) - With the Written Instructions of the Consumer</u> • <u>§604(a)(3)(A) - To a Person it Believes Intends to Use the Information in Connection With a Credit Transaction Involving the Consumer on Whom the Information is to be Furnished and Involving the Extension of Credit to, or Review or Collection of an Account of, the Consumer.</u> • <u>§604(a)(3)(B) - To a Person It Believes Intends to Use the Information for Employment Purposes</u> • <u>§604(a)(3)(E) - To a Person It Believes Intends to Use the Information, as a Potential Investor or Servicer, or Current Insurer, in Connection With a Valuation of, or an Assessment of the Credit or Prepayment Risks Associated With, an Existing Credit Obligation.</u> • <u>§604(b) - Conditions for Furnishing and Using Consumer Reports for Employment Purposes</u> • <u>§604(c) - Furnishing Reports in Connection with Credit or Insurance Transactions Not Initiated by the Consumer</u> • <u>§604(f) - Certain Use or Obtaining of Information Prohibited</u> 	<p><u>§606(a) - May Not Procure an Investigative Consumer Report on Consumer Unless</u></p> <ul style="list-style-type: none"> • <u>§606(a)(1)(A) - Disclosed in Writing that Consumer Report May be Obtained (Within 3 days of Request for Report)</u> • <u>§606(a)(1)(B) - Includes Statement of Right to Receive Information Under §606(b) and §609(c)</u> • <u>§606(a)(2)(A) - The Person Certifies to Reporting Agency that Disclosures Required by §606(a)(1) Were Made and</u> • <u>§606(a)(2)(B) - The Person Will Comply with §606(b)</u> • <u>§606(b) - Upon Written Request by Consumer, Person Ordering Report Will Disclose Nature and Scope of Request</u> • <u>§606(c) - Violations of §606(a) and §606(b) (Preponderance of Evidence)</u> • <u>§606(d) - Prohibitions</u> <p><u>§609(a) - Reporting Agency Shall, Upon Request; and Subject §610(a)(1), Disclose to the Consumer:</u></p> <ul style="list-style-type: none"> • <u>§609(a)(1) - All Information in the Consumer's File (With Exceptions)</u> • <u>§609(a)(2) - Sources of the Information</u> • <u>§609(a)(3) - Identification of Each Person that Procured a Consumer Report</u> • <u>§609(a)(4) - Dates, Original Payees, and Amounts of Checks upon Which is Based any Adverse Characterization of the Consumer</u> • <u>§609(a)(5) - Record of Inquiries Received by the Agency during the Past Year Not Initiated by the Consumer</u> • <u>§609(a)(6) - If Credit File and Not Credit Score Requested, Must Disclose that Consumer may Request Credit Score</u> • <u>§609(c) - Summary of Rights to Obtain and Dispute Information in Consumer Reports</u>

	<p><u>and to Obtain Credit Scores</u></p> <ul style="list-style-type: none"> • <u>§609(d) - Summary of Rights of Identity Theft Victims</u> • <u>§609(e) - Information Available to Victims</u> • <u>§609(f) - Disclosure of Credit Scores</u> • <u>§609(f)(1) - General</u> • <u>§609(f)(2) - Definitions of “Credit Score” and “Key Fa</u> <p><u>§609(f)(3) - Timeframe and Manner of Disclosure</u></p> <ul style="list-style-type: none"> • <u>§609(f)(4) - Applicability to Certain Uses</u> • <u>§609(f)(5) - Applicability to Credit Scores Developed by another Person</u> • <u>§609(f)(6) - Maintenance of Credit Scores Not Required</u> • <u>§609(f)(7) - Compliance in Certain Cases</u> • <u>§609(f)(8) - Fair and Reasonable Fee</u> • <u>§609(f)(9) - Use of Enquiries as a Key Factor</u> • <u>§609(g) - Disclosure of Credit Scores by Certain Mortgage Lenders</u> • <u>§609(g)(1) - User of Consumer Credit Score with Application Initiated by Consumer for Consumer Loan Secured by Residential Real Property Shall Provide</u> • <u>§609(g)(1)(A) - Information Required Under §609(f)</u> • <u>§609(g)(1)(B) - Disclosures in Case of Automated Underwriting System</u> • <u>§609(g)(1)(C) - Disclosures of Credit Scores Not Obtained From a Consumer Reporting Agency</u> • <u>§609(g)(1)(D) - Notice to Home Loan Applicants (Specific Wording)</u> • <u>§609(g)(1)(E) - Actions Not Required Under this Subsection</u> • <u>§609(g)(1)(F) - No Obligation for Content</u> • <u>§609(g)(1)(G) - Person Defined as Excluding Enterprise</u> • <u>§609(g)(2) - Prohibition on Disclosure Clauses Null and Void</u>
<p><i>USC § 615, Requirements on Users of Consumer Reports</i></p>	

APPENIDX: Q

COMPLIANCE - Home Ownership and Equity Protection Act Work Paper

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
1	Review and evaluate the adequacy of the institution's policies, procedures, practices, and internal controls to ensure compliance with the requirements of the Homeowners Protection Act of 1998. Determine whether the institution's internal review process tests for compliance in these areas. If it does not, or if the review indicated areas of weakness, complete the following steps as necessary to determine compliance with the Act. http://hoepa.org/hoepa-lender-compliance-guide/		
Examiner Notes:			
2	Review a sample of fixed-rate and adjustable-rate home loans closed since the last examination (or the effective date of the Act) to determine whether the institution made the required disclosures.		
Examiner Notes:			
3	Review a sample of existing home loans to determine whether annual statements detail the borrower's cancellation and termination rights under the Act along with an address and telephone number of a contact person.		
Examiner Notes:			

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
4	Determine whether borrowers with adjustable-rate loans are being informed when their loans reach the cancellation date.		
Examiner Notes:			
5	Determine if the institution is ensuring that affected loans with a loan-to-value ratio approaching 78 percent or loans approaching the mid-point of their amortizations are being tracked.		
Examiner Notes:			
6	Determine whether PMI is being terminated on loans where the loan-to-value ratio has reached 78 percent and the borrower is current on the payments or on loans where the mid-point of the amortization has been reached.		
Examiner Notes:			
7	Review a sample of loans where the borrower's request for cancellation of PMI has been rejected and loans where automatic termination has not been granted to determine whether the institution has provided the required notifications within the required timeframes.		
Examiner Notes:			

	Examination Procedures		
	[Document supporting evidence noting determinations and findings made]	Y	N
8	Discuss items of concern, scope of work performed, and conclusions with the EIC.		
Examiner Notes:			
9	Organize and compile, if necessary, violations of law and regulation into a Violation Summary Sheet.		
Examiner Notes:			

APPENDIX: R

COMPLIANCE - Gramm-Leach-Bliley Act Workpaper

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
1	Review and evaluate the adequacy of the institution's policies, procedures, practices, and internal controls to ensure compliance with the requirements of the GLB Act. Determine whether the institution's internal review process tests for compliance in these areas. If it does not, or if the review indicated areas of weakness, complete the following steps as necessary to determine compliance with the GLB Act.		
Examiner Notes:			
2	Evaluate management information systems, including the use of technology for monitoring, exception reports, and standardization of forms and procedures. https://www.ftc.gov/tips-advice/business-center/privacy-and-security/gramm-leach-bliley-act		
Examiner Notes:			
3	Determine frequency and effectiveness of monitoring procedures.		
Examiner Notes:			
4	Evaluate adequacy and regularity of the institution's training program.		
Examiner Notes:			

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
5	Suitability that the compliance audit program provides for ensuring customer information: <ul style="list-style-type: none"> • the procedures address all regulatory provisions as applicable; • the work is accurate and comprehensive with respect to the institution’s information sharing practices; • the frequency is appropriate; • conclusions are appropriately reached and presented to responsible parties; and • steps are taken to correct deficiencies and to follow-up on previously identified deficiencies. 		
Examiner Notes:			
6	Determine knowledge level of management and personnel of the GLB. Safeguards Policy and Privacy Rule		
Examiner Notes:			
7	Discuss items of concern, scope of work performed, and conclusions with the EIC.		
Examiner Notes:			
8	Organize and compile, if necessary, violations of law and regulation into a Violation Summary Sheet.		
Examiner Notes:			

	Examination Procedures [Document supporting evidence noting determinations and findings made]	Y	N

APPENDIX: S

COMPLIANCE - Fair Housing Act Workpaper

Examination Procedures			
	[Document supporting evidence noting determinations and findings made]	Y	N
1	Coordinate compliance examination activities with other members of the examination team and the examiner-in-charge (EIC). Emphasize identifying violations of law and regulation; integrate those findings with the examination; and conclude on management's compliance with laws and regulations.		
Examiner Notes:			
2	Review and evaluate the adequacy of policies, procedures, and internal controls to ensure the identification of applicable applicants and compliance with the requirements of the FHAct [Fair Housing Act]. http://portal.hud.gov/hudportal/HUD?src=/program_offices/fair_housing_e qual_opp/FHLaws/yourrights		
Examiner Notes:			
3	Through observation and interviews with management, determine whether it appears the institution's lending practices, especially those relative to residential lending, are discriminatory.		
Examiner Notes:			
4	Determine whether the institution is redlining (i.e., the practice of denying loans for housing in certain neighborhoods even though the individual applicant may be eligible for credit). (Remember that redlining is not unlawful when based on economic reasons such as whether an area lies		

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
	on a fault line or in a flood plain.)		
Examiner Notes:			
5	Ascertain whether the institution has adequate policies, procedures, and internal controls in place to provide reasonable assurance of compliance with the nondiscriminatory regulations. Also, determine whether the policies are reviewed and updated periodically.		
Examiner Notes:			
6	Determine whether the institution prominently displays the Equal Housing Lender Poster in the lobby of each of its offices. Also, ascertain whether the size and text of the poster conform to the requirements of FCA Regulation 12 CFR § 613.3170.		
Examiner Notes:			
7	Determine whether the institution advertises the availability of rural residence loans. If so, determine whether advertisements include a facsimile of the Equal Housing Lender logotype and legend. Also, determine whether the advertisements are void of any words, phrases, symbols, directions, forms, or models that would express, imply, or suggest a discriminatory preference or policy of exclusion. http://portal.hud.gov/hudportal/HUD?src=/library/bookshelf11/hudgraphics/fheologo		
Examiner Notes:			

Examination Procedures			
	[Document supporting evidence noting determinations and findings made]	Y	N
8	Determine whether the institution rejected any loan applications. If so, ascertain whether those rejections were based solely on economic factors.		
Examiner Notes:			
9	Determine whether any complaints have been filed against the institution alleging discriminatory practices or acts. If so, ascertain their disposition.		
Examiner Notes:			
10	Conclude whether the institution is adequately complying with these nondiscriminatory regulations. If not, ascertain whether the conclusion of noncompliance is supported by adequate documentation of the specific noncompliance.		
Examiner Notes:			
11	Utilize discussions with managers as needed to gather information and discuss procedures and practices followed by institution personnel to ensure compliance with laws and regulations.		
Examiner Notes:			

Examination Procedures			
	[Document supporting evidence noting determinations and findings made]	Y	N
12	Discuss items of concern, scope of work performed, and conclusions with the EIC		
Examiner Notes:			
13	Organize and compile, if necessary, violations of law and regulation into a Violation Summary Sheet.		
Examiner Notes:			

APPENDIX: T

COMPLIANCE - Equal Credit Opportunity Act Workpaper

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
1	Coordinate compliance examination activities with other members of the examination team and the examiner-in-charge (EIC). Emphasis should be on identifying violations of law and regulation; integrating those findings with the examination; and concluding on management's compliance with laws and regulations. http://www.consumer.ftc.gov/articles/0347-your-equal-credit-opportunity-rights		
Examiner Notes:			
2	Review and evaluate the adequacy of policies, procedures, and internal controls to ensure the identification of applicable applicants and compliance with the requirements of ECOA and FRB Regulation B. http://www.consumer.ftc.gov/articles/0188-mortgage-discrimination		
Examiner Notes:			
3	Determine whether applications are accepted from all eligible persons without regard to race, color, religion, national origin, sex, marital status, age, receipt of public assistance income, or good faith exercise of credit rights.		
Examiner Notes:			
4	Determine if the information requested on the loan application is in compliance with the provisions of ECOA that prohibit requesting certain		

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
	information.		
Examiner Notes:			
5	Determine if voluntary monitoring information is obtained only when required by ECOA and whether the applicant(s) was informed that if the applicant(s) chose not to provide the monitoring information, the creditor is required to note the race or national origin and sex on the basis of visual observation or surname. If the information was recorded based on visual observation or surname, determine whether this fact was also noted on the form.		
Examiner Notes:			
6	Determine whether income and age were considered in accordance with ECOA.		
Examiner Notes:			
7	Determine whether the loan files were free from information prohibited by ECOA.		
Examiner Notes:			
8	Determine whether applicants were given timely notification of approval, rejection or counter offers in accordance with ECOA.		

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
Examiner Notes:			
9	Determine whether applicants were provided or notified of the right to receive--a copy of appraisal reports on loans secured by a dwelling.		
Examiner Notes:			
10	Determine whether ECOA record retention requirements were met.		
Examiner Notes:			
11	Review rejected and withdrawn applications and determine whether the following provisions were observed: a. Was the notice timely? b. Did the notice include: (1) the action taken, (2) the ECOA Notice, (3) the specific reason for the action taken, and (4) the names of all creditors involved? c. Were the reasons for the action taken based solely on economic factors?		
Examiner Notes:			
12	Determine whether any complaints were filed against the institution. If so, ascertain whether appropriate action was taken.		

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
Examiner Notes:			
13	Conclude as if the institution is adequately complying with FRB Regulation B. If not, ascertain whether the conclusion of noncompliance is supported by adequate documentation of the specific noncompliance.		
Examiner Notes:			
14	Utilize discussions with institution managers as needed to gather information and discuss whether procedures and practices followed by institution personnel ensure compliance with laws and regulations.		
Examiner Notes:			
15	Discuss items of concern, scope of work performed, and conclusions with the EIC.		
Examiner Notes:			
16	Organize and compile, if necessary, violations of law and regulation into Violation Summary Sheet.		
Examiner Notes:			

APPENDIX: U

COMPLIANCE - RESPA Workpaper

	Examination Procedures [Document supporting evidence noting determinations and findings made]	Y	N
1	Coordinate compliance examination activities with other members of the examination team and the examiner-in-charge (EIC). Emphasize identifying violations of law and regulation; integrate those findings with the examination; and conclude on management's compliance with law and regulations.		
Examiner Notes:			
2	Review and evaluate the adequacy of policies, procedures, and internal controls to ensure the identification of applicable applicants and compliance with the requirements of RESPA.		
Examiner Notes:			
3	Determine whether the institution provides an applicant with a copy of the “Know Before You Owe” within 3 business days after receiving a written application for a federally related mortgage loan.		
Examiner Notes:			
4	Ascertain whether the institution provides an applicant with a Loan Estimate of settlement costs within three business days following the written application.		
Examiner Notes:			

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
5	Determine whether Loan Estimate provided to applicants bear a reasonable relationship to the charges the applicant will likely be required to pay or the applicant has incurred at settlement.		
Examiner Notes:			
6	<p>Where the institution requires that a particular individual, firm, or company be used to provide legal services, title examination services, or title insurance, or to conduct settlement, and requires the borrower to pay for any portion of the cost of such services, determine whether the Loan Estimate:</p> <p style="margin-left: 40px;"> a. Clearly indicate which estimated charge is to be provided by each designated provider; b. State the name, address, and telephone number of each designated provider and the fact the institution's estimate for the services is based upon the charges of the designated provider and c. State whether each designated provider has a business relationship with the institution. </p>		
Examiner Notes:			
7	Ascertain whether the person conducting settlement also prepares the LOAN ESTIMATE or CLOSING DISCLOSURE statement.		
Examiner Notes:			
8	Determine whether the institution permits the borrower, upon request, to inspect the LOAN ESTIMATE or CLOSING DISCLOSURE Statement three		

Examination Procedures		Y	N
[Document supporting evidence noting determinations and findings made]			
Loan Estimate business day prior to the day of settlement.			
Examiner Notes:			
9	Determine whether the institution prepares the LOAN ESTIMATE or CLOSING DISCLOSURE Statement in accordance with Appendix A of the regulation.		
Examiner Notes:			
10	Unless waived or exempt, determine whether the LOAN ESTIMATE or CLOSING DISCLOSURE was delivered or mailed to the borrower and seller or their agents at or before settlement.		
Examiner Notes:			
11	Determine whether the institution retains a copy of the LOAN ESTIMATE or CLOSING DISCLOSURE statement for 5 years from the date of settlement.		
Examiner Notes:			
12	Determine whether the institution refrains from charging a fee for the preparation and distribution of the LOAN ESTIMATE or CLOSING DISCLOSURE statement or documents required under the Truth in Lending Act.		
Examiner Notes:			

	Examination Procedures	Y	N
	[Document supporting evidence noting determinations and findings made]		
13	Determine whether the institution provides applicants information about the likelihood that their mortgage servicing will be transferred.		
Examiner Notes:			
14	Determine whether the institution notifies borrowers in writing not less than 15 days before a mortgage servicing transfer becomes effective.		
Examiner Notes:			
15	Determine whether the institution is aware of and in compliance with the prohibitions against kickbacks and unearned fees.		
Examiner Notes:			
16	If the institution owns the property being sold, ascertain whether it requires title insurance or gives the impression that title insurance is required from a particular company.		
Examiner Notes:			
17	Conclude whether the institution is adequately complying with RESPA. If not, ascertain whether the conclusion of noncompliance is supported by		

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
	adequate documentation of the specific noncompliance.		
Examiner Notes:			
18	Utilize discussions with institution managers as needed to gather information and discuss procedures and practices followed by institution's personnel to ensure compliance with law and regulations.		
Examiner Notes:			
19	Discuss items of concern, scope of work performed, and conclusions with the EIC.		
Examiner Notes:			
20	Organize and compile, if necessary, violations of law and regulation into a Violation Summary Sheet.		
Examiner Notes:			

APPENDIX: V

TILA Workpaper

	Examination Procedures	Y	N
	[Document supporting evidence noting determinations and findings made]		
1	Coordinate compliance examination activities with other members of the examination team and the examiner-in-charge (EIC). Emphasize identifying violations of law and regulation; integrate those findings with the examination; and conclude on management's compliance with laws and regulations.		
Examiner Notes:			
2	Review and evaluate the adequacy of policies, procedures, and internal controls to ensure the identification of applicable applicants and compliance with the requirements of TILA and FRB Regulation Z.		
Examiner Notes:			
3	Determine whether the loan folder includes, as a minimum, the TIL Disclosure Statement, contractual documents, loan commitment, settlement statement, and, when applicable, the Right to Rescind/Cancel.		
Examiner Notes:			
4	Determine whether the required disclosures were provided to the applicants/borrowers and if the disclosures were timely.		
Examiner Notes:			

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
5	Determine whether the information provided in the disclosures was accurate, verify that the basic data is the same as other loan information and contractual documents, and the annual percentage rate. Compute amounts should be independently verified.		
Examiner Notes:			
6	If the loan was a residential mortgage loan subject to RESPA and early disclosure was required, determine whether the Loan Estimate of the required disclosures were furnished within 3 business days of receipt of the application.		
Examiner Notes:			
7	If redisclosure was required, ascertain whether it was made prior to the consummation of the transaction.		
Examiner Notes:			
8	If the right of rescission was applicable, determine whether the disclosures and a rescission notice were provided to each party with a right to rescind the transaction and whether the funds were not disbursed prior to the expiration of the rescission period unless a valid waiver of the right to rescind was obtained.		

Examination Procedures		Y	N
	[Document supporting evidence noting determinations and findings made]		
Examiner Notes:			
9	<p>If the right of rescission was waived, determine whether it was properly documented by a dated statement describing the personal financial emergency justifying the waiver. Note: Printed forms are not acceptable.</p> <p>NOTE: Testing of compliance with TIL on rejected applications is applicable only to rejected applications that were also subject to RESPA and should be done in the review of rejected applications for compliance with RESPA.</p>		
Examiner Notes:			
10	Conclude whether the institution is adequately complying with FRB Regulation Z. If not, ascertain whether the conclusion of noncompliance is supported by adequate documentation of the specific noncompliance.		
Examiner Notes:			
11	Discuss items of concern, scope of work performed, and conclusions with the EIC.		
Examiner Notes:			

	Examination Procedures	Y	N
	[Document supporting evidence noting determinations and findings made]		
12	Organize and compile, if necessary, violations of law and regulation into a Violation Summary Sheet.		
Examiner Notes:			

APPENDIX: W

ComplianceEase Procedure

1. ComplianceEase Process	Sent out notification to licensee of an upcoming examination
	Notify licensee that that examination will use an e-exam process
	Licensee check with their existing software vendor(s) to see if their vendor(s) support LEF export
	If vendor does not provide the ability to export data in LEF format, the licensee should visit www.regulatorconnect.org and follow the step to generate their data in LEF.
	The regulator will received an email notification once the licensee's LEF data has been submitted into RegulatorConnect system
2. Run ComplianceEase	License data is process through system known as AutoBatch
	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
3. Scoping	The audit reports and examination dashboard identify loans and types of loans that an examiner may wish to include in the scoping process
	Review all loans with <u>Critical, Significant, or Moderate</u> risk indicator risk levels. These are loans that exhibit characteristics that warrant additional examiner review
4. Analyzing report – Examination Dashboard	The Dashboard displays data that allow examiners to assess the types of loans and risk in the portfolio
	The dashboard provides general portfolio information such as loan-type distribution, lien-type distribution, property-type distribution, and lending program distribution
	The data allows examiner to locate loan with a particular compliance risk profile
Risk indicator	Critical, Significant, Moderate, Minimal

5. Mortgage review and analysis	The mortgage compliance analysis report displays the risk level and compliance test result for each loan processed
Risk indicator provided by the system	Critical, Significant, Moderate, Elevated Minimal
	Examiner should refer to the findings summary report which explains the failed test(s) that caused a particular risk indicator
	Loans that do not pass will be designated with the word <i>Fail</i> or a red X next to them, while loans that pass will be designated with a green <i>Pass</i> or a green checkmark. If the word <i>Alert</i> is next to a test, the loan will require additional verification by the examiner
The blue question mark icon in a particular section of an audit report	Provide a more detailed explanation of how to interpret the audit result
To learn more about a particular test result	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 <i>Federal RESPA</i> 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
6. Prepare Report of Examination Comments for EIC	Detailed list of violations, supportive comments for rating assessment

Appendix - X

MODEL EXIT MEETING AGENDA

1. Below is a model examination exit meeting agenda. Please provide a handout and document the file of the conversation and any management disagreement with findings. Purpose of Exit Meeting
 - a. Discuss scope and findings of the examination
 - b. Give Company a chance to respond to any of the stated findings
 - c. Discuss the timeline for receiving the report and billing
 - d. Reminder: **Minnesota Statute § 46.07** requires that the examination and any findings remain confidential and the licensee shall not make any information public
2. Scope of Examination
 - a. Financial Analysis
 - b. Personnel Administration
 - c. Regulatory Compliance
 - d. Management
3. Billing
 - a. **Minnesota Statute § 46.131** requires payment of the examination costs
 - b. Fee is \$ per hour
 - c. Hours in final bill will include all hours spent for Pre-Exam, On-site, and ROE writing activities.
 - d. A fee bill will be generated through the NMLS and an email will be sent to request payment.
 - e. Payments via credit card or ACH should be made through NMLS system
4. Report Process
 - a. Report will be completed within 7 days of this meeting
 - b. Review of report by Supervisor
 - c. Mailed out
 - d. Management response is required within 45 days of receiving report

Representing ____Company____:

Appendix - Y

Mortgage Examination Report Processing

1. When documents are electronically received from a mortgage company, the Examiner in Charge (EIC) will create a folder under **I:/FE/Mortgage Company Exams - PRELIMINARY** by “Name”, e.g., (One Mortgage, LLC) This information will include loan files, policies, pre exam letter, etc.
2. EIC will then log the following information in the Mortgage Exam Log located under **I:/FE/Mortgage Company Exams – IN PROCESS – Yearly MO Exam Logs:** (select appropriate year)
 - Date of Pre Exam Letter
 - NMLS Number
 - Company Name
 - Company Location
 - EIC
 - Exam Commence Date
3. After the exam report is complete and has passed the quality control cross check, EIC will move the file from the Preliminary Folder to the **I:/FE/Mortgage Company Exams – IN PROCESS** folder. EIC will send an email to the Non-Depository Supervisor notifying the report is ready for review. Supervisor may respond with corrections and edits for EIC to correct. Resubmission via email must be sent to the Supervisor to notify the report is ready for **final** review.
4. Support Staff will proof and process the exam (print transmittal letter, cover page, report and hours page) then give to Non-Depository Supervisor for final review and signature. Once the exam is signed, Support Staff will mail the exam to the company and log the remaining information in the exam log. After all processing is complete; Support Staff will move the file to **I:/FE/Mortgage Company Exams – FINAL**, file a hard copy of the exam report in the file room and give the bill to the Office Admin Specialist for billing.

Appendix - Z

Examination Responses

Once we receive the exam response, Office Admin Specialist will route to Non-Deposit Supervisor and the EIC. As a result of this response, the EIC is responsible to notify management of any material changes after discussing with the Supervisor or Review Analyst for affirmation or rescinding of findings. EIC will log the date the response was received, draft the report response, send the response to the Supervisor, and upload the final document to the electronic file storage drive.

Appendix - I

RE: Examination of Mortgage License MN MO-1250339

Dear Mr. Compliance:

The Minnesota Department of Commerce, Financial Institutions, has completed the review of ABC Mortgage, LLC. A copy of the final report of examination is enclosed.

Please be aware the examination report and contents are confidential. This document is the property of the Department of Commerce and is furnished to the institution or licensee for its confidential use. Minnesota Statute 46.07 provides that the facts and information obtained in the course of an examination shall be under the sole control of the Commissioner of Commerce. Under no circumstances shall the institution or licensee, or any of its directors, officers, principals, or employees disclose or make this document or any portion of it public in any manner.

A written response of your acknowledgement of receipt is requested to be received by the Department *no later than forty-five (45) days after the date of this letter.*

The person designated as the contact person for Nationwide Mortgage Licensing System (NMLS) will be sent an email with the invoice. Please remit the fee bill through the NMLS as instructed and remit within thirty (30) days of the date of this letter.

See: <http://mortgage.nationwidelicencingsystem.org/about/Pages/systemfees.aspx>

If you have any questions, please contact me at 651-539-1720.

Sincerely,

Sarah C. Butler
Non-Depository Supervisor
Sarah.Butler@state.mn.us

Enclosures

Appendix - II

ABC Mortgage Co, LLC

Compliance Manager

Irvine, CA 92618

Re: 2016 Exam - NMLS #123456789

Dear Compliance Manager:

Pursuant to Minnesota Statute §58.115, the Commissioner of Commerce is required to examine the affairs of each licensee as often as deemed necessary, but in no event less frequently than once during each two year period.

Based on the information received from the company or contained in the company's Mortgage Call Reports filed through the NMLS, the licensee has not originated any mortgage loans secured by residential property located in Minnesota during the examination period from April 1, 201X to March 31, 201X. If the licensee has originated, made, or serviced any Minnesota mortgage loans during the examination period, please contact us immediately.

Respectfully,

Non-Depository Supervisor – Department of Commerce

Appendix - III

Demand Letter

Date

To: Mortgage Licensee, Owner and Branch Manager

Civil penalties of up to \$10,000 per violation can be imposed against any person who violates any law, rule or order related to the duties and responsibilities of the Commissioner of Commerce. Such person can also have their license denied, suspended or revoked for, among other things, providing false, misleading, or incomplete information or refusing to allow a reasonable inspection of records or premises. The statutory provisions under **Minnesota Statutes § 45.027** relevant to licensees who fail to comply with the state law:

Subd. 6. Violations and penalties. The commissioner may impose a civil penalty not to exceed \$10,000 per violation upon a person who violates any law, rule, or order related to the duties and responsibilities entrusted to the commissioner unless a different penalty is specified.

Subd. 7. Actions against licensees. (a) In addition to any other actions authorized by this section, the commissioner may, by order, deny, suspend, or revoke the authority or license of a person subject to the duties and responsibilities entrusted to the commissioner, as described under **Minnesota Statutes § 45.011, Subdivision 4**, or censure that person if the commissioner finds that:

- (1) the order is in the public interest; and
- (2) the person has violated any law, rule, or order related to the duties and responsibilities entrusted to the commissioner; or
- (3) the person has provided false, misleading, or incomplete information to the commissioner or has refused to allow a reasonable inspection of records or premises; or
- (4) the person has engaged in an act or practice, whether or not the act or practice directly involves the business for which the person is licensed or authorized, which demonstrates that the applicant or licensee is untrustworthy, financially irresponsible, or otherwise incompetent or unqualified to act under the authority or license granted by the commissioner.

From the date of this letter, please comply with the requested items within the next 72 hours or this matter will be referred to the Enforcement Division at the Department of Commerce.

If you have any questions, please contact me at 651-539-1720.