

# NOTICES

## DEPARTMENT OF BANKING

### Notice Regarding Mortgage Accreditation Program

The American Association of Residential Mortgage Regulators (AARMR) and the Conference of State Bank Supervisors (CSBS) have adopted the following Mortgage Accreditation Program in conjunction with their launch of a program to accredit state government agencies that regulate the mortgage industry. AARMR and CSBS represent state mortgage regulators across the country. On behalf the States, as well as AARMR and CSBS, the Department of Banking is publishing the Mortgage Accreditation Program to provide state mortgage regulators and the public with full access to all of its details.

**AMERICAN ASSOCIATION OF  
RESIDENTIAL MORTGAGE REGULATORS  
and  
CONFERENCE OF STATE BANK SUPERVISORS  
MORTGAGE ACCREDITATION PROGRAM**

For information or a Word version of this document, contact Georgia G. High, Vice President, Accreditation and Certification, [ghigh@csbs.org](mailto:ghigh@csbs.org), (202) 329-7188.

STEVEN KAPLAN,  
*Secretary*

## THE AARMR/CSBS MORTGAGE ACCREDITATION PROGRAM

### Introduction

The mission of the American Association of Residential Mortgage Regulators (AARMR) and Conference of State Bank Supervisors (CSBS) is to assure the ability of each state banking authority to provide safe, sound and well regulated financial institutions to meet the unique financial needs of local economies and citizens. In support of that mission, AARMR and CSBS sponsor a comprehensive Mortgage Accreditation Program to enhance the professionalism of State Banking Department's Mortgage Divisions and their personnel. The Mortgage Accreditation Program is also available to other State Agencies which regulate mortgage providers.

The Mortgage Accreditation Program involves a comprehensive review of the critical elements that assure a mortgage regulator's ability to discharge its responsibilities through an investigation of its administration and finances, personnel policies and practices, training programs, examination policies and practices, supervisory procedures, and statutory powers. In setting high standards, AARMR and CSBS are supporting public interest goals by identifying highly competent mortgage regulators and strengthening the capabilities of all agencies. The AARMR/CSBS Mortgage Accreditation Program is voluntary and not required for membership in CSBS or for participation in CSBS activities.

### Goals of the Mortgage Accreditation Program

It is the goal of the AARMR/CSBS Mortgage Accreditation Program to encourage state mortgage regulatory agencies to enhance their capability to promote excellence in mortgage regulation with a minimum of regulatory burden and cost, and to assist them in achieving that capability.

Specific goals of the Program include:

1. To provide guidance and assistance to state mortgage regulators through self-evaluation and self-improvement.
2. To provide independent evidence of the capability of an accredited state mortgage regulator, in view of the interstate mortgage provider environment.
3. To assist each agency by providing documentation that may help it to obtain the resources necessary to assure the effectiveness of state mortgage regulation.
4. To strengthen the mortgage regulation system by demonstrating to Congress, the federal regulatory agencies, other state regulatory agencies and the public, the high level of capability of each accredited state mortgage regulator.

### Accreditation Standards

To achieve accreditation, a state mortgage regulatory agency must test itself against the criteria in the Self-Evaluation Questionnaire and achieve a total score of not less than 75% and a score of not less than 70% on each section. In addition, the basic standards noted below must be met:

- A. The legal authority to license, examine, supervise and regulate all state-licensed mortgage providers consistent with basic principles of safety and soundness and protection of the public interest.
- B. The demonstrated capability to conduct examinations of state-licensed mortgage providers within acceptable time limits. This capability should be supported by a combination of active monitoring, acceptable complaint processing procedures, review of applicable federal reports and other methods in a manner consistent with state statutes, consumer protection and safety and soundness.
- C. Specialized capabilities as required in each state to assure safety and soundness of all state-licensed providers and full compliance with both state and federal statutes.
- D. Adequate qualified staff with expertise to license, examine, supervise and regulate all state-licensed mortgage providers and to perform other agency functions and responsibilities.
- E. A policy or statutory authority, which requires focused examinations on a frequency basis at least once every 60 months on all mortgage providers.
- F. Adequate statutory authority for the agency to carry out its duties and responsibilities independently, including authority to take formal enforcement action in addition to revocation of a license.
- G. Adequate funding to achieve all above-mentioned criteria.

### Steps in the Accreditation Program

The following steps comprise the accreditation process:

1. The mortgage regulatory agency completes the Self-Evaluation Questionnaire.
2. The agency submits a request for accreditation review to the CSBS Performance Standards Committee (PSC). The request includes:
  - a) The agency's completed Self-Evaluation Questionnaire and related documents.
  - b) A contract, including attachments, stating legal considerations between CSBS and the agency.

3. The PSC Staff person assembles a Review Team to conduct an on-site evaluation. The Team evaluates and scores the same Self-Evaluation Questionnaire as the agency and determines, by whatever means it deems appropriate, whether the state's self-ratings are justified. The Review Team then issues a report and recommendations.
  - a) The methods used may include staff interviews, document verification and reviews of policies and procedures. Perhaps the most important task during the on-site evaluation is the examination of the agency's work product (e.g., examination reports, enforcement actions, and correspondence). At the conclusion of the on-site review, the Review Team will conduct an Exit Interview with the head of the agency and/or his or her designee to discuss the Team's findings and tentative conclusions and to afford the agency an opportunity to respond.
  - b) The agency may also present any additional information to the Audit Team or the Performance Standards Committee prior to the final decision on accreditation.
4. The PSC Staff person assembles an Audit Team. The Audit Team reviews and considers the findings and recommendation made by the Review Team, plus any additional information presented by the agency if applicable, assuring consistency between different Review Teams and generally assuring that each accreditation exercise meets the standards and requirements of the PSC.
5. The Review Team and Audit Team submit their findings in written reports to the PSC.
6. The PSC members analyze the Review Team report and the Audit Team findings plus any additional information presented by the agency, if applicable, to make a final decision on accreditation.
7. If the PSC members vote to accredit the agency, the PSC Chairman officially notifies the agency that it is accredited, contingent upon:
  - a) the successful completion of periodic reviews acceptable to the PSC, and
  - b) reaccreditation by the PSC not more than seven years from the initial accreditation. The steps to achieve reaccreditation are the same as those for an initial accreditation.
8. Decisions made by the Performance Standards Committee may be further appealed to the EFSBS Board of Trustees.

AARMR and CSBS handle each application and the entire accreditation process in strict confidence up to the announcement of an agency's accreditation, unless the state mortgage supervisor elects otherwise.

#### Self-Evaluation Questionnaire: Purposes, Benefits and Uses

The Self-Evaluation Questionnaire is a multi-purpose tool to help achieve the goals of the AARMR/CSBS Mortgage Accreditation Program as set forth above. It is used by:

1. State mortgage regulatory agencies for self-improvement through a detailed self assessment.
2. State mortgage regulatory agencies to document needs for additional resources from their respective states.
3. Newly appointed state mortgage supervisors to "inventory" agency capabilities and needs.
4. State mortgage regulatory agencies beginning the strategic planning process.
5. State mortgage regulatory agencies to determine if they are ready for accreditation review by the PSC.
6. State mortgage regulatory agencies to document and defend applications for AARMR/CSBS accreditation.
7. Accreditation Review and Audit Teams to evaluate the agency in a disciplined and organized manner.

#### The Role of Key Groups in the Mortgage Accreditation Program

In order to promote consistent and disciplined decisions, the Accreditation Program involves actions or decisions by several different groups. These groups include:

1. American Association of Residential Mortgage Regulators and The Conference of State Bank Supervisors  
AARMR is the national organization representing state residential mortgage regulators. AARMR's mission is (a) promote the exchange of information between and among the executives and employees of the various states who are charged with the responsibility, pursuant to the laws of the individual states, for the administration and regulation of residential mortgage lending, servicing and brokering; (b) assist in resolving conflicts of jurisdiction in relation to mortgage lending, servicing, and brokering; (c) promote a better understanding of mortgage regulation; (d) develop model legislation applicable to the administration and regulation of mortgage lending, servicing and brokering; (e) increase the knowledge and ability of those engaged in the administration and enforcement of mortgage regulation and those engaged in mortgage lending, servicing or brokering by organizing and sponsoring lectures, seminars, and training programs and by providing a forum for the exchange of information; and (f) do everything necessary, proper, advisable or convenient for the accomplishment of the Corporation's purposes and goals.

The Conference of State Banks Supervisors (CSBS) is the professional organization of those public officials who charter, regulate and supervise the state-chartered commercial and savings banks of the nation. Many of those bank supervisors also regulate mortgage providers. Established in 1902 as a clearinghouse for the ideas of the state bank supervisors, CSBS has evolved into the most significant source of education and research services aimed at strengthening state regulators. The Conference provides the majority of the technical training needs of the state regulatory agencies. CSBS established the Performance Standards Committee to conduct its Accreditation Program

and supports the functions and decisions of the Committee.

2. The EFSBS Board of Trustees

EFSBS is a 501 (c) (3) affiliated with CSBS through common control. The EFSBS Board of Trustees oversees the Professional Development Programs including the Accreditation Program. Final decisions of the PSC may be appealed to the EFSBS Board of Trustees.

3. The Performance Standards Committee

The Performance Standards Committee (PSC) is a committee of the Education Foundation. Its membership has included current and former state and federal regulators, members of Congress, and bankers with extensive knowledge of bank regulation and, in a consulting role during the program's development, a representative of the Government Accounting Office. The PSC has an assigned staff person.

The PSC encourages and recognizes high levels of capability and performance by state banking regulators which include regulation of mortgage providers. The PSC offers the Self-Evaluation Questionnaire to help agencies examine and improve themselves even if they do not currently seek accreditation. The PSC reviews the Accreditation Program format, content and procedures and revises the Program as necessary. The PSC establishes the Review and Audit Teams to carry out the Accreditation Program and determines the duties and functions of these teams. The PSC staff person provides clerical support for the teams. The PSC votes on all the reports and findings of its Review and Audit Teams on the accreditation of a state mortgage regulatory agency.

Once the PSC makes a decision regarding accreditation of an agency, it will notify the agency in writing as promptly as possible. The forms of possible PSC action are:

Initial Accreditation:

1. Granting of initial accreditation.
2. Deferral on the decision to grant initial accreditation for a specified period of time.

⇒Show Cause

⇒Denial of Initial Accreditation.

3. Denial of initial accreditation.

Continued Accreditation (based on Annual Review):

1. Continue accreditation.
2. Probation for a specified period of time

⇒Show Cause

⇒Terminate accreditation.

3. Denial of continued accreditation.

Re-Accreditation:

1. Re-Accredit.
2. Probation for a specified period of time

⇒Show Cause

⇒Terminate Accreditation.

### 3. Denial of re-accreditation.

#### 4. Mortgage Accreditation Subcommittee (MAS)

The MAS is hereby authorized and empowered to recommend standards and procedures pursuant to which AARMR, CSBS and EFSBS will accredit state mortgage regulators to regulate the mortgage industry and is hereby further authorized and empowered to oversee the conduct of such mortgage accreditation program and address any other related issues.

#### 5. Accreditation Review Team

A Review Team consists of two or three people whose experience in mortgage regulation allows them to assess the capabilities of a state mortgage regulatory agency accurately. Review Teams will typically include active and former state mortgage regulators.

Each Review Team evaluates the capability of an agency to establish and maintain a competently-run regulatory program, to produce a high quality examination, and to enforce all relevant statutes. The Review Team examines the agency's enabling legislation and the legal framework in which the regulation takes place. The Team assesses the agency's success in obtaining an adequate budget and necessary personnel, in training, and in adequately managing its resources. The Team judges how well the agency meets the goals of highly professional, competent and consistent regulation. The Review Team places great weight on the current and probable future reliability of the agency's work product.

Prior to beginning an accreditation review, the Review Team members examine the written submissions of the agency. The Self-Evaluation forms the basis for the Team's initial questions. The process of verification of the material submitted by the state helps answer questions concerning the quality of a state's regulatory program.

Among the Review Team's most important tasks are to examine the agency's strategic plan, examination reports, monitoring systems, work-sheets, and enforcement actions. The Team makes random checks of examination reports and reviews other files and documents, including historical budget information, approved staff levels, personnel procedures, salaries, turnover rates, and training. Organizational charts, methods of regulation and supervision, including review of the agency's rules and statements of policy, targeting of mortgage providers, scheduling of examination and format of the report of examination are investigated. The Team also interviews agency personnel. The on-site review typically lasts three days.

After completing staff interviews and examination of the agency's work product, the Review Team rates the agency on each of the Self-Evaluation questions. The Team then conducts an exit interview with the state mortgage supervisor and/or his or her designee during which the Team summarizes its findings. Lastly, the Review Team writes a report recommending whether or not to accredit or reaccredit, including the strengths and weaknesses observed leading to that conclusion. This report includes recommendations and suggestions to help the agency make improvements.

The Review Team does not perform a full scale management audit of the agency, nor does the Team perform a detailed financial audit.

#### 4. Audit Team

The Audit Team reviews the report and recommendations of the Review Team for consistency and professionalism in measuring the performance and capabilities of state mortgage regulatory agencies. The Audit Team reports its findings to the PSC.

The Audit Team typically consists of two to three members who are current or former regulators from state agencies.

INSTRUCTIONSSelf-Evaluation Questionnaire: Content and Procedures

Most questions in the Self-Evaluation Questionnaire begin by asking the agency to "describe" its approach to, experience in and/or handling of that aspect of the regulatory program. The agency then chooses a rating of 1 to 5, as follows:

<u>Rating</u>	<u>Narrative Description</u>
5	Excellent: Strength obvious and no significant weaknesses perceived.
4	Very Good: Strong, only minor improvements could be made.
3	Average: Satisfactory and acceptable but some improvements needed.
2	Substandard: Not reliably acceptable; improvements are clearly needed.
1	Poor: Not acceptable or function not performed.

After choosing a rating and calculating the score for the criterion, the agency states the basis for that rating, including documentation where appropriate. (Please note: when asked to provide documentation of a specific nature, the specific documentation requested should be considered a minimum. If manuals are requested, only the table of contents should be in the original submission. It may be necessary to provide additional documentation). This description may range from a few sentences to a page or more. Generally, low-valued criteria require less description.

The criteria have values ranging from 2 to 50, with 50 being most important. The agency multiplies the value by its own rating to calculate the score for that criterion; then, adds the scores for all the criteria in a section to compile the section score.

The Review Team also evaluates and scores the Self-Evaluation Questionnaire during its visitation.

**AMERICAN ASSOCIATION OF  
RESIDENTIAL MORTGAGE REGULATORS  
&  
CONFERENCE OF STATE BANK SUPERVISORS**

**STATE MORTGAGE AGENCY ACCREDITATION PROGRAM**

**SELF-EVALUATION QUESTIONNAIRE  
FOR THE  
STATE MORTGAGE PROVIDER REGULATOR**

**SECTION I - AGENCY ADMINISTRATION AND FINANCE**

**Purpose** - This section evaluates the administration of the state mortgage regulatory agency and the financing of the agency's operations. Questions begin with the broad issues of agency mission and goals and then address specific areas, such as formal procedures in rule-making, consistent handling of applications, communication with other regulators and adequacy of support personnel. Questions on financing address the funding mechanism for the agency and the adequacy of the budget to enable the agency to: (1) meet its supervisory requirement to include licensing, examinations and investigations; (2) provide adequate computer equipment; (3) monitor the agency budget and (4) influence its budget allocation.

**Narrative Material for the Section** - The AARMR/CSBS Accreditation Program does not require or endorse a standard management style. Instead, the narrative sections allow the agency to explain the agency's organization and to demonstrate the effectiveness of the agency's management. Similarly, the Accreditation Program does not endorse a particular funding mechanism. States that finance their operations entirely from assessments on the mortgage industry insulate themselves from the uncertainties of the legislative process. However, other funding mechanisms can be defended as adequate for a particular state.

- A. Describe the agency's mission statement and strategic plan with most recent date of review.  
Who is involved in the plan development and how are the finalized items communicated to the agency's employees?  
Who within the agency is assigned responsibility for completion of strategic actions and what is the time frame for completion?  
Provide documentation for actions met and state reasons for not meeting goals.  
State the basis for the rating and include documentation if appropriate.

$$\frac{\text{Value} \times \text{Rating} = \text{Score}}{5 \times}$$

Agency Rating

**Suggested Best Practice:** The agency must have a mission statement and a strategic plan with measurable goals, assigned accountability and proposed timeframes for attaining goals. The strategic plan must be reviewed and adjusted at least annually. The agency must meet or be in progress of meeting the desired goals as stated in the plan. Business Continuity should be addressed in the plan.

- B. Describe the agency's organizational chart (include any agency boards if applicable.)  
How does it demonstrate accountability for significant functions such as examination, finance, personnel, training and legislation?  
Are the lines of supervision clearly defined and compatible with job descriptions? Note:  
Job descriptions are discussed in the Personnel Section of the Self-Evaluation Questionnaire.  
State the basis for the rating and provide documentation that includes the organizational chart and a brief description of the operational units.

$$\frac{\text{Value} \times \text{Rating} = \text{Score}}{2 \times}$$

Agency Rating

**Suggested Best Practice:** The agency must have an up-to-date organizational chart indicating direct lines of responsibility that correspond to supervisory roles and job descriptions.

- C. Describe the agency's policy for internal communication including holding periodic staff meetings (either statewide, by region, or through systematic visitation) to keep professional staff informed of administrative matters, to provide legislative and regulatory updates, as well as to provide a forum for the exchange of ideas. State the basis for the rating and provide documentation that includes a schedule of meetings and newsletters if available.

$$\frac{\text{Value} \times \text{Rating} = \text{Score}}{6 \times}$$

Agency Rating

**Suggested Best Practice:** The agency must facilitate a training and information conference with all examiners and investigators in attendance (in person or visually) at least annually. Input from field examiners must be sought as to topics and items to be covered. If state is large enough for districts, district meetings should be held at least quarterly with monthly senior staff meetings. If a smaller agency, meetings with all examiners should be held at least quarterly.



- D. Describe the process and evaluate the effectiveness of the agency's communication with other applicable mortgage regulatory agencies.

How does the communication affect the scheduling of examinations, participation in examinations, sharing of information, exit interviews and enforcement actions?

State the basis for the rating and provide documentation that includes copies of all formal agreements. Note: This question only addresses communication with other state mortgage regulatory agencies, not interstate policies and procedures.

Agency Rating  $\frac{\text{Value} \times \text{Rating} = \text{Score}}{6 \times}$

---

**Suggested Best Practice:** The agency must coordinate with other states at least annually and provide periodic updates on the condition of state-licensed mortgage providers involved in interstate mortgage provider regulation.

---

- E. Describe and evaluate the nature, purpose and effectiveness of the agency's communication with the mortgage trade associations. State the basis for the rating and include documentation if appropriate.

Agency Rating  $\frac{\text{Value} \times \text{Rating} = \text{Score}}{2 \times}$

---

**Suggested Best Practice:** Agency senior personnel should attend meetings of all relevant associations in their state. Proposed legislation should be discussed with trade associations in the state to clarify issues.

---

- F. Does the agency provide or participate in consumer education or financial literacy training to consumers? Please provide documentation concerning the various programs and activities in which agency personnel participate.

Agency rating  $\frac{\text{Value} \times \text{Rating} = \text{Score}}{2}$

---

**Suggested Best Practice:** The agency must provide (or participate in) consumer education or financial literacy training to consumers. Documentation of active participation must be maintained.

---

- G. Briefly describe and evaluate the agency's formal procedures for promulgating rules and regulations including emergency procedures. State the basis for the rating and include documentation if appropriate.

Agency Rating  $\frac{\text{Value} \times \text{Rating} = \text{Score}}{3 \times}$

---

**Suggested Best Practice:** Procedures for promulgation of agency rules and regulations must follow the administrative procedures act as prescribed by state law unless the agency is specifically exempt from such an act. "Emergency procedures" must be provided.

---

- H. Describe the agency's direct and/or indirect access to legal assistance in mortgage regulation, advice and support providing the names of any attorneys employed by the agency who handle mortgage regulation. State the basis for the rating. Also, provide documentation that includes pending lawsuits, if any, against the agency.

Agency Rating  $\frac{\text{Value} \times \text{Rating} = \text{Score}}{7 \times}$

---

**Suggested Best Practice:** The agency must have an attorney on staff and/or a specifically assigned attorney from the Attorney General's Office to represent the agency if required by state law. The agency must also have the ability to hire outside counsel when necessary.

---

- I. Describe and evaluate the adequacy of the agency's physical facilities and emergency preparedness procedures (including the security and fire protection of the office and confidential files). State the basis for the rating.

Agency Rating  $\frac{\text{Value} \times \text{Rating} = \text{Score}}{5 \times}$

---

**Suggested Best Practice:** All agency offices must have either keyed or coded entry and meet the following qualifications:

1. Confidential files must be in locked area with limited access.
2. There must be a procedure for maintaining control of confidential files and security when not in locked area.
3. Space must be adequate to accommodate all examiners as needed with private offices for supervisors.
4. All facilities must have adequate fire safety and evacuation procedures.

- J. Describe the use and evaluate the adequacy of the agency's computer system, including central office computers (i.e., LAN system, E-mail, etc.), number of computers for field examination staff, anticipated replacement and/or upgrade of computers, backup and disaster recovery plans (including those for field computers). State the basis for the rating and the date of the last testing of the disaster recovery plan \_\_\_\_\_.

$$\frac{\text{Value} \times \text{Rating}}{7} = \text{Score}$$

Agency Rating

**Suggested Best Practice:** The agency's computer system must be adequate to provide the necessary tools for regulation of mortgage providers and must be compatible with the programs necessary to perform examinations. At a minimum:

1. Computers should be replaced at least every three years.
2. Each examiner must have their own computer and own email address with access to the internet.
3. Computer systems must have adequate firewalls, virus protection, and intrusion detection including encryption of reports of examination.
4. Agency must have adequate off-site backup and disaster recovery plan.

- K. Describe the agency's revenue source(s). Note the amount of total funds obtained from:

- assessments on the assets of the providers supervised, ..... \$
- fees charged per residential mortgage documentation filed ..... \$
- fees for examinations, ..... \$
- state general revenue funds\*, and ..... \$
- application/licensing fees ..... \$
- other sources ( \_\_\_\_\_ ) ..... \$
- Total ..... \$

\* This question involves income generated by the agency when no other income is generated and agency expenditures are covered by state general revenue other than from the mortgage providers.

How often are assessments billed? ( ) Annually ( ) Semiannually ( ) Quarterly

Is the organizational unit responsible for mortgage regulation self-supporting?

Considering possible future changes in the mortgage industry, describe the agency's contingency plans. State the basis for the rating and provide documentation if applicable.

$$\frac{\text{Value} \times \text{Rating}}{12} = \text{Score}$$

Agency Rating

**Suggested Best Practice:** Agency must be self-supporting. Income generated from the mortgage providers should support costs attributed to the supervision of the mortgage providers. Agency must have a contingency plan (separate fund, cash balance or proven ability to increase revenue) to cover at least 3 months worth of expenses.

- L. Describe the process of preparing the (mortgage regulatory) agency budget, including the procedure for reviewing monthly or periodic budget reports and making appropriate changes.

To what extent do supervisors and/or managers with income and/or expense responsibilities contribute to the preparation process?

Evaluate the adequacy of the existing budget to 1) examine and supervise all state-licensed mortgage providers in accordance with frequency guidelines, and 2) operate the mortgage regulatory agency.

Note: The adequacy of salaries and benefits and adequacy of training funds is covered elsewhere in the questionnaire. State the basis for the rating and include documentation if appropriate.

$$\frac{\text{Value} \times \text{Rating}}{12} = \text{Score}$$

Agency Rating

**Suggested Best Practice:** Input into budget process should include all individuals who will be responsible for monetary controls of portions of the budget. Budget versus actual expenses should be reviewed monthly and reported to senior management. The agency must have sufficient funds to operate and to examine mortgage providers in poor economic times as

well as during times of good economy including the ability to hire additional examiners if necessary.

SECTION I  
SCORE SHEET

Max Base Score 345

Agency Score \_\_\_\_\_

Agency Score as a percent of Maximum Base Score \_\_\_\_\_%

Note: also enter data on the Final Score Sheet.

SECTION II – PERSONNEL

**Purpose** - This section evaluates various aspects of the "people" side of the agency. The criteria assume that a superior agency provides a clear, adequate and consistent set of rules for the treatment of employees. Some of the criteria address the documents related to personnel policy, e.g., policy manuals and job descriptions. Other criteria treat communication with and retention of professional staff.

- A. Describe the agency's Personnel Manual. Evaluate the completeness and maintenance procedures of the manual. State the basis for the rating and include a copy of the table of contents **ONLY** of any manuals. (Please note that the manual should be available for review on-site). If manuals are available on-line, please provide the site location

Agency Rating \_\_\_\_\_  $\frac{\text{Value} \times \text{Rating} = \text{Score}}{3 \times}$

**Suggested Best Practice:** The agency must have an approved Personnel Manual. The Manual must be reviewed at least annually and must include agency specific procedures regarding hours, travel, per diem, etc. The Manual must be available to all employees either in hard copy or electronically, with a procedure for immediate updates as approved, and must be reviewed with employees periodically as needed.

- B. Evaluate the agency's written job descriptions and their frequency of revision.
- State the basis for the rating and have documentation available on-site, including copies of the job descriptions for those positions directly involved in the examination, regulation and supervision of mortgage providers available on-site.
  - Indicate which positions, if any, are union and/or civil service positions.
  - Detail which positions are appointments, who appoints, and if confirmation is required.

Agency Rating \_\_\_\_\_  $\frac{\text{Value} \times \text{Rating} = \text{Score}}{5 \times}$

**Suggested Best Practice:** All positions must have job descriptions which describe duties performed, are up-to-date, and are reviewed at least annually. The job descriptions should include positions that the individual supervises, state the name or position of that individual's supervisor is and should correspond to the organizational chart.

- C. Describe the personnel hiring policies and recruiting procedures to allow employment of the type and number of personnel needed for mortgage provider examination, regulation and supervision. Detail any groups which are given preferential treatment, such as veterans. State the basis for the rating and include documentation if appropriate.

Agency Rating \_\_\_\_\_  $\frac{\text{Value} \times \text{Rating} = \text{Score}}{5 \times}$

**Suggested Best Practice:** Although most States have an agency which provides hiring and recruiting duties for the entire State Government, supervisors from the agency must be included in the selection process in some way. The immediate supervisor should participate in the hiring interview for individuals whom they will directly supervise and have acceptable training in conducting hiring interviews.

- D. Describe the various examiner level positions in the organizational structure and evaluate the agency's adequacy to provide promotional opportunities and pay for performance that will enable the agency to retain and advance qualified

personnel to increasingly responsible positions and duties. State the basis for the rating and include documentation if appropriate.

Agency Rating

$$\frac{\text{Value} \times \text{Rating} = \text{Score}}{6 \times}$$

**Suggested Best Practice:** In order to provide an examiner career path with adequate advancement opportunity, the agency must have at least 3 levels of field examination staff with three of those levels not limited in the number of positions. Funds must be sufficient to pay merit increases for above average performance of examiners.

E. Describe the performance appraisal and review process used by the agency, including the process for new-hires, trainees in new areas, and experienced staff. State the basis for the rating and provide documentation that includes sample forms/checklists used in the evaluation process.

Agency Rating

$$\frac{\text{Value} \times \text{Rating} = \text{Score}}{5 \times}$$

**Suggested Best Practice:** Performance appraisals should not only include an evaluation of the employee's performance over a definitive timeframe but should provide a plan for the next timeframe with specific measurable goals agreed to by the employee and supervisor. All employees should have at least one annual review with more frequent evaluations for new hires and persons recently promoted to a new position. All reviews should be conducted in person and signed by the employee and supervisor.

F. Describe and evaluate the adequacy of the agency's salaries and benefits, particularly as it affects the agency's ability to hire and retain well-qualified employees for a reasonable time.  
 a. State the basis for the rating and provide documentation that includes the salary ranges and comparisons with contiguous states' examiners and comparable federal examiners who provide regulation and supervision of mortgage providers.  
 b. State the turnover ratios for mortgage examiners for the previous three years. Provide the reasons for leaving based on exit interviews.

Agency Rating

$$\frac{\text{Value} \times \text{Rating} = \text{Score}}{10 \times}$$

**Suggested Best Practice:** The agency's Employee Compensation Plan must be adequate to hire and retain well-qualified employees. The Plan at a minimum must address salary, benefits, and expense reimbursements. The plan should contain provisions which require that periodic compensation studies be conducted to assure that employee compensation remains competitive. Such periodic studies must document the competitors compensation structure. Data to be considered should be sought from similar agencies in contiguous states and federal agencies operating in its employee market. The agency should also identify at least one likely private sector competitor for well-qualified employees.

SECTION II  
SCORE SHEET

Max Base Score 170 Agency Score \_\_\_\_\_

Agency Score as a percent of Maximum Base Score \_\_\_\_\_%

Note: also enter data on the Final Score Sheet.

SECTION III - TRAINING

**Purpose** - This section evaluates the steps an agency takes to improve professional skills over time. No one method of training is required. Instead, this section examines the implementation by an agency of the method chosen to train its staff. On-the-job training, formal classroom instruction and seminars can alone or jointly compose an adequate training program. Whatever the mix, the program should maintain a highly qualified staff and be carried out on a regular basis.

**Narrative Material for the Section** - The narratives for this section provide opportunities to describe special efforts in training and education, especially where local conditions require specialized qualifications (e.g., agricultural lending, international).

Quantitative measures of formal education completed may be included, even though the number of classroom hours or courses completed may not, by itself, identify an adequate training program.

- A. Describe how an agency assigns overall formal training responsibility (whether it is assigned to a selected individual or individuals) and evaluate the effectiveness of that assignment. State the basis for the rating and include documentation if appropriate. Note: On-the-job training is addressed in another section.
- Value x Rating = Score  
6
- 

**Suggested Best Practice:** The responsibility for oversight of formal training should be assigned to one individual who maintains a database of training per examiner. The effectiveness of formal training should be evaluated within a set timeframe following attendance at the class or seminar.

---

- B. Describe the agency's written policy on examiner training. How is the policy's effectiveness evaluated? State the basis for the rating and include a copy of the written training policy and a list of the core and advanced schools used (i.e., CSBS, AARMR, state, federal or other schools and seminars).
- Value x Rating = Score  
6
- 

**Suggested Best Practice:** The agency must have a written training policy as follows:

1. The policy must include a listing of core classes for each level and type of examiner.
  2. The policy must include support for an examiner to achieve and maintain a definite career path.
  3. The policy must be reviewed annually.
  4. The policy must allow examiners the ability to request training for continuing education that will be subject to a supervisor's approval and budgetary constraints.
  5. The training goal must be for each examiner to have, at a minimum, "outside classes" with at least 28 hours of instruction annually. The goal must be met.
- 

- C. Describe the agency's training procedures in terms of completeness, relevance and maintenance. How do the procedures address issues specific to your state?
- Value x Rating = Score  
5
- 

**Suggested Best Practice:** The agency must have written training procedures. The Examination and Training procedures may be interchangeable.

---

- D. Describe the agency's use of on-the-job training. Include a description of who is responsible for providing the training (i.e., mentor) and evaluation procedures. State the basis for the rating and provide documentation that includes the forms or checklists used in evaluating the completeness and effectiveness of the training.
- Value x Rating = Score  
8
- 

**Suggested Best Practice:** The agency must have approved OJT procedures (if not included in training procedures).

1. The procedures should include a listing of duties to be performed by the trainee and a listing of reading material for reference by topic.
  2. The OJT procedures must address the following areas: compliance with state and applicable federal laws, financial analysis and examiner-in-charge duties.
  3. OJT procedures should include the use of an assigned mentor for examiners as they are assigned to new areas of training.
  4. Evaluation of trainee should be performed at the conclusion of each job.
- 

- E. Describe and evaluate the methods used by the agency to conduct pre and post examination interviews. State the basis for the rating.
- Value x Rating = Score  
6
-

**Suggested Best Practice:** The agency must provide training for conducting interviews with licensees. This may take the form of outside schools or internal training.

- 
- F. Describe the agency's policy (i.e., tuition reimbursement and/or leave policies) for external academic training programs. State the basis for the rating and include documentation if appropriate.  $\frac{\text{Value} \times \text{Rating}}{4} = \text{Score}$   
Agency Rating
- 

**Suggested Best Practice:** The agency must have a policy on advanced/academic training which reimburses tuition and allows flexibility of time to attend classes. This includes full-time college classes.

- 
- G. Describe, in detail, the agency's training budget and expenditures. What percentage of the total budget is allocated to or expensed for training? Is the training budget adequate to satisfy the training needs of the agency? State the basis for the rating and provide documentation that includes summary training budget information (three-year history and one year projection of budget and actual expenditures).  $\frac{\text{Value} \times \text{Rating}}{10} = \text{Score}$   
Agency Rating
- 

**Suggested Best Practice:** The training expenditures must be at least 2% of total mortgage agency expenditures. The dollar amounts for training should only include expenses for materials, registration, and travel. This percentage should be adjusted if the core training is high due to a large number of newly hired employees.

### SECTION III SCORE SHEET

Max Base Score 225 Agency Score \_\_\_\_\_  
Agency Score as a percent of Maximum Base Score \_\_\_\_\_%

Note: also enter data on the Final Score Sheet.

### SECTION IV - EXAMINATION

**Purpose** - This section and the following section ("Supervision") cover those areas that the public most widely perceives as the main and most important activities of a state mortgage provider. These sections raise numerous questions regarding work product and the agency's ability to carry on a consistently competent program of regulation, examination and supervision.

**Narrative Material for the Section** - These narratives lend themselves to both qualitative and quantitative measurements of agency's ability to examine state-licensed mortgage providers completely and adequately. Please specifically address these criteria, giving a justification for the rating chosen and, where the rating indicates a problem, any actions being taken to improve the situation.

#### SECTION IV-a – EXAMINATION POLICIES AND PROCEDURES

- 
- A. Describe the statutory requirement, agency policy and actual frequency of examinations of state-licensed mortgage providers. Evaluate the agency's ability to meet examination policies. State the basis for the rating assigned and provide documentation that includes the number of examinations by type of mortgage licensee.  $\frac{\text{Value} \times \text{Rating}}{5} = \text{Score}$   
Agency Rating
- 

**Suggested Best Practice:** The agency written policy on examination frequency should state that each financial institution must be examined at least every 60 months or on a more frequent risk basis dependent on off-site monitoring (complaints, prior enforcement actions, ratings, etc.) The frequency policy must be met. The agency must conduct some form of exit meeting per

the written policy. Also, the policy should require either an onsite visitation or other form of review/audit within the first six months of being granted a license.

- B. Has the agency entered into any information sharing agreements with other regulatory agencies? If agreements have been signed, evaluate the agency's compliance with the agreements and the effectiveness of the procedures. Provide a listing of any examinations performed jointly.
- Value x Rating = Score  
5
- Agency Rating

**Suggested Best Practice:** The agency must have information sharing agreements with other regulators and comply with said agreements.

- C. Has the agency signed the following mortgage agreements?
- a. CSBS Multi-State Supervision Agreement  Yes  No  N/A
- b. CSBS Protocol Agreement  Yes  No  N/A
- c. List any other State agreements  
(regional or individual states)
- Is the agency in compliance with all signed agreements?  Yes  No  N/A
- Please provide procedures for assuring compliance with the protocols.
- Does the agency have the authority to travel out-of-state if necessary to examine an out-of-state licensee for which it has regulatory responsibility?  Yes  No
- Does the agency have the authority to contract with other state mortgage regulators to assist on examinations?  Yes  No
- State the basis for the rating and include documentation if appropriate.
- Value x Rating = Score  
10
- Agency Rating

**Suggested Best Practice:** The agency must have signed all applicable agreements and developed means for assurance of compliance with the protocols. Additionally, the agency must have the ability to travel out-of-state and/or contract with other agencies.

- D. Describe and evaluate the agency's examination manuals including policies and procedures for organizing and planning individual examinations, as well as a policy on conducting exit meetings and requirements for meetings with the senior management team following an examination. State the basis for the rating and include documentation if appropriate.
- Value x Rating = Score  
10
- Agency Rating

**Suggested Best Practice:** The agency must have examination manuals addressing policies and procedures for all types of examinations. These manuals may incorporate or be a duplicate of written training procedures. Internal procedures must provide at least two weeks notice to the assigned examiner for scheduling purposes in order to provide lead time to do pre-planning and risk focused memos.

- E. Describe and evaluate the agency's procedures for reviewing the examination report before it is returned to the mortgage provider, including the preparation of the transmittal letter. State the basis for the rating and provide documentation that includes a two-year history of average examination report turnaround time in calendar days. (Note: examination report turnaround time should be calculated from the time the examiners hold the exit meeting).
- Value x Rating = Score  
10
- Agency Rating

**Suggested Best Practice:** Report turnaround time on examinations of non-problem providers should average no more than 30 calendar days from the time that the EIC holds the exit meeting with management until the report is mailed to the financial institution. On problem providers the average report turnaround time should be no more than 60 calendar days. Procedures for drafting of transmittal letters/agreements on problem providers should be more stringent than those for non-problem institutions. For better efficiency, the field staff should be adequately experienced and trained to draft transmittal letters for non-problem institutions.

- F. Describe the policy and procedures for preparation and review of working papers, including the sharing of working papers with regulatory counterparts and other entities as necessary.

	<u>Value x Rating = Score</u>
Agency Rating	10

**Suggested Best Practice:** An acceptable procedure for independent review of working papers should be adopted and adhered to following each examination and visitation including but not limited to: overview of files reviewed, documentation supporting violations, sample disclosure documents, written policies and procedures review.

IV-b ABILITY TO RATE MORTGAGE PROVIDERS, RECOGNIZE PROBLEMS,  
AND INITIATE EFFECTIVE CORRECTIVE PROCEDURES

- A. Rate the agency's examination program based on its review of the following areas in an examination:
- |                             | <u>Value x Rating = Score</u> |
|-----------------------------|-------------------------------|
| 1. Personnel Administration | 10                            |
| 2. Management               | 10                            |
| 3. Financial Analysis       | 10                            |
| 4. Consumer Services        | 10                            |
| 5. Compliance               | 10                            |

**Suggested Best Practice:** Agency establishes procedures to assure an examination will review the following areas:

1. Personnel Administration: Hiring and firing, training, written policies and procedures; evaluation and compensation structure.
2. Management: Knowledge of laws, number of violations, exceptions to internal routine and controls, quality control, third party due diligence; business plan.
3. Financial Analysis: Capital or bond coverage; asset quality; earnings; liquidity; internal audit/independent audit; affiliated business arrangements
4. Consumer Services: complaint procedures, marketing
5. Compliance: Compliance Officer, compliance with laws, disclosures and documentation and use of MEGS for non traditional mortgages.

- B. Describe and evaluate the agency's ability to examine the areas listed above. State the basis for the rating and provide documentation that includes the number of examiners who have reached a high degree of technical competency. Provide a total of the number of examinations performed in a 12 month period. Provide a rationale for whether the number of employees is sufficient to examine the areas in accordance with the frequency requirements set by the agency. If not sufficient what is the action plan to train or acquire a sufficient number of examiners with a high degree of technical competency.

	<u>Value x Rating = Score</u>
Agency Rating	50

**Suggested Best Practice:** Agency must have a sufficient number of examiners trained in the following areas to examine licensees at least every 60 months or on a more frequent risk basis dependent on off-site monitoring:

1. Personnel Administration: Hiring and firing, training, written policies and procedures; evaluation and compensation structure.
2. Management: Knowledge of laws, number of violations, exceptions to internal routine and controls, quality control, third party due diligence; business plan.
3. Financial Analysis: Capital or bond coverage; asset quality; earnings; liquidity; internal audit/independent audit; affiliated business arrangements
4. Consumer Services: complaint procedures, marketing
5. Compliance: Compliance Officer, compliance with laws, disclosures and documentation and use of MEGS for non traditional mortgages.

- C. Describe the agency's procedures for following up of problems discovered during any examination and for insuring that the licensees undertake the corrective action required.



Include the maximum number of days given for responding to the transmittal letter. State the basis for the rating and include documentation if appropriate.

Agency Rating

$$\frac{\text{Value} \times \text{Rating} = \text{Score}}{30}$$

**Suggested Best Practice:** Licensees should respond within 45 calendar days after receipt of the report of examination and/or a transmittal letter. Individuals should be assigned to track and review responses. Notation of reviews should be made and retained in files. The EIC should be involved in responses to problem institutions.

SECTION IV  
SCORE SHEET

IV.a EXAMINATION POLICIES AND PROCEDURES

Max Base Score 250 Agency Score \_\_\_\_\_

Agency Score as a percent of Maximum Base Score \_\_\_\_\_%

IV.b ABILITY TO RATE CAMELS, RECOGNIZE PROBLEMS, AND INITIATE CORRECTIVE PROCEDURES

Max Base Score\* 650 Agency Score \_\_\_\_\_

Agency Score as a percent of Maximum Base Score \_\_\_\_\_%

\* If Criterion IV.b.A.4. is not applicable, the Revised Max Base Score for Section IV should be reduced by 50.

Note: also enter data on the Final Score Sheet.

SECTION V – SUPERVISION

Purpose - This section evaluates the agency's application and renewal procedures, complaint resolution program and enforcement authority. The section assumes that the system devised will provide timely, accurate and usable data. The section also assumes that authority to carry out enforcement actions is necessary, if such actions are to be effective.

Narrative Material for the Section - The narrative provides the opportunity to describe the monitoring and complaint resolution program the agency has developed and how that system is used. List any "outside" sources of information that may be used to increase the reliability of programs, e.g., NMLS, independent audits, quarterly reporting. Describe how the monitoring and compliance programs affect examination schedules and other regulatory activities, e.g., enforcement actions and meetings with licensees and controlling individuals.

A. Describe the agency's ability to recognize and respond to complaints filed against licensees.

Agency Rating

$$\frac{\text{Value} \times \text{Rating} = \text{Score}}{30}$$

**Suggested Best Practice:** The agency must have a written complaint resolution program to monitor all licensees. The program must track acknowledgement of complaints, correspondence with licensee and date of complaint resolution or final disposition. Reasonable timeframes should be set for final disposition of complaints.

B. Describe the agency's application process and procedures. How often is the license renewed? Does the agency have a means of determining license status or disciplinary actions in other agencies (whether in state or in other states)?

Agency Rating

$$\frac{\text{Value} \times \text{Rating} = \text{Score}}{30}$$

**Suggested Best Practice:** The agency must have on-line applications with the ability to file electronically. The agency must

have written procedures for processing applications, including normal timeframes for completion of processing of completed applications. The applications, at a minimum, should address the following:

- a. Criminal records history on controlling individuals,
- b. State specific requirements,
- c. Regulatory action disclosure.

C. Describe the agency's follow-up procedures for problems noted as a result of off-site monitoring program findings, including the communication of the findings to the appropriate individuals. State the basis for the rating and include documentation if appropriate and not confidential. Value x Rating = Score  
5  
Agency Rating

**Suggested Best Practice:** Computer generated reports and documentation of financial statements or questionnaires. When problems are noted, procedures should be established for assigned responsibility of written and/or oral communication with the licensee, other regulators, and office/field personnel with appropriate documentation in the individual file. This information should be available for review by the appropriate office and field personnel including the assigned Examiner-in-Charge.

D. Provide copies of law for the agency's authority to take disciplinary or enforcement actions against licensees. Does the agency have adequate statutory enforcement authority? State the basis for the rating. Value x Rating = Score  
30  
Agency Rating

**Suggested Best Practice:** The agency must have at a minimum the following statutory enforcement powers over licensees:

- 1. The ability to issue Cease and Desist Orders including emergency C&D's.
- 2. The ability to suspend or revoke licenses, and
- 3. The ability to issue fines sufficient to deter violations of laws and regulations and/or violations of orders or agreements.

E. Describe the agency's actual use of its enforcement authority and evaluate the effectiveness of disciplinary and enforcement actions. Provide the number and type of actions issued during the past three years. State the basis for the rating and include documentation if appropriate. Value x Rating = Score  
10  
Agency Rating

**Suggested Best Practices:** The agency should have a written policy or written procedures that require some type of action for problem licensee. If a problem licensee does not have a written action in compliance with the policy, the file should contain written reasons for exception approved by senior management.

SECTION V  
SCORE SHEET

Max Base Score 525 Agency Score \_\_\_\_\_

Agency Score as a percent of Maximum Base Score \_\_\_\_\_%

Note: also enter data on the Final Score Sheet.

SECTION VI – LEGISLATIVE

**Purpose** - This section covers a series of legislative issues important to maintaining a regulatory program that meets current and future regulatory needs. This section assumes that a well-run agency will operate under a code that is comprehensive and clear, changes as often as necessary and places accountability with the supervisor. This section also addresses the agency's ability to propose legislation, as well as to review legislation drafted by others that would affect the agency's regulatory program.

**Narrative Material for the Section** - The narratives should describe the scope of the authority of the state regulator and the agency. They should also indicate the capacity of agency personnel to participate in the legislative process.

A. When was the last recodification of the state mortgage statute and the last date the code was reviewed in its entirety?

How often are revisions/amendments made?  
 Are there existing plans to recodify the state mortgage laws, and if so, when?  
 State the basis for the rating and include documentation if appropriate.

$$\frac{\text{Value} \times \text{Rating}}{3} = \text{Score}$$

Agency Rating

**Suggested Best Practice:** The mortgage statutes must be reviewed in its entirety at least once every five years to determine if recodification is needed. Once the determination is made that recodification or revision is necessary, the code should be revised within three years.

B. Discuss whether the state mortgage statutes provide the supervisor with adequate authority to perform the prescribed duties and responsibilities. Identify areas needing improvement. State the basis for the rating and include documentation if appropriate.

$$\frac{\text{Value} \times \text{Rating}}{10} = \text{Score}$$

Agency Rating

**Suggested Best Practice:** Agency management should indicate that the mortgage statutes provide the agency or the Supervisor with the necessary powers to perform prescribed duties and responsibilities. Any areas needing improvement should be identified with any current actions in progress being noted.

C. Describe the agency's involvement in the legislative process, including the ability to initiate legislation, review legislation, and otherwise have an impact on legislation affecting the licensees under its purview. State the basis for the rating and include documentation if appropriate.

$$\frac{\text{Value} \times \text{Rating}}{6} = \text{Score}$$

Agency Rating

**Suggested Best Practice:** The agency should have input into any proposed legislation regarding areas under their purview with adequate opportunity to defend the proposals before the legislature.

SECTION VI  
 SCORE SHEET

Max Base Score 95 Agency Score \_\_\_\_\_

Agency Score as a percent of Maximum Base Score \_\_\_\_\_%

Note: also enter data on the Final Score Sheet.

FINAL SCORE SHEET  
 for the  
 State of \_\_\_\_\_

	<u>MAX</u>	<u>AGENCY SCORE</u>	<u>SCORE % of MAX</u>
SECTION I- ADMINISTRATION & FINANCE	345		
SECTION II- PERSONNEL	170		
SECTION III-TRAINING	225		
SECTION IV- EXAMINATION			
IVa	250		
IVb	650		
SECTION V- SUPERVISION	525		

SECTION VI- LEGISLATIVE

95

Max Total Score.....

2,260

State Mortgage Agency Total Score .....

Percentage Score .....

---

Agency Supervisor

---

Date

[Pa.B. Doc. No. 09-1711. Filed for public inspection September 11, 2009, 9:00 a.m.]