



***Response to Comments received during the SRR Comment  
Period on the***

**Proposed Changes to the NMLS Mortgage Call Report**

***February 1, 2018 to April 13, 2018***

December 12, 2018

On February 1, 2018, the State Regulatory Registry, LLC<sup>1</sup> (SRR) invited public comments on the proposed changes to the NMLS<sup>2</sup> Mortgage Call Report (MCR). After the MCR Working Group reviewed the comments, SRR summarized the responses in the following document. With the feedback received, the MCR Working Group and SRR intend to publish a final specification of the MCR revisions that will be implemented.

**Goals of the NMLS Mortgage Call Report**

The MCR provides timely, comprehensive, and uniform information concerning the financial condition of licensed mortgage companies, their mortgage loan activities, and production information for their mortgage loan originators. This information enhances a state regulator's ability to effectively supervise licensees, determine examination schedules, monitor compliance with state law and requirements of Title V of P.L. 110-289, the *Secure and Fair Enforcement for Mortgage Licensing Act of 2008* ("SAFE Act")<sup>3</sup>, and accurately calculate assessments when applicable.

A goal of the MCR is that, over time, it will include all necessary information required by regulators so that requirements do not need to be submitted and tracked outside NMLS.

**Background**

Recently, SRR worked in conjunction with MCR Working Group regulator participants to develop a plan for updating the MCR fields and definitions and improve reporting functionality as part of the NMLS Modernization (also referred to as NMLS 2.0) effort. The revised MCR will feature a business activities approach to filing, revised definitions and instructions, and a supplemental state-specific form.

**Responses to Comments**

At the end of the public comment period, SRR had received feedback from six commenters. Commenters included an industry trade group, industry representatives and state-licensed mortgage companies. The MCR Working Group and the NMLS Policy Committee reviewed the comments.

The following is a summary of the major topics raised in the comments, SRR's response to those comments and the approved changes to the MCR.

<sup>1</sup> State Regulatory Registry, LLC (SRR) is a nonprofit subsidiary of the Conference of State Bank Supervisors (CSBS) that operates NMLS on behalf of state financial services regulatory agencies.

<sup>2</sup> Information about NMLS can be found at <http://mortgage.nationwidelicencingsystem.org/Pages/default.aspx>

<sup>3</sup> The full text of the SAFE Act can be found at <http://mortgage.nationwidelicencingsystem.org/SAFE/NMLS%20Document%20Library/SAFE-Act.pdf>

## I. Release date

SRR expected the revisions detailed in the proposal to go into effect for the 2019Q1 reporting period, after the expected launch of NMLS 2.0 in September 2018. During the open comment period, SRR announced that NMLS 2.0 would not launch until 2019Q2. Since the 2019Q1 MCR is due in May 2019, the projected launch of NMLS 2.0 is timed very closely with the due date of the 2019Q1 MCR.

One commenter pointed out that, with the launch of NMLS 2.0 reset to 2019Q2, companies would need extended time testing the system to effectively prepare for submission of the revised MCR. In addition, regulators in the MCR Working Group noted that a 2019Q2 release of NMLS 2.0 could come after the due date for the 2019Q1 MCR.

### *SRR Response*

At the direction of the NMLS Policy Committee, SRR will wait to implement the MCR revisions until 2020Q1. Waiting until 2020Q1 will prevent the MCR revisions from being implemented close to or after the due date for the revised MCR. In addition, launching NMLS 2.0 with the existing version of the MCR will allow both industry and regulators to spend their time and energy learning other aspects of the new system, without needing to learn a new MCR as well. By the time the MCR revisions are implemented, the new system will be more familiar to the industry users who are submitting the call report.

## II. Dynamic MCR

SRR proposed that the MCR will present various sections to be filled out based on whether the company's selected business activities indicate that the company is a mortgage broker, mortgage lender and/or mortgage servicer. The MCR filing requirement will still be determined by the approved license types a company holds, but business activities would be used to present only the relevant sections of the MCR to the licensee for completion.

Several commenters noted that states have different definitions of business activities, and that license types differ across states with respect to the business activities they cover. The commenters pointed out that these differences could cause complications for MCR filing requirements based on business activities. Commenters also noted that business activities are selected in NMLS before licenses are granted and operations commence, so for MCR purposes, it may be helpful to have a pending status for business activities that would go active when a license is granted. In turn, an MCR would not be required in a state where the business activities are still pending.

### *SRR Response*

Companies will be required to file MCRs in a given state based on the following criteria:

- 1) The company has an approved license in the state
- 2) The license was in an approved status during the relevant quarter
- 3) The regulator indicated in their license settings that the license type requires MCR filings

After the previous conditions have been met and the company is required to file an MCR, the NMLS will use the company's indicated business activities to determine which sections of the MCR will be presented to the licensee for completion. The licensee will have the option to view and complete other sections of the MCR if desired. If the list of sections presented to the company for completion is incorrect because the company's indicated business activities were incorrect, the company will have the opportunity to amend their business activities.

This setup will address several concerns of the commenters.

First, selecting a mortgage-related business activity will not trigger an MCR requirement. Only the possession of an approved mortgage license will require an MCR to be filed. Therefore, companies will be able to indicate which activities they plan to undertake in a state during the licensure process without having to file MCRs until the license is approved.

Second, tying the MCR requirement to license types will work around the varying interpretation of

business activities by state agencies, and ensure that all companies who are required to file an MCR are presented with a task to complete the MCR in NMLS. This design, coupled with the ability to optionally view and complete additional sections, will alleviate under-reporting.

Third, using business activities to present relevant sections of the MCR to companies will vastly streamline the MCR filing process for companies with an MCR requirement but no mortgage activity, such as consumer finance lenders in Rhode Island. Companies will still have to file the MCR, but since they have not selected any mortgage-related business activities, they will not be presented with any sections of the MCR for completion. They will simply be asked to confirm that their business activities are up to date, and that they have no data to report.

### **III. MCR definitions, instructions and fields**

SRR proposed several changes to the instructions, definitions and line items of the MCR. There were a small number of comments about specific proposals.

One proposal was to convert line item AC1100 (Gross Revenue from Operations) into two line items. AC1100 would remain, but would be limited to income from mortgage originations, while S1100 would be created as a line item to capture servicing income. One commenter noted this change does not address the difficulty of separating servicing income by state, but suggested adding a comment field to S1100 allowing companies to indicate that the entry in S1100 is the company's best estimate rather than a verified number.

A regulator also commented on line AC1100, noting that since the line item no longer includes revenue from processing, underwriting and lead generating, the line item does not capture all mortgage activity and can no longer be used by the regulator. The regulator suggested adding a revenue field to the Supplemental State-Specific Form (SSSF) capturing these values.

One commenter requested that SRR clarify the use of references to federal regulations in the MCR definitions. The commenter noted the MCR instructions and definitions reference several federal regulations that include investment properties in their definitions, which conflicts with definitions in the MCR.

One commenter asked if the definition of applications could include some loans secured by non-owner-occupied real estate. The same commenter also asked if line item I330 (new title: Loans with Mortgage Insurance) is meant to include FHA loans with mortgage insurance.

#### *SRR Response*

Regarding line item S1100, SRR agrees that adding a comment box to the entry is a fair way to allow companies to indicate the value is their best estimate, while still collecting data required by state agencies. Licensees entering estimates in this field would need to determine their own fact-based methodology for estimating the state-specific values of S1100. Estimates should be based on a mathematical formula or similar objective measure of state-specific servicing revenue.

For the regulators who need all state-specific, mortgage-related revenue reported on the MCR, and not just origination and servicing revenue, a line item for total revenue will be added to the SSSF.

Regarding references to federal regulations, SRR agrees that the references to federal regulations cause confusion when their definitions differ from the MCR. Licensees should use the MCR definitions for terms, and not the definitions in federal regulations. To avoid confusion, SRR will remove references to federal regulations from the MCR definitions and instructions.

Regarding the definition of application, any loan secured by an investment property is considered a commercial loan for the purposes of the MCR, regardless of the purpose of the loan.

In answer to the question about line item I330, which is being renamed from "Loans with Private Mortgage

Insurance” to “Loans with Mortgage Insurance”, SRR confirms that I330 is intended to include FHA loans with mortgage insurance.

#### **IV. Financial Condition**

SRR has proposed an edited Financial Condition (FC) report, with new ordering and groupings of line items, with minor additions and deletions. SRR proposed using one schedule for all filers, with brokers filing the form annually, and all others filing the form quarterly.

One commenter requested the MCR financial condition be changed only to ensure greater consistency with the Mortgage Bankers Financial Reporting Form (MBFRF). This commenter also requested a condensed version of the Financial Condition for brokers.

##### *SRR Response*

SRR and the MCR Working Group understand the value to industry of consistent reporting standards across regulatory bodies. In that spirit, the MCR Working Group requested assistance from the industry in general, and from the Mortgage Bankers Association in particular, to develop a new financial condition reporting template that would be reasonable for industry to report and still fulfill the needs of state regulators. The MCR Working Group made this request in person at the 2018 NMLS Conference and Training in an open forum on the proposed MCR changes, as well as at the February 2018 meeting of the NMLS Ombudsman, asking that proposed financial condition reporting forms be submitted as public comments. However, the public comments on these proposed MCR revisions did not include any suggested financial reporting form other than the current MBFRF. The MBFRF in its current form does not meet the needs of state regulators, so SRR is not able to bring the MCR financial condition section into full consistency with the MBFRF. In order to bring different reporting standards into consistency, SRR recommends that the federal agencies currently using the MBFRF review this new format and adopt it as their own, if appropriate.

Mortgage Brokers in most states already produce an annual Financial Condition at fiscal year-end. There would be no change to their frequency of reporting. While this format may be more detailed than they are used to, they may enter zeros in line items that do not apply. Using the same form and creating data uniformity assists the regulators in monitoring the industry.

#### **V. Comprehensive MCR to Reduce External State-Specific Reporting**

SRR proposes the addition of a new section, the Supplemental State-Specific Form (SSSF). The intent of the new section is to allow states with state-specific reporting requirements to request the state-specific information within NMLS rather than outside the system. Several commenters expressed support for having a form in NMLS that would eliminate state-specific reporting that occurs outside the system.

Two commenters expressed concern that the SSSF would also be used by states to collect additional information that is not currently required by those states. Both commenters requested the SSSF be used only to replace existing state-specific reporting requirements, and not to impose new reporting on licensees.

Similarly, one commenter expressed concern that new statutory reporting requirements would result in new sections of the SSSF. In order to discourage frequent changes to state-specific reporting requirements, the commenter suggests a seven-year update cycle for the SSSF. This commenter also noted some state-specific reports are annual and encouraged SRR to maintain the state-specific reporting period, rather than replacing annual reports with quarterly ones. Last, this commenter noted that if the SSSF is implemented without a corresponding elimination of a state-specific form outside NMLS, then duplicative reporting will occur.

##### *SRR Response*

SRR, in collaboration with the MCR Working Group and the NMLS Policy Committee, agrees that the

SSSF should only be used to replace current state-specific reports that exist outside NMLS, and stated this opinion at the Ombudsman's Meeting at the 2018 NMLS Conference. The data requested on this form should be periodically reviewed to assure that the data collected remains relevant and necessary to the regulator and removed when it ceases to be so.

SRR agrees that state-specific forms should be eliminated once the information gathered in them is incorporated into the SSSF, but recognizes that during the initial implementation of the SSSF, there may be dual reporting as states work to eliminate their forms.

SRR disagrees with a seven-year update cycle for the SSSF. Seven years is too long to wait to deal with significant issues that may arise. However, SRR supports the idea to limit data requests to those that are rooted in statute or processes that would require additional outside reporting.

## **VI. Other Comments**

One commenter requested that NMLS incorporate privacy settings that prevent states from viewing MCR data submitted to other states. Such privacy settings would prevent states from requesting changes to data submitted outside their jurisdiction.

### *SRR Response*

SRR does not agree with creating privacy settings to hide MCR information from other states, because the regulatory agencies on NMLS have all signed information sharing agreements specifically so that information like the MCR submissions can be shared. In addition, each state's data is protected from disclosure according to that state's sunshine laws. However, SRR recognizes that each agency has ownership of the data submitted to their state, and that one state should not request changes to another state's data without a collaborative effort between those state agencies. SRR recommends to the state agencies that when one state believes an error exists in another state's MCR filings, that the other state be notified and asked how they would like to proceed.