



October 30, 2023

Mr. James M. Cooper
President & CEO
Conference of State Bank Supervisors
1300 I Street, NW
Suite 700 East
Washington, DC 20005

Dear President Cooper,

The Community Home Lenders of America (CHLA) is reaching out to extend an invitation to the Conference of State Bank Supervisors (CSBS) and its state members. We propose collaborating with CHLA's Independent Mortgage Bank (IMB) lenders to not only enhance state examination procedures but also to engage closely with CSBS on the topic of standardized state exams.

Enhance the State Exam System to a new Uniform Annual Exam

We propose an enhancement to the State Exam System through the introduction of a comprehensive Uniform Annual Exam. The COVID-19 pandemic caused significant disruptions, leading to delays in both on-site and annual state exams for IMBs. As a result, our members are continually playing catch-up and undergoing multiple concurrent exams conducted by various state regulators—some facing up to 10 simultaneous examinations. It's notable that many states request similar documentation, such as application logs, policies and procedures, and management questionnaires. Interestingly, the data already submitted to the National Multistate Licensing System (NMLS) through quarterly call reports, financial status updates, and audited financials is already requested in each state exam.

We recommend this Uniform Annual Exam focus on data/info that would not change among states: corporate financials, most policies/procedures, and multi-state or national marketing materials. Ideally the CSBS could facilitate states to consider adopting more uniform exam questions and document requests over time. Anything state specific would not be part of this UAE for legal and privacy reasons, as it obviously would not be a uniform aspect.

Streamlined Examination Process

CHLA members are advocating for a more efficient approach to state exams—an approach we call the Streamlined Examination Process. CSBS deserves recognition for their outstanding work on the SES State Exam System, which has established a consistent framework for multi-state exams. We recommend expanding this system to establish the Uniform Annual Exam. Under this framework, IMBs can annually submit application logs, management questionnaire responses, marketing materials, and policy samples.

State regulators would then have the flexibility to examine each IMB as needed. If additional items are required, a formal inquiry could be initiated using a process akin to the NMLS Licensing condition process. Exams could be conducted at any time, aligned with the specific needs of each state department, utilizing a uniform data set already developed within the SES. IMBs would update all annual examination documentation data during the period immediately following the annual 12/31 license renewal deadline, such as by March 30th, in preparation for the year.

NMLS Feature Enhancements

CHLA proposes several enhancements to the NMLS that would increase productivity and provide greater clarity for regulatory oversight:

Document Attachment for NMLS License Conditions: The current system for NMLS license conditions lacks the functionality to allow lender administrators or loan officer NMLS users to attach documented responses directly to an NMLS condition. Currently, respondents resort to third-party email systems to furnish formal NMLS condition responses to regulators. Enabling the direct upload of documents within the NMLS would provide a more secure method for transmitting documents, especially those containing sensitive personal information.

Attachment of Written Responses to NMLS Licensing Conditions: In the process of responding to license item conditions, responders are obliged to send their responses to regulators via external email or written requests. It is our recommendation that every NMLS condition should incorporate the capability to provide direct written responses, accompanied by a communication log that tracks all interactions among affiliated parties involved in addressing the condition. This enhancement would bring clarity and improve historical tracking of license items and their resolutions.

Implementation of Timed Responses: State regulators frequently impose time-sensitive response requirements for NMLS conditions. Implementing timed response tracking for any uploaded documents or written condition responses would be invaluable in facilitating compliance with these deadlines. This would contribute to greater accountability for both state regulators and IMBs in adhering to timed license item or condition response deadlines.

Enhancements to NMLS Call Reports

Mortgage Call Reports have proven to be a great methodology to report quarterly origination data. IMBs can make several enhancement recommendations to streamline the data collection process:

API Enhancement: Currently the NMLS Call report offers a XML upload file or manual data input methodology. Typically, modern financial technology solutions allow for direct Application Programming Interfaces or APIs. The APIs allow direct application interfacing. The NMLS already offers a robust API to third parties via the B2B interface offered by CSBS. CHLA proposes the development of a robust Lender API to transmit MCR data sets directly from lenders' Loan Origination Software Systems (LOS). This would allow for streamlined direct data collection for MCR Call Reports.

MCR V6 Implementation Delay: CSBS has published a summary of the FV6 changes, detailing

how a company's filing will transition from FV5 to FV6. The implementation period is marked as 'For future use in completing an initial MCR filing on or after April 1, 2024. Technology providers, such as ICE MT and their solution Encompass, will not have an adequate timeframe to develop and adjust LOS solutions to the new data architecture formats. This could lead to significant data discrepancies across IMBs. Given the regulatory significance of accurate MCR filings, CHLA suggests delaying the V6 new architecture and allowing for an implementation window of at least 180 days from the release of the new architecture. Alternatively, at a minimum, a release date of April 1, 2024, but not required until forward Q2 closed loan data is submitted by 08/15/2024, rather than Q1 data on 05/15/2024.

Temporary Branch Authority Proposal

IMBs operate under both federal regulations and state regulations where they have offices. Often, when lenders expand into a new state, they must navigate the process of obtaining individual branch licenses for each location within that state's jurisdiction.

CHLA proposes the implementation of a "Temporary Branch Authority" mechanism through the NMLS MU3 branch applications. Under this proposal, states would be granted a 30-day window to review and approve or deny a branch license application formally submitted via the NMLS.

In instances where a state regulatory authority has not made a decision within the stipulated 30-day timeframe, the branch application would automatically receive temporary authority to operate within that state. Importantly, the temporary authority would be subject to all federal and state regulations to ensure compliance and consumer protection.

This proposal aims to streamline the process of establishing branch locations for IMBs, reducing administrative burdens, and facilitating more efficient expansion into new states, while maintaining rigorous regulatory oversight and consumer safeguards.

Reduction of Regulatory Burden for Small IMBs

It is our belief that fostering an environment that supports the continued existence and growth of small lenders is not only in the best interest of these financial institutions but also aligns with the objectives of regulators and, most importantly, the well-being of consumers.

We are committed to working with CSBS and its state members to establish parameters that promote a balanced regulatory framework—one that preserves the diversity and competitive edge of small lenders while safeguarding the interests of consumers. By doing so, we can collectively strengthen the financial landscape, encourage innovation, and uphold the principles of consumer choice, affordability, and accessibility in the mortgage lending industry.

CHLA looks forward to further discussions aimed at ensuring that the financial ecosystem remains inclusive, resilient, and responsive to the needs of all stakeholders.

Sincerely,

COMMUNITY HOME LENDERS OF AMERICA