



IDAHO
DEPARTMENT OF FINANCE

100
1905 - 2005

Presentation to the Idaho Association of Mortgage Brokers Mortgage Professionals Convention Boise, Idaho -- 3/16/2006

- K.C. Schaler
- Anthony Polidori
- Supervising Examiners
- State of Idaho, Department of Finance



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Welcome

- How To
Survive Initial
Loan Originator Licensing

- K.C. Schaler
 - Supervising Examiner
 - State of Idaho, Department of Finance

Current Statistics



Cumulative Loan Originator Licensing Statistics

Date	Applications Received	Applications Not Yet Reviewed	Licenses Issued	Deficiency Letters Sent	Deficiency Ratio
January 5, 2006	147	0	54	104	71%
January 12, 2006	223	0	83	140	63%
January 19, 2006	298	0	147	191	64%
January 26, 2006	426	0	232	274	64%
February 2, 2006	528	18	310	337	66%
February 9, 2006	691	20	410	448	65%
February 16, 2006	1161	220	543	569	60%
February 23, 2006	1823	791	724	728	71%
March 2, 2006	3536	1764	1010	1079	61%
March 9, 2006	3899	275	1466	2247	75%
*March 15, 2006	3967		1764		

Licensable Activity



- **May Apply to Processors**

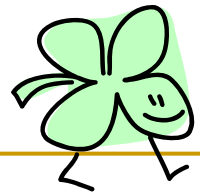
- **Loan Origination Activities**

- “Loan Origination Activities” means for compensation or gain, either directly or indirectly, engaging in:
 - Soliciting, accepting, or offering to accept an application for a residential mortgage loan;
 - Assisting a borrower, or offering to assist a borrower in the preparation of a residential mortgage loan application; or
 - Negotiating or offering to negotiate the terms or conditions of a residential mortgage loan with a borrower.

Loan Originator Licenses

Are Not Required If:

- You are a Sole Proprietor who holds a mortgage broker/lender license in *your own name* as long as you remain exclusive to yourself and do not originate for any other entity
 - OR
- You solely perform clerical or administrative functions and do not solicit borrowers or negotiate the terms of loans on behalf of the licensee, or perform other described loan origination activities.
- You are exempt under the IRMPA



To Apply For A License

- There is still **No Test!**
- License application fee of \$200. Fees are non-refundable
- Completed application form
- Surety bond, to the state of Idaho, or a Certificate of Deposit in the amount of \$10K.



License Statuses



- ❑ **Approved/license issued:** Application package complete and employment information with mortgage broker/lender licensee provided/verified
- ❑ **Unassigned:** Application package approved but employment information with mortgage broker/lender licensee not yet provided/verified
- ❑ **Pending:** Application package is incomplete or otherwise deficient. Written notification provided to applicant via email, fax or USPS
Watch your junk email for communication
- ❑ **Denied:** Information provided or subsequently received indicates issuance of license is not warranted. Application elevated to Supervising Examiner and Bureau Chief for further review and recommendation prior to assignment to Attorney General's office for denial order. Administrative Order of Denial issued

Where Is My License?



- **Approved** licenses will be issued in both the loan originator's name AND the licensed "employing" mortgage broker/lender
- **Approved** licensees will be posted to the website in live time in the section "Loan Originator Licensees" at <http://finance.idaho.gov>
 - Loan originator listings reflect their association to a mortgage broker/lender licensee
 - Mortgage broker/lender listings reflect their associated loan originator licensees
- Hard-copy licenses are mailed to the company's designated "home/main" office for retention
 - **Companies must provide a copy of the LO license to the originator's primary licensed work location *for display in a conspicuous location***

Have A Change To Your Original Application?

- Changes to the content of your application require filing an update in order to keep the information current

- Changes to a filed loan originator application, before or after issuance of a license, must be completed by filing an “amended” application form LO1
 - Mark the “Amendment” box
 - Complete the loan originator’s name, SSN and the new or corrected information sections only
 - Circle the numbered sections to be amended
 - Changes to information on page 1 must be signed/notarized with the original provided to the Department
 - No fee charged for changes



Did You Change “Employers”?

- “Employers” must notify the Department of hirings and terminations within 30 days of occurrence
 - Notification forms are available in the mortgage forms section on the website
 - Terminations require return of the original license
- Upon notification of employment termination, a loan originator’s license will be placed into an “Unassigned” status and inactivated until verification and notification of new employment is received
- Upon notification and verification of “employment,” a new loan originator license will be issued in the name of the loan originator and reflecting the association with the verified new “employer”
- A loan originator license may remain in an “unassigned” status indefinitely as long as the bond/CD remains current, the license is renewed and CE credits are maintained

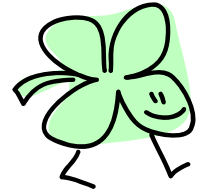


Loan Originator License Renewal

- Renewal fee of \$100
- Completion of Renewal Form
- Forms will be available by September 1 on the website
- Requested filing by October 15th. Licenses expire by operation of law if a *complete renewal* is not postmarked by the USPS (or overnight delivery service documented) or received on-line by October 31st



Continuing Education



- **Who Does It Apply To?**

- Loan Originators
- Qualified Person in Charge (QPIC)

- **Requirements and Information**

- Proposed Rules currently pending signature by Governor Kempthorne

Continuing Education

- ❑ Minimum requirement of 16 credit hours must be attained within each reporting period
 - No less than 2 credit hours related to the IRMPA and Rules
 - No less than 14 credit hours related to approved topics
 - ❑ Excess accumulated hours will not carry over to subsequent reporting periods

- ❑ Reporting period for credit hour accumulation begins November 1 and ends October 31, 2 years later
 - Initial reporting period will begin November 1, 2006 and end October 31, 2008 for any loan originator licensed, or any QPIC designated, prior to November 1, 2006



Who Can Provide Continuing Education?



- Presumptive accreditation of courses covering approved topics, and their providers, has been extended to these organizations:
 - NAMB, MBA (national level of Idaho Mortgage Lenders Association), NAPMW, ABA, CSBS, AARMR
 - FNMA, FHLMC, HUD, VA
 - IHFA, Regulatory agencies at state or federal level with oversight of mortgage related activity
 - Institutions of higher education accredited by the Idaho State Board of Education or by similar accrediting agencies of any other state
- Other providers desiring to offer CE courses for credit will be required to submit information and course materials for pre-approval prior to offering courses for accreditation.

Course Topics



- ❑ Courses in sales, increasing or building business such as lead generation, will not be approved for credit hours

- ❑ Courses related to the following will be considered towards the additional 14 credit hours within each reporting period:
 - **Mortgage industry generally**
 - **Loan evaluation and documentation**
 - **Features of various loan products**
 - **State and federally required disclosures**
 - **Ethical considerations**
 - **Laws related to mortgages, deeds of trust, liens, pledges**
 - **Real estate and appraisal law**
 - **Principal and agency law and contract law**
 - **Basics of home purchase/ownership**
 - **RESPA/RegX, TILA/RegZ and federal Consumer Credit Protection Act**
 - **Idaho Credit Code, Idaho Mortgage Company Act, Idaho Escrow Act and the UCCC**

Loan Originators

- Must be exclusively employed (W2/1099) with ONE Idaho licensee
- Must have their compensation issued to them in their own, individual name—not a separate legal entity, such as an LLC, Sub-S Corp, etc



Remember...



- Mortgage brokers/lenders risk suspension or revocation of the company's license if they:
 - Allow a loan originator to conduct origination activities prior to receiving a license
 - Fail to notify the Department of the “employment” or “termination” of a loan originator within 30 days
 - Fail to diligently supervise or control the mortgage related activities of the “employed” loan originator.

Important Dates to Remember



- March 1, 2006
 - Applications postmarked AFTER this date, or received without the application fee, must now include the \$200 application fee and all origination activities must cease until the license is issued
 - Originators who filed license application packages postmarked by this date may continue conducting activity through March 31, 2006 while the application is being reviewed. If deficiencies are not completed by March 31, all origination activities must cease until a license is issued.

- September 1, 2006
 - Renewal applications become available

Important Dates to Remember

- October 31, 2006
 - Renewal applications must be postmarked and complete
 - Renewal applications postmarked after this date, or incomplete after this date, expire by operation of law and accumulated continuing education credits may be lost.
- November 1, 2006
 - Initial continuing education reporting period begins



Thank You



■ *Questions?*



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Financial Fraud in Mortgage Loan Origination

Anthony Polidori
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State of Idaho, Department of Finance

“Everything is vague to a degree you do not realize till you have tried to make it precise.”

Bertrand Russell

How precisely can we identify what constitutes fraud?

What about financial fraud?

Why should it concern us?



What constitutes fraud?

- Fraud – An intentional deception employed to deprive another of his/her money, property or legal right
 - Can include misrepresentations
 - Can include omissions
 - Can include misleading persons into certain actions
 - Includes intent or a willful action to obtain a specific result

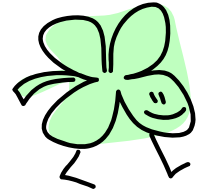


What about financial fraud?



- July 1, 2005 – Enactment of the Idaho Financial Fraud Prevention Act provides a clear definition of financial fraud
 - ❑ Employing a scheme, artifice, or device to defraud a financial institution
 - ❑ Attempting to obtain assets from a financial institution through misrepresentation, schemes, or devices
 - ❑ False representation as a financial institution
 - ❑ Obtaining personal financial information through misrepresentations
 - ❑ Utilizing the financial transaction card of another for financial gain
 - ❑ Attempting to obtain the assets of an employing financial institution while serving as an employee or agent

Why Should it concern us?



- Mortgage fraud is often underreported yet may have an impact on specific markets
- Both mortgage lending and housing markets have significant impacts on the overall economy
- The pervasiveness of fraud in mortgage lending can have an impact on available lending programs, on regional property values, and on the credibility of responsible mortgage brokers/lenders in certain markets

Legislative steps to curb mortgage fraud practices

- Colorado – proposals for supplements to consumer protection law related to mortgage fraud
- Oklahoma – proposed legislation distinguishing mortgage fraud as a criminal activity
- Idaho – enactment of the Financial Fraud Prevention Act which attaches both criminal and civil penalties for fraud in financial transactions, such as mortgage lending
- Federal Legislative Proposals – increasing enforcement against acts of fraud in mortgage lending



Mortgage Fraud?

- Can occur in transactions through the actions of either borrowers or industry professionals
- Is not always readily identifiable in certain mortgage programs
- Can occur as fraud for housing
- Can occur as fraud for profit



Fraud for housing



- Accounts for approximately 20% of all mortgage fraud
- Occurs through misstatements made by borrowers
- May require supporting information from borrower references, such as:
 - Employers
 - Landlords
 - Family members

Fraud for profit

- Constitutes the most significant occurrences of fraud
- Involves industry professionals including –
 - Mortgage companies or loan officers
 - Appraisers
 - Title company/Escrow officers
- Often represents a regular practice of schemes to defraud



Indicators of fraud for profit

- Attempts to improve a borrower's credit profile.
- Attempts to improve the subject collateral.
- Attempts to improve the odds of a loan approval



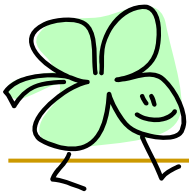
Improving the client



- Manipulating the client's credit application –
 - Income/Employer references
 - Assets
 - Liabilities
 - Credit re-scores
- Getting around program guidelines –
 - Purchase contracts with seller carry-backs
 - Bridge loans/property title transfers
 - Compensating factors

Improving the collateral

- The appraisal –
 - Commonly utilized appraiser
 - Property comparables
 - Favored client discounts/premium appraisal costs on certain property types
 - Coercive appraisal orders
 - Inflation of property appraisals



Improving the odds

- Through administrative practices –
 - Payments to parties not regularly associated with the mortgage company or lending process
 - Revenue from irregular sources
 - Disbursements to clients associated to mortgage loan closings
 - Deposits to mortgage professionals post-closing



Improving the odds



- Compliance disclosures/Credit application –
 - Regularly missing information
 - Regularly discloses inaccurate information
 - Regularly discloses meaningless information
 - Evidence of delivery of disclosures missing or contrary to the timeline of the mortgage origination

Common fraud schemes

- Property Flips –
 - Property purchased at value or undervalue – appraised at an inflated value – resold quickly to unsuspecting borrowers or straw borrowers
 - Requires collusion between seller and appraiser and, may include a mortgage company, title company, and end buyer



Common fraud schemes

■ Silent Second

- Undisclosed liability to seller or other party – occasionally a mortgage company – used as buyers down payment for loan closing
- May also include inflation of property value to allow increases to seller carried costs without adequate disclosure to borrowers or misrepresentation of property valuation



Common fraud schemes

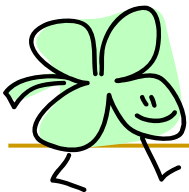


■ Straw Borrower/Fictitious Identity

- Actual buyer is not disclosed to lender through the use of a qualified, non-occupying borrower
- Use of stolen identity information to obtain housing or to promote property flipping and other fraud schemes

Common fraud schemes

- Foreclosure and Equity Skimming Schemes
 - “Investor” identifies and misleads borrowers who are in pre-foreclosure or default situations into transferring property to the investor in the hopes of a foreclosure rescue.
 - Investor obtains loans, cashing out equity, on distressed properties either through straw borrowers or other means – once or multiple times – without ever making payment on existing mortgage loans.



Common fraud schemes



■ Air Loans

- Involve multiple industry professionals
- Requires property valuations that misrepresent property type or provide valuations for non-existent property
- Often includes fictitious or straw borrowers

“Quidquid latine dictum sit, altum videtur”

Anything said in Latin sounds profound



For More Ideas

- Freddie Mac's Discover Gold Through Quality: Fraud Prevention Best Practices (www.freddiemac.com/dgtq)
- Mortgage Bankers of America's "Stop Mortgage Fraud" Campaign (www.stopmortgagefraud.com)
- American Bankers Association (www.aba.com)

