Duane Gomer Education Presents

PROFESSIONAL MLO EDUCATION FOR

MLO'S

2025 TEXTBOOK: 1ST Edition

BY DUANE GOMER, JOHN SHORE, & MICHELLE VELEZ

CA DRE/DFPI SAFE COMPREHENSIVE 8 HOURS OF CONTINUING EDUCATION

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2025 Edition
1st Printing

Published by Duane Gomer Education, a Division of Duane Gomer Inc.
23312 Madero #J, Mission Viejo, CA 92691
www.duanegomer.com

PRODUCED AND PRINTED IN THE UNITED STATES OF AMERICA

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8 Hour CA-DFPI SAFE Comprehensive:
Professional MLO Education 2025 Edition

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NMLS Course Provider #**1400388**
NMLS Course # xxxx

Date of Course Content: February 2025

Date Course Approved: x/xx/2025

Attachments:

1. NMLS Rules of Conduct for Students

DUANE GOMER EDUCATION

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Dear DRE and DFPI Students,

Your support of our courses is so appreciated. It is a sincere pleasure to present this course for MLO's. I would like to highlight some factors:

1. In a recent survey of our students a high percentage voted for a final project instead of an exam so that will be the procedure to end the class today.

2. Students expressed a strong desire to keep breaks to a minimum and finish faster so we will follow that request.

3. Last year we started a system whereby students downloaded their Certificates from our website. This has made the final checkout go even smoother. As you know, the Certificate is only for your records. We have the official record.

4. Your hours will be banked and the $12 fee will be paid. We are allowed seven days by regulation to complete the process, but your hours are banked much faster. You can't renew your endorsement (pay dues online with the NMLS) until November 1st. The deadline for paying dues and filing is normally December 21st.

5. NMLS Regulations state that an hour is 50 minutes so an 8 hour course has 400 minutes of instruction, including the final project.

6. The Student Information Sheet in the back of the book must be completed, dated and signed and given to the instructor at the end of the class. This is important.

7. You have been told that you can't take the same class two years in a row. This class is a new class for 2025 so you can keep taking Duane Gomer Education forever.

8. MOST IMPORTANT: NMLS insists that students shall not take unauthorized breaks, talk, text, email or use your phone during class. Violation of this rule will result in no credit for an individual.

9. To Download a full copy of the textbook that accompanies this workbook go to http://duanegomer.com/nmls/2025.pdf

Thank you,

Duane Gomer

Rules of Conduct for NMLS Approved Pre-Licensure (PE) and Continuing Education (CE) Courses

The Secure and Fair Enforcement for Mortgage Licensing Act (SAFE ACT) requires that state-licensed MLO's complete pre-licensing (PE) and continuing education (CE) courses as a condition to be licensed. The SAFE Act also requires that all education completed as a condition for state licensure be NMLS approved. Since 2009 NMLS has established course design, approval, and delivery standards which NMLS approved course providers are required to meet. To further ensure students meet the education requirements of the SAFE Act, NMLS has established a Rules of Conduct (ROC). The ROC, which have been approved by the NMLS Mortgage Testing & Education Board, and the NMLS Policy Committee, both of which are comprised of state regulators, are intended to stress that NMLS approved education be delivered and completed with integrity.

Rules of Conduct

NMLS approved course providers are not authorized by NMLS to grant exceptions to these rules and that I alone am responsible for my conduct under these rules. I also understand these rules are in addition to whatever applicable rules the course provider may have set.

Additionally, I understand that the course provider or others may report any alleged violations to NMLS. NMLS may conduct an investigation into alleged violations and may report alleged violations to the state(s) in which I am seeking licensure or maintain licenses, or to other states.

As an individual completing either pre-licensure education (PE) or continuing education (CE) I attest the course format I am being credit banked for has been entirely completed by myself and have met required below:

Classroom (live)

- Completed sign-in by providing my signature prior to the start of the course
    - Provided government issued ID at time of sign-in of the course to verify who I say I am
- Engaged with other students and instructor(s)
- Returned from breaks and lunches on time as required
- Participated and was engaged throughout the entire course
    - Properly completed the entire seat-time the SAFE Act required for the approved NMLS course in order to receive an end-of-course completion certificate

Classroom Equivalent (webinar)

- Provided at the time of entering the webinar platform:
- Government issued ID
- Knowledge-Based Authentication
- Returned from breaks and lunches on time as required
- Properly completed the entire seat-time the SAFE Act required for the approved NMLS course in order to receive an end-of-course completion certificate by the following means:
- Use of camera for the entire duration of the course and visible from the shoulders up
- Understand that if I fail to maintain camera presence for a period of greater than 10 minutes I will be removed from the class and not receive credit
- Engaged and completed all course quizzes and case studies
- Engaged and completed all polls
- Understand at various times during the CEQ/webinar course, I will be required to authenticate my identity and engagement.
- Engaged with other students and facilitators/instructor(s)

Online Instructor-Led (online with instructor)

- Provided at the time of entering the Learning Management System (LMS):
- Met the personal identification requirements set forth by the provider
- Will not divulge my login ID or password or login credentials to another individual for any online course
- Used my own personal login information to complete the NMLS approved online course
- Properly completed the entire seat-time the SAFE Act required for the approved NMLS course in order to receive an end-of-course completion certificate by the following means:
- Engaged and completed all course quizzes and case studies
- Engaged with other students and facilitators/instructor(s)

Online Self-Study (online without instructor)

- Provided at the time of entering the Learning Management System (LMS):
- Met the personal identification requirements set forth by the provider
- Used and authenticated my own personal login for BioSig to enter and complete the NMLS approved online course
- Will not divulge my login ID or password or login credentials to another individual for any online course
- Understand at various times during the online course, I will be required to authenticate my identity through a biometric system.

- Properly completed the entire seat-time the SAFE Act required for the approved NMLS course in order to receive an end-of-course completion certificate by the following means:
- Engaged with all the course content and completed all course quizzes and case studies

Additionally, I

1. Attest that I am the person who I say I am and that all my course registration information is accurate.

2. Acknowledge that I am required to show a current government issued form of identification prior to class entry and that the name on the identification matches the name as it appears on this course registration.

3. Understand that the SAFE Act and state laws require me to spend a specific amount of time in specific subject areas. Accordingly, I will not attempt to circumvent the requirements of any NMLS approved course.

4. Will not give or attempt to give assistance to any other person who is registered to take an NMLS approved pre-licensure or continuing education course

5. Understand that the course provider has the right to dismiss anyone from class that creates a disturbance or interferes with the administration of the course or other students' learning, including, but not limited to cell phone/smart watch usage.

6. Acknowledge that any outside activities are prohibited while attending class and grounds for immediate removal from class.

7. Will not engage in any conduct that would be contrary to good character or reputation or engage in any behavior that would cause the public to believe that I would not operate in the mortgage loan business lawfully, honestly or fairly.

8. Will not engage in any conduct that is dishonest, fraudulent, or would adversely impact the integrity of the course(s) I am completing or the conditions for which I am seeking licensure or renewal of licensure.

9. Understand and acknowledge my responsibility to report any violations or misconduct involving any of the above Rules of Conduct to the Mortgage Testing and Education Board (MTEB).

10. Understand the CSBS Privacy Notice is applicable to these Rules of Conduct. The CSBS Privacy Notice can be found here: https://nationwidelicensingsystem.org/about/policies/NMLS%20Document%20Library/CSBS%20External%20Privacy%20Notice-6.18%20(1).pdf

By signing below, I understand the Rules of Conduct listed above, and that any violations to these rules will be subject to an investigation by the state(s) in which I am seeking licensure in or maintaining licenses in. The results of any investigation may subject me to disciplinary actions by the state(s) or the State Regulatory Registry (SRR), including but not limited to:

- Revocation, suspension, or denial of license
- Disqualification from receiving class credit
- Retraction of class credit
- Fines
- Additional education

Print Name:_________________________________ Course Number(s): ______________

Signature: __________________________________ Date (mm/dd/yyyy):______________
Email: _____________________________________ NMLS ID# _____________________

CHAPTER 1: *NON-TRADITIONAL*

SECTION 1: HARD MONEY LENDING

What is a Hard Money Loan in California?

A hard money loan is a type of financing typically secured by real estate and offered by private lenders or investors rather than traditional financial institutions like banks. These loans are popular in California, particularly among real estate investors, due to their flexibility, speed of approval, and lenient credit requirements. However, they often come with higher interest rates and shorter terms compared to conventional loans.

Key Features of Hard Money Loans

Asset-Based Lending

Hard money loans are primarily based on the value of the property being used as collateral rather than the borrower's creditworthiness. Lenders assess the property's current value and its potential after improvements (known as the After-Repair Value or ARV).

Short-Term Financing

Most hard money loans have terms ranging from 6 months to 3 years, making them ideal for short-term projects like property flips or renovations.

Higher Interest Rates

Interest rates for hard money loans in California typically range from 8% to 15%, significantly higher than traditional mortgages. Borrowers pay for the convenience of quick access to funds and reduced qualification hurdles.

Quick Approval Process

Hard money loans are known for their fast approval and funding, often within days or weeks. This makes them attractive in competitive markets like California, where speed can be crucial.

Uses of Hard Money Loans in California

Hard money loans are versatile and serve various purposes, including:

Real Estate Flipping: Investors use these loans to purchase and renovate properties for resale.

Bridge Financing: Borrowers use hard money loans as temporary financing while securing a long-term loan.

Property Development: Builders use these loans for land acquisition or construction projects.

Commercial Real Estate: Business owners or investors use hard money loans to purchase commercial properties.

Advantages of Hard Money Loans

Flexibility: Lenders can tailor terms and repayment schedules to meet borrower needs.

Minimal Qualification Requirements: Borrowers with poor credit or unconventional income sources can still qualify, as the loan is asset-based.

Fast Funding: The expedited approval process allows borrowers to seize time-sensitive opportunities, such as foreclosures or auctions.

No Prepayment Penalties: Many hard money lenders in California offer loans without prepayment penalties, allowing borrowers to repay early without additional costs.

Disadvantages of Hard Money Loans

High Costs: Interest rates and fees are significantly higher than traditional loans, increasing the overall cost of borrowing.

Short Repayment Terms: Borrowers must repay the loan quickly, which can be challenging for those without a clear exit strategy.

Risk of Property Loss: If borrowers fail to meet the repayment terms, lenders can foreclose on the property.

Who Should Consider a Hard Money Loan?

Hard money loans are ideal for:

1. Real estate investors needing quick financing.
2. Borrowers with poor credit who cannot qualify for traditional loans.
3. Property developers seeking short-term funding.
4. Homebuyers looking to purchase distressed or non-traditional properties conventional lenders may not finance.

How to Secure a Hard Money Loan in California

Research Lenders: Identify reputable hard money lenders with experience in the California market.

Prepare Documentation: While less extensive than traditional loans, lenders may request property appraisals, financial details, and project plans.

Evaluate Loan Terms: Carefully review interest rates, fees, repayment terms, and conditions.

Have a Clear Exit Strategy: Know how you plan to repay the loan, whether through refinancing, property sale, or other means.

Conclusion

Hard money loans in California offer a fast, flexible financing option for those who need quick access to capital or cannot qualify for traditional loans. While they come with higher costs and risks, their benefits make them a valuable tool for real estate investors, developers, and other borrowers in specific scenarios. As with any financial product, it’s essential to carefully evaluate your needs and consult with experienced lenders to ensure a hard money loan aligns with your goals.

Hard Money MLO License

Hard money loan originators typically need an NMLS license if they are engaging in mortgage origination activities that fall under federal or state regulations. Here's a detailed explanation:

When Hard Money Loan Originators Need an NMLS License?

Residential Loans:

If the hard money loans are secured by residential properties (1-4 units), the originator must generally be licensed through the Nationwide Multistate Licensing System & Registry (NMLS).

This is required by the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act), which mandates that individuals originating residential mortgage loans obtain a license, complete education requirements, and pass the appropriate examinations.

Commercial or Business Purpose Loans:

If the hard money loans are for commercial or investment properties (e.g., multifamily units, retail spaces, or office buildings) or for business purposes, licensing requirements may vary by state.

Many states exempt purely commercial or business-purpose loan originators from NMLS licensing, but some still require registration or other credentials.

State-Specific Regulations:

Licensing requirements can vary depending on the state where the originator operates. Some states, like California, require a license for nearly all types of loan origination through the California Department of Financial Protection and Innovation (DFPI) or the California Department of Real Estate (CalDRE).

In California, for example:

Originators of residential hard money loans generally need an NMLS license.

Commercial hard money loan originators may not need an NMLS license but could require other state registrations.

Loan Purpose:

A key factor is whether the loan is considered a consumer loan (e.g., personal or household use). Consumer-purpose loans require stricter licensing and compliance with federal consumer protection laws, such as TILA (Truth in Lending Act).

Consequences of Operating Without an NMLS License

Operating as a hard money loan originator without proper licensing can result in severe penalties, including fines, lawsuits, and loss of business.

Federal and state agencies actively monitor compliance, and originators found in violation may face restrictions on their ability to operate in the future.

How to Obtain an NMLS License

20 hours of NMLS-approved education, including federal law, ethics, and nontraditional mortgage products.

Pass the SAFE MLO Test:

A national exam covering mortgage regulations, ethics, and origination practices.

Submit an Application:

Apply through the NMLS website, including fingerprinting, background checks, and financial disclosures.

Maintain Licensing:

Complete continuing education annually to renew the license.

Conclusion

Whether a hard money loan originator needs an NMLS license depends on the type of loans they handle and the state they operate in. Originators dealing with residential properties or consumer-purpose loans are generally required to have an NMLS license. For commercial or business-purpose loans, licensing requirements may be more flexible but can still vary by jurisdiction. Always check federal and state regulations to ensure compliance.

Time to Think 1.1

1. The California, Real Estate Licenses are issued by two Departments, DRE and ___.
   a. DFPI b. CalHFA

2. Which loans are normally approved faster?
   a. Hard Money b. ARMS

SECTION 2: 15-YEAR LOANS

Introduction

When it comes to choosing a mortgage, the loan term is one of the most critical decisions a borrower must make. While 30-year mortgages are the most popular choice in the U.S., 15-year mortgages have gained significant attention for their unique advantages. If you're considering a home loan, understanding the benefits of a 15-year mortgage can help you make an informed decision.

Lower Interest Rates

One of the most compelling benefits of a 15-year mortgage is the lower interest rate compared to a 30-year loan. Lenders typically offer lower rates on shorter-term loans because they are less risky and repay faster. Over the life of the loan, this can translate into substantial interest savings.

Significant Interest Savings

The shorter loan term means you pay significantly less interest overall. While monthly payments are higher, a larger portion goes toward the principal, allowing you to build equity faster and reduce the total cost of borrowing.

Faster Equity Building

With a 15-year mortgage, more of your monthly payment is applied toward the principal balance, allowing you to build equity in your home much faster. This can provide financial flexibility, whether through refinancing, selling, or accessing a home equity loan in the future.

Pay Off Your Home Sooner

A 15-year mortgage allows you to own your home outright in half the time of a 30-year loan. This can provide significant peace of mind, especially as you approach retirement or plan for other long-term financial goals.

Potential Tax Benefits

While mortgage interest is tax-deductible (subject to IRS rules), the accelerated repayment of a 15-year mortgage means you’ll pay less interest overall, reducing the tax benefit. However, the savings from a shorter term often outweigh the reduced deduction.

Lower Long-Term Debt

With a 15-year mortgage, you'll eliminate your housing debt much sooner. This reduces your long-term financial obligations and can free up money for other investments, retirement savings, or personal goals.

Encourages Financial Discipline

The higher monthly payments of a 15-year mortgage require careful budgeting and financial discipline. For many borrowers, this fosters a mindset of responsible money management and prioritization of long-term goals.

Competitive Advantage in Refinancing

If you already have a 30-year mortgage, refinancing to a 15-year term can help you take advantage of lower interest rates and reduce the total cost of borrowing. Many lenders offer attractive rates for borrowers who refinance into a shorter term.

Considerations When Choosing a 15-Year Mortgage

While the advantages are clear, it's important to consider whether a 15-year mortgage aligns with your financial situation:

Higher Monthly Payments: The shorter term means higher payments, which may not be feasible for all borrowers.

Reduced Cash Flow: Higher payments may limit your ability to save for emergencies, retirement, or other financial goals.

Opportunity Cost: Allocating more money to your mortgage could mean less flexibility for investing in higher-yield opportunities.

Who Should Consider a 15-Year Mortgage?

Borrowers with steady, reliable income who can afford higher monthly payments.

Homeowners focused on paying off their mortgage quickly and saving on interest.

Buyers planning to stay in their homes long-term, ensuring they benefit fully from the accelerated payoff.

Individuals nearing retirement may want to eliminate housing debt sooner.

Conclusion

A 15-year mortgage offers numerous advantages, from lower interest rates to faster equity building and significant interest savings. While the higher monthly payments require careful financial planning, the long-term benefits can make this option a smart choice for many borrowers. Before deciding, evaluate your financial goals, income stability, and overall budget to determine if a 15-year mortgage aligns with your needs and priorities.

SECTION 3: SELLER FINANCING IRS REGS

Seller financing, also known as owner financing, is an arrangement where the seller provides financing to the buyer to purchase the property. This alternative financing method is subject to several IRS regulations to ensure compliance with tax laws and reporting requirements. Below is a list of key IRS regulations applicable to seller financing.

Imputed Interest (IRC Section 483 and Section 1274)

The IRS requires that seller-financed transactions include a minimum interest rate, known as the Applicable Federal Rate (AFR). If the interest rate charged is lower than the AFR, the IRS may impute interest, which can result in additional taxable income for the seller.

Installment Sale Reporting (IRC Section 453)

Seller financing often qualifies for installment sale treatment, allowing the seller to spread capital gains tax over the period they receive payments. Sellers must report installment sales on IRS Form 6252 and follow the rules regarding:

1. Recognition of gain proportionate to received payments
2. Interest Income reporting separately from principal payments

Interest Income Reporting (IRC Section 61)

Interest received from seller financing is considered taxable income and must be reported on the seller's tax return. Sellers should issue Form 1098 to the buyer if they receive $600 or more in interest payments during the tax year.

Mortgage Interest Deduction (IRC Section 163)

Buyers in seller-financed transactions may be eligible to deduct mortgage interest if they meet IRS requirements, such as having a written agreement and paying interest that is properly reported to the IRS.

Related-Party Rules (IRC Section 267)

If seller financing involves related parties (e.g., family members or business partners), special rules may apply to prevent tax avoidance schemes. These rules can impact the timing and recognition of gains and losses.

Capital Gains Tax Considerations

Sellers must determine whether the sale is subject to long-term or short-term capital gains tax, depending on how long they owned the property before the sale. The installment method can help in deferring capital gains tax liability over time.

Depreciation Recapture (IRC Section 1245 and 1250)

If the financed property includes depreciated assets, sellers may be required to recapture depreciation at higher tax rates than capital gains.

Gift Tax Implications (IRC Section 2501)

If a seller provides financing with an interest rate significantly below market rates, the IRS may consider the difference as a gift, subjecting it to potential gift tax implications.

Tax Withholding Requirements

For foreign sellers financing property sales in the U.S., the Foreign Investment in Real Property Tax Act (FIRPTA) may require withholding a portion of the sales price to cover potential tax liabilities.

Conclusion

Seller financing offers flexibility for both buyers and sellers, but comes with specific IRS regulations that must be carefully followed. Consulting a tax professional is strongly, strongly recommended.

The Advantages to Buyer and Seller of Seller Financing

Seller financing, also known as owner financing, is a real estate transaction in which the seller provides a loan to the buyer instead of the buyer securing financing from a traditional lender. This approach offers numerous benefits to both parties, making it an attractive option in certain market conditions.

Advantages for Buyers

Easier Qualification: Buyers who may have difficulty qualifying for a conventional mortgage due to credit issues, lack of financial history or self-employment can benefit from seller financing. The seller may have more flexible qualification criteria compared to traditional lenders.

Lower Closing Costs: Without the need for lender fees, such as loan origination and underwriting costs, buyers can save significantly on closing expenses.

Flexible Terms: Buyers and sellers can negotiate customized terms, including interest rates, repayment schedules, and down payments that fit the buyer's financial situation.

Faster Closing Process: Since there is no involvement of financial institutions, the transaction can often close much quicker than traditional financing, which requires extensive documentation and approvals.

Potential for Better Interest Rates: Depending on the agreement, buyers may be able to secure an interest rate that is more favorable than those offered by traditional lenders, especially in high-rate environments.

Advantages for Sellers

Increased Pool of Buyers: Offering financing can attract more potential buyers, including those who may not qualify for conventional loans, leading to a quicker sale.

Steady Income Stream: Instead of receiving a lump sum payment, sellers benefit from regular monthly payments, creating a steady source of passive income.

Potential Tax Benefits: Sellers may spread capital gains taxes over several years rather than paying them all at once, potentially reducing their tax burden.

Higher Selling Price: Buyers may be willing to pay a premium price in exchange for the convenience and flexibility of seller financing.

Faster Property Sale: Seller financing can help move a property more quickly in a slow market, avoiding long listing periods and potential price reductions.

Key Considerations for Both Parties

While seller financing offers many advantages, it is important to address potential risks and take appropriate precautions:

1. **Due Diligence:** Buyers should verify the property’s value, and sellers should assess the buyer's financial stability.
2. **Legal Protection:** Engaging an attorney to draft clear agreements, including promissory notes and deeds of trust, is essential to protect both parties.
3. **Default Scenarios:** Both parties should agree on the terms and consequences of default to avoid potential disputes in the future.

Conclusion

Seller financing can be a mutually beneficial arrangement, providing flexibility, financial advantages, and expedited transactions for both buyers and sellers. However, careful planning and thorough legal documentation are crucial to ensuring a successful outcome.

Time to Think 1.2

1. 15 Year loans have __________ interest rates.
   a. higher b. lower

2. In Seller Financing AFR means:
   a. Applicable Federal Rate b. Annual Financial Repay

SECTION 4: SHARED EQUITY FEDERAL REG

Shared equity transactions have gained popularity as a means to promote affordable homeownership while sharing the financial burden between buyers and investors or government programs. To ensure compliance and consumer protection, several federal regulations govern shared equity arrangements. Understanding these regulations is crucial for both homeowners and stakeholders participating in such agreements.

Definition of Shared Equity Transactions

Shared equity transactions involve an agreement between a homeowner (occupier) and an investor, government agency, or nonprofit organization, wherein both parties share the cost and benefits of homeownership. Typically, the investor provides financial assistance in exchange for a portion of the home's appreciation value upon resale.

Key Federal Regulations Governing Shared Equity Transactions

Real Estate Settlement Procedures Act (RESPA)

RESPA, enforced by the Consumer Financial Protection Bureau (CFPB), governs real estate transactions involving mortgages and ensures transparency in settlement processes. Under RESPA, shared equity transactions must disclose:

1. The nature of the shared equity arrangement
2. Any associated fees or costs
3. Potential risks to homeowners

Truth in Lending Act (TILA)

TILA requires lenders and equity-sharing entities to disclose clear and accurate loan terms to borrowers. In shared equity agreements, this includes:

1. Annual percentage rates (APR)
2. Total costs over the loan duration
3. Potential financial obligations upon property sale

Fair Housing Act (FHA)

The Fair Housing Act prohibits discrimination in housing-related transactions, including shared equity programs. Entities involved in such agreements must ensure:

1. Equal access regardless of race, color, national origin, religion, sex, familial status, or disability
2. Fair lending practices

Internal Revenue Code (IRC) Considerations

Shared equity agreements may have tax implications under the IRC. Homeowners and investors should be aware of:

1. Potential capital gains tax upon sale
2. Deductibility of mortgage interest and property taxes
3. Reporting requirements for financial contributions and returns

Dodd-Frank Act Compliance

The Dodd-Frank Wall Street Reform and Consumer Protection Act imposes regulations to prevent predatory lending and financial misconduct. Shared equity providers must ensure compliance with:

1. Consumer protection standards
2. Clear contractual terms
3. Responsible lending practices

Best Practices for Compliance

To ensure adherence to federal regulations, stakeholders in shared equity transactions should:

1. Provide transparent and comprehensive disclosures
2. Conduct thorough financial counseling for homeowners
3. Maintain detailed records of agreements and transactions
4. Regularly review and update agreements to reflect regulatory changes

Conclusion

Federal regulations governing shared equity transactions aim to protect homeowners and promote responsible investing in the housing market. Compliance with these laws not only ensures legal integrity but also fosters trust and sustainability in shared equity programs.

SECTION 5: SHARED APPRECIATION LOANS?

Introduction

In recent years, Shared Appreciation Loans (SALs) have emerged as a unique financing option for homeowners, especially in markets where real estate prices are high and affordability is a concern. These loans are different from traditional mortgage products because, in exchange for a lower upfront cost, the lender shares in the potential future appreciation of the property's value. But are any lenders currently offering Shared Appreciation Loans? Let's take a closer look.

What Is a Shared Appreciation Loan?

A Shared Appreciation Loan is a type of mortgage where the lender agrees to offer the borrower a loan at a reduced interest rate or with deferred payments. In return, the lender shares in the future appreciation of the property when it is sold or refinanced. Typically, the lender receives a percentage of the increase in the home's value, which can be a significant sum depending on market conditions.

For example, if a homeowner takes out a SAL and the property appreciates by $100,000 over the course of 10 years, the lender may receive a portion (say, 25%) of that increase, or $25,000. This arrangement benefits both parties: the borrower gets more favorable loan terms, while the lender has the opportunity to share in the profits from the property's appreciation.

Are Lenders Offering Shared Appreciation Loans?

While Shared Appreciation Loans have been available in certain circumstances, they are not as common as traditional mortgage products. The main reason for this is that SALs are somewhat complex and involve a long-term commitment. Lenders must be willing to take on the risk of property value fluctuations and uncertain future outcomes. However, there are still a few lenders and institutions that offer SALs or similar products, albeit often with specific conditions.

The Pros and Cons of Shared Appreciation Loans

For both borrowers and lenders, Shared Appreciation Loans have distinct advantages and disadvantages.

Pros for Borrowers

Lower Monthly Payments: SALs often come with lower interest rates or deferred payments, making them attractive for first-time homebuyers or those struggling with affordability.
Access to More Capital: The borrower can access additional funding without the immediate need to pay it back.
Shared Risk: The lender takes on some of the market risk, which may make it easier for the borrower to secure financing in uncertain times.

Cons for Borrowers

Sharing Future Appreciation: The most significant downside is that the borrower must give up a portion of the home's future value. This means that, while the loan is more affordable now, the borrower may have to forfeit a significant amount of equity down the line.
Complexity: The terms of SALs can be more complicated than traditional mortgages, requiring careful consideration of potential future scenarios.

Pros for Lenders

Shared Profits: The lender has the opportunity to participate in the home's appreciation, which can be lucrative in high-growth markets.
Lower Default Risk: By offering more favorable loan terms, lenders may reduce the likelihood of default, as borrowers may be more likely to keep up with payments on a more affordable loan.

Cons for Lenders

Market Risk: The lender assumes some risk regarding property value. If the market stagnates or declines, the lender may not benefit as much or may face losses if the property's value does not increase significantly.
Long-Term Commitment: Shared appreciation loans require the lender to commit to long-term terms and complex agreements that could limit liquidity or flexibility.

Conclusion

While Shared Appreciation Loans are not universally offered, they do exist in certain markets, particularly through private lenders, startups, and specialized equity programs. As housing affordability continues to be a concern, especially in urban areas with rapidly rising property values, SALs may become a more common feature in the lending landscape. However, both lenders and borrowers should approach these loans with caution, given their complexity and the potential for shared risks and rewards.

Homeowners and potential buyers should carefully evaluate the terms and consider consulting with a financial advisor before pursuing a Shared Appreciation Loan to ensure that it aligns with their long-term financial goals.

Time to Think 1.3

1. RESPA is enforced by _________
   a. CFPB   b. HUD

2. Shared Appreciation Loans: _________.
   a. may be hard to find   b. are offered by most banks

SECTION 6: NUMBERS

Sometimes numbers and charts can tell you important facts about business. I wanted to present some numbers for you about Reverse Mortgages. When I write anything about Reverse Mortgages, I contact my son David Gomer, Founder and Owner of Senior Funding in Calabasas. He recommended Reverse Mortgage Alert, HECMWORLD, and Housing Wire among others for any information on RM topics.

From The Beginning: Loan Origination

This is a list of companies originating Reverse Mortgages since the loans were first available. We can thank Reverse Mortgage Alert that compiles lists from HUD data, for the chart.

Two large banks, Wells Fargo and Bank of America, are included. However, both of these companies stopped making Reverse Mortgage contracts around 2012.

You will note that American Advisors Group (famously promoted by Tom Selleck) is in second place. American Advisors has been sold to Finance of America so they are now a big player in the field. Henry Winkler (aka The Fonz) promoted One Reverse Mortgage and they are in seventh place.

Resting in 11th place is Senior Funding. Yes, that Senior Funding. David's company seems to be the highest Wholesale Brokerage Company with over 3,240 loans and $1.3B in total since 1989.

For more outstanding information, go to https://reversemortgagealert.org/

LARGEST CALIFORNIA REVERSE MORTGAGE FIRMS

LENDER	LOANS	Total Principle Limit
WELLS FARGO	36,137	11,814,037,492
AMERICAN ADVISORS GROUP	16,657	8,386,515,567
FINANCIAL FREEDOM SENIOR FUNDING CORP	8,536	2,280,998,657
GENWORTH FINANCIAL HM EQUITY ACCESS INC.	5,762	1,823,800,585
SEATTLE MORTGAGE COMPANY	5,107	1,363,728,477
BANK OF AMERICA	5,082	2,058,458,356
ONE REVERSE MORTGAGE LLC	4,009	1,619,431,440
HIGH TECH LENDING	3,866	2,108,051,918
FINANCIAL OF AMERICA REVERSE LLC	3,825	2,169,309,467
REVERSE MORTGAGE FUNDING LLC	3,654	2,137,267,046
SENIOR FUNDING ASSOCIATES	3,240	1,334,544,144
MUTUAL OF OMAHA MORTGAGE INC.	3,157	2,228,371,412

Annual Originations

Another interesting list generated by Reverse Mortgage Alert shows endorsements by year from 1989 through 2024. These numbers really emphasize how low the numbers are today. 2024 is the lowest total since 2003. The 2024 volume of 23,953 is only 20.8% of the highest year of 115,146 loans in 2008.

ANNUAL REVERSE MORTGAGE ORIGINATIONS

Year	Total Loans	Year	Total Loans	Year	Total Loans	Year	Total Loans
1989	2	1998	7,856	2007	108,157	2016	48,732
1990	234	1999	8,181	2008	115,146	2017	56,864
1991	456	2000	6,648	2009	107,904	2018	41,690
1992	1,237	2001	8,121	2010	72,683	2019	32,448
1993	2,125	2002	14,159	2011	68,566	2020	44,430
1994	3,797	2003	21,619	2012	52,883	2021	52,945
1995	4,007	2004	40,093	2013	60,929	2022	58,229
1996	3,674	2005	48,347	2014	52,715	2023	30,273
1997	5,803	2006	85,446	2015	56,363	2024	23,953

Some Questions for the Pundits

1. Why were 2007 and 2008 so high and how do we get back there?
2. What caused the unusual total of 107,904 in 2009?
3. 2021 was a year of low interest rates but no notable increase in loans? Why?

Interest Rates

This data is from HUD. It shows the highest interest rates for each year. The HUD report shows each month but for brevity only the highest monthly rate for each year is shown. And only the years from 2015 to 2024 are listed. The lowest interest rates were 2021 and the highest interest rates are now.

REVERSE MORTGAGE HISTORIC RATES

Year	Fixed Rate	Adj. Rate	Year	Fixed Rate	Adj. Rate
2015	4.94%	3.40%	2020	4.33%	3.93%
2016	4.92%	4.64%	2021	3.33%	2.68%
2017	4.95%	4.61%	2022	6.32%	6.92%
2018	4.88%	5.00%	2023	7.56%	7.78%
2019	4.79%	5.06%	2024	7.93%	7.49%

Top 100 Lenders 2024 (Top 10 Listed)

This list is the product of Shannon Hicks, HECMWORLD. The outstanding up-to-date information is sponsored by Mutual of Omaha. For more reports, Podcasts and MLO Services, check out HECMWORLD.COM.

RANK	LENDER	Loans Month	Loans YTD	% Market Share	% Change Month	% Change YTD
1	MUTUAL OF OMAHA MORTGAGE INC	641	6,149	24.41%	40.88%	-1.46%
2	FINANCE OF AMERICA REVERSE LLC	549	5946	20.91%	15.82%	-33.79
3	LONGBRIDGE FINANCIAL LLC	371	3299	14.10%	4.51%	10.56
4	SOUTH RIVER MORTGAGE LLC	123	902	4.70%	-3.91%	268.16
5	LIBERTY REVERSE MORTGAGE	103	1125	3.92%	-7.21%	-27.51
6	GOODLIFE HOME LOANS	84	1003	3.20%	-25.00%	70.87
7	FAIRWAY INDEPENDENT MORTGAGE CORP	76	1069	2.89%	11.76%	-25.45
8	GUILD MORTGAGE CO.	56	680	2.13%	-30.00%	
9	PLAZA HOME MORTGAGE CORP.	54	556	2.06%	1.80%	23.83
10	MOVEMENT MORTGAGE LLC	41	382	1.56%	7.89%	81.01

Top 100 Lenders 2023 (Top 10 Listed)

RANK	LENDER	Loans Month	Loans YTD	% Market Share	% Change Month	% Change YTD
1	MUTUAL OF OMAHA MORTGAGE INC	537	6,240	24.52%	19.00%	8.03%
2	FINANCE OF AMERICA REVERSE LLC	503	8,981	22.97%	-18.48%	-55.33%
3	LONGBRIDGE FINANCIAL LLC	242	2,984	11.10%	0.00%	-43.48%
4	LIBERTY REVERSE MORTGAGE	107	1,552	4.90%	-10.83%	-59.23%
5	FAIRWAY INDEPENDENT MORTGAGE	89	1,434	4.06%	-19.82%	-47.80%
6	GUILD MORTGAGE CO.	73	585	3.33%	25.86%	
7	SOUTH RIVER MORTGAGE LLC	63	245	2.88%	600.00%	
8	PLAZA HOME MORTGAGE CORP.	53	449	2.42%	51.43%	2.51%
9	GOODLIFE HOME LOANS	37	587	1.69%	-54.32%	-30.78%
10	HIGHTECHLENDING INC	36	473	1.64%	28.57%	-48.81%

SOCRATES TIME

Socrates is often called history's greatest teacher. He used questions to explore important ideas. The Socratic Method fosters dialogue through inquiry. In this section, we take a similar approach—join the conversation. Asking questions is the key to uncovering information and ensuring client understanding.

Questions	Answer
1. Note rate is Index plus _____________.	**Margin**
2. The CHARM Booklet discusses ______loans.	**Adjustable Rate**
3. A loan that combines both fixed and adjustable rate components is a ____loan.	**Hybrid**
4. The 203K loan is for ___________ loans.	**Rehab**
5. Equal payments for the life of a Reverse Mortgage is _______.	**Tenure**
6. What is the PMI rate on a VA loan? _______	**Zero**
7. RESPA is an acronym for ________.	**Real Estate Settlement Procedures Act**
8. The Ethics Chapter for MLO renewal must be _____ hours.	**Two**
9. What is another name for Blockbusting?	**Panic Selling**
10. Redlining is committed by _____________.	**Lenders**
11. ECOA stands for ______________________.	**Equal Credit Opportunity Act**
12. Signs for possible Identity Theft are called ____________.	**Red Flags**
13. When a HELOC becomes amortizing.	**Draw**

14. Tom Selleck advertised for which Reverse Mortgage Company ?	**American Advisors Group**
15. In California Lending HBOR stands for______.	**Homeowners Bill of Rights**
16. Is a 40 year fixed rate loan a traditional mortgage?	**No**
17. ATR stands for __________________.	**Ability-to-Repay**
18. Is a license required for making an underwriting decision?	**No**
19. For a company a standard set of rules are called _____.	**Protocols**
20. What year was The Dodd-Frank Act passed in Congress?	**2010**
21. Rights of Rescission are discussed in ___________.	**TILA**
22. FCRA involves _________________.	**Credit Reporting**
23. A lender in California is called the_______.	**Beneficiary**
24. A lender on the East Coast is called the____.	**Mortgagee**
25. Which Section in RESPA discusses kickbacks?	**Section 8**
26. The California DREAM loan was for a home buyer's________.	**Down Payment**

27. The acronym CSBS stands for ______________.	**Conference of State Bank Supervisors**
28. When were delivery standards developed for MLO CE?	**2009**
29. How many hours for NMLS pre-licensing education?	**20 Hours**
30. Which Regulation discusses Advertising?	**Regulation N**
31. TILA stands for ______________.	**Truth In Lending Act**
32. Who was the original head of the CFPB?	**Richard Cordray**
33. LIBOR stood for ______________.	**London Interbank Offered Rate**
34. Which type of loan is 203B?	**Normal FHA**
35. Name of special VA re-appraisal procedure?	**Tidewater**
36. Bill AB 2424 refers to	**Trustee Sales**
37. The famous HUD Handbook is Regulation #____.	**4000.1**
38. How many counties are there in California?	**58**
39. Which California Agency oversees low income loans?	**CalHFA**
40. Loan Disclosures must be delivered or mailed at least ______days before consummation date.	**Three Business Days**
41. A RM Line of Credit grows at the rate of the interest rate plus % of the _________.	**MMI**
42. A RM from a non-FHA lender is a _____ loan.	**Proprietary**

43. A very low initial interest rate is called a_______.	**Teaser Rate**
44. A point is what percentage of the loan?	**1%**
45. Three letter acronym for the total cost of loan.	**APR**
46. When did you submit the information required by the Corporate Transparency Act?	

CHAPTER 1: REVIEW QUIZ

1. The number of Reverse Mortgage Loans being originated now is_________
   a. low b. high

2. SAL is a _________
   a. Shared Appreciation Loan b. Shared Annual Lender

3. Seller Financing might help __________
   a. Increase seller's price b. Decrease seller's price

4. A 15 Year Loan is a ___________
   a. Traditional Loan b. Non-Traditional Loan

5. Hard Money Loans in California are _____________
   a. Illegal b. Legal

CHAPTER 2: *ETHICS*

SECTION 1: HUD COUNSELING

Introduction

The Housing and Urban Development Act of 1968 first enabled HUD to authorize public and private organizations to provide housing counseling. Congress believed that counseling was an essential complement to new mortgage insurance programs for lower-income families. The act's committee report comments, "While many families who would be eligible for mortgage insurance. . . have strong aspirations to become homeowners, their experience in handling large financial responsibilities may be meager. Through counseling, these families can be helped to use their resources efficiently in meeting homeownership responsibilities."[1]

Today, many first-time homebuyer loans and most down payment assistance programs require that applicants take an 8-hour homeownership class from a HUD approved housing counseling agency. These classes are generally offered as 'in person' education but HUD also allows for certain online courses to be allowed as long as the participants follow-up with a one-on-one counseling session with a HUD counselor. This allows the counselor to prepare a personalized budget and action plan for the clients.

Currently the two main online providers are eHome America and Frameworks. Both of these online courses allow the future homeowners to take the online course at their leisure. Once the student has passed the online course, they then must follow up with a HUD approved housing counselor in order to receive the one-on-one counseling session which then allows them to receive their certificate showing lenders that they have passed and now qualify for many of the programs to help first-time buyers enter the housing market.

Fannie Mae on their website (singlefamily.fanniemae.com) recommends that lenders should consider establishing partnerships with local HUD-approved counseling agencies in their local markets.[2]

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[1] U. S. House of Representatives. 1968. House Report 1585, 90th Congress, Second Session, 11-2.
[2] https://singlefamily.fanniemae.com/originating-underwriting/mortgage-products/housing-counseling-overview

Lenders need to be careful not to mislead their clients by suggesting an online class that may not be the right step to receiving the HUD certificate.

HUD Partners with Zillow

Zillow, which reaches 217 million visitors a month, will display “Let’s Make Home the Goal” advertisements on its digital platforms. The multi-year “Let’s Make Home the Goal” campaign generates awareness of the availability and benefits of pre-purchase housing counseling provided by HUD-certified housing counselors.

Access to quality housing counseling services helps bridge the racial homeownership and knowledge gap for first-time homebuyers and communities of color seeking to buy a home and build generational wealth.

The “Let’s Make Home the Goal” campaign was originally launched in June of 2013 and has reached nearly 5 million diverse, prospective homebuyers. The 2024 initiative, with the support of Zillow, intends to reach more than 8 million potential homeowners across 42 media markets.

“We are thrilled to partner with Zillow to expand our reach and tout the importance of comprehensive housing counseling services,” **said Deputy Assistant Secretary of Housing Counseling David Berenbaum**. “This collaboration allows us to use Zillow's innovative platform, ensuring that more individuals and families receive the support they need to achieve their housing goals.”

Requirements of HUD Counseling Agencies

The HUD Housing Counseling Handbook outlines the qualifications for local housing counseling agency (LHCA) to be approved by HUD. This approval means that the agency has met the qualifications and conditions prescribed by HUD.[3]

To be considered for approval, all entities must show that they are:

1. A legal 501(c)3 Non-profit and have a Tax-Exempt Status
2. One year of housing counseling experience
3. Compliance with Fair Housing and Civil Rights Laws
4. Record keeping and reporting in compliance
5. Using a HUD-approved Client Management System (CMS).
6. Have a properly identified office (signage)
7. Have knowledge of HUD programs and local housing market.

[3] HUD 7610.1 REV-5, 2-1

All LHCAs must submit a Housing Counseling Work Plan, which outlines how their program(s) will work and their anticipated outcomes. Once HUD has approved an agency they will then be listed on the HUD website or can be identified by calling (800) 569-4287.[4]

Approved Housing Counseling and Education Topics

The following are examples of approved housing counseling, education and outreach topics that participating agencies may provide to, and discuss with, clients:

1. Pre-purchase/Home Buying
2. Resolving or Preventing Mortgage Delinquency or Default
3. Non-Delinquency Post-Purchase, including home maintenance
4. Locating, securing or maintaining residence in rental housing
5. Homeless Assistance
6. Fair Housing/Fair lending
7. Financial Management/Budgeting
8. Reverse mortgage (HECM) default counseling
9. HECM mandatory counseling and education

Housing Counselor Competency (Certification)

To provide housing counseling services through HUD Programs, individual counselors must certify through HUD by way of passing a written examination—***The HUD Housing Counseling Certification Examination***—and verifying employment at a HUD approved Housing Counseling Agency.[5]

HUD began certifying Homeownership Education and Counseling (HEC) in 1971 and began directly funding it in 1974.[6] Since then, funding for HEC has steadily increased and the program has broadened in scope.

In 2010, as a directive from the Dodd-Frank Act, Congress created a centralized Office of Housing Counseling within HUD to oversee the Housing Counseling Program's agencies, counselors, and counseling services. The Office of Housing Counseling certifies counseling agencies and individual counselors.

The Federal exam that will certify individual counselors, requires them to be knowledgeable in six different subject areas:

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[4] HUD.gov/program_offices/housing/sfh/hcc/hcc_home
[5] www.hudhousingcounselors.com
[6] Ibid

1. Financial Management
2. Property Maintenance
3. Responsibilities of Homeownership and Tenancy
4. Fair Housing
5. Housing Affordability
6. Avoidance of rental and mortgage delinquency and avoidance of eviction and mortgage default

HECM (Reverse Mortgage) Origination Counseling

The HECM mandatory counseling is a separate and special counseling which requires a counselor to pass a HECM-specific exam. Once they have qualified, they are then listed on the HUD roster of HECM counselors. In order to stay on the roster, they must take HECM-related training or continuing education every two years; and retake and pass the HECM counselor exam every three years. HECM counselors often specialize in HECM counseling only and are not required to be certified for the other six areas mentioned previously.

The most important consumer protection built into the reverse mortgage program is the requirement that a prospective borrower must first meet with an exam-qualified, independent third-party counselor approved by the U.S. Department of Housing and Urban Development (HUD) before signing a loan application or incurring any fees.[7] HUD has approved nearly 800 individuals to be on its Approved Counselor Roster as Reverse Mortgage (HCEM) counselors.

HECM counseling is a requirement whether the reverse mortgage is for purchasing a home, refinancing from one HECM to another or refinancing from a forward mortgage to a HECM. A lender may not process a Home Equity Conversion Mortgage without the required counseling certificate.

The HECM Certification is in addition to the Housing Counseling Certification exam. HECM counselors have received special training from Neighborworks America and are required to pass a separate Federal Exam.

[7] National Reverse Mortgage Lenders' Association *nrmlaonline.org*

Requirements of HECM Counselors

Since the Reverse mortgage is so different from forward mortgages, a HUD Certified Home Equity Conversion Mortgage (HECM) counselor has special requirements while counseling potential borrowers. One such requirement is that the counselor must ask ten questions to determine whether the client has understood the essential features of the reverse mortgage. The counselor must disclose to the client that questions will be asked during the counseling session to determine if the client understands the information being discussed. These questions should be asked randomly during the counseling session.

Clients must answer at least five questions correctly. Because these questions are meant to test the most basic mortgage concepts, if the client cannot provide adequate answers for five questions, the counselor is not allowed to issue the counseling certificate and must determine what course of action should be taken.[8]

Typical questions the counselor might ask would be :

1. When does the reverse mortgage have to be paid back?
2. When you have a reverse mortgage, who owns your home?
3. What homeowner responsibilities will you continue to have after you get a reverse mortgage?

Housing Counseling Works

HUD approved Housing Counseling has been helping consumers across America make informed housing decisions for more than 50 years. The HUD Office of Housing Counseling's recent National statistics for the fiscal year 2024 (Oct. 1, 2023 – Sept. 30, 2024) show that HUD counseling agencies:

1. Counseled over 674,565 households
2. 273,1224 households received group education
3. 401,443 households received one-on-one counseling
4. 26,521 households received HECM counseling

For the State of California, for the same period, counseling agencies:

1. Counseled a total of 58,305 households
2. 23,716 received group education
3. 34,592 received one-on-one counseling

[8] HUD manual 7610.0, HECM Housing Counseling Protocol

Nationally, the most common topics for education were pre-purchase homebuyer education (54%) and financial literacy (33%), including home affordability, budgeting, and understanding the use of credit.

Currently there are over 2000 HUD approved agencies that are part of HUD's network Nationwide. California alone has 88 agencies statewide. The most recent comprehensive review of the housing counseling industry, published by HUD in 2020, found that HUD-certified nonprofit organizations were "by far" the most common Homeownership Education and Counseling providers. HUD's 2020 review also found that most agencies were relatively small, with 15 or fewer employees and serving fewer than 500 clients per year. Some larger agencies handle as many at 900 clients annually.

Working with Housing Counseling Agencies (HCA)

Both Real Estate Agents and MLOs should seek out HCAs in their local service area and learn more about the services the HCA has to offer. Many times, HCAs look to Mortgage Professionals to speak at homebuyer workshops. HCAs are always seeking knowledgeable professionals to volunteer to help at outreach events.

It is a known fact, that clients who have been educated in the home buying process, become much better clients to work with – both from the perspective of the lender and the real estate agent.[9]

To locate a HUD-Approved Housing Counseling Agency nationwide, please visit **www.hud.gov/findacounselor**.

Time to Think 2.1

1. HUD was enacted in ______.
   a. 1968 b. 2010

2. HUD agencies counseled over ________ households in Fiscal Year 2024.

   a. 674,000 b. 100,000

[9] Why housing counseling? chcfresno.org/housing counseling

SECTION 2: FAIR HOUSING LAWS

Fair Housing Mortgage Lending Violations

While most Fair Housing complaints come from the real estate sales and property management areas, the mortgage industry also is guilty of various fair housing and fair lending complaints. As MLOs, we should all be reminded that it is illegal to discriminate. If we, or our company, take any of the following actions based on race, color, religion, sex, disability, familial status, or national origin:

1. Refuse to make a mortgage loan or provide other financial assistance for a dwelling
2. Refuse to provide information regarding loans
3. Impose different terms or conditions on a loan, such as different interest rates, points, or fees
4. Discriminate in appraising a dwelling
5. Condition the availability of a loan on a person's response to harassment
6. Refuse to purchase a loan[10]

Property Management Company to Pay $3 Million

In February of 2023, the California Civil Rights Department announced reaching a consent decree resolving a systemic fair housing lawsuit against Vasona Management Inc. and apartment owners for discrimination against children. They prohibited outdoor play activities.

This $3 million settlement came as a result of an investigation and the filing of a complaint by Project Sentinel, a HUD approved housing counseling agency in the Bay area that develops and promotes fairness and equity in housing for all persons. In 2017, Project Sentinel first alerted HUD of allegations of familial status discrimination by the property management company and the owners of one apartment complex. "It is illegal for housing providers to impose discriminatory policies regarding children's use of common areas," said Demetria L. McCain, HUD's Principal Deputy Assistant Secretary for Fair Housing and Equal Opportunity**.**

The settlement resolves allegations that Vasona Management and more than thirty apartment complex owners discriminated against families with children .

[10] Hud.gov/program_offices/fair_housing

SECTION 3: IMPORTANCE OF ETHICS

Being an Ethical Mortgage Loan Originator

The longer that you work in the mortgage industry, the more apparent it becomes that you are successful for many reasons. However, the one reason that stands out above the others centers around your ethical behavior.

Often MLOs believe that the company they work for is what sets them apart from the competition. Is it the rates, the types of programs, the speed at which loans are processed or just what is it? While all of these are important, this author believes that your **ethical behavior** or simply put, ethics has a big part of your success.

While legislation such as the Dodd Frank Act, tries to keep Originators in line, no law or regulation can control the ethics that you bring to your job.

Why Do Ethics Matter?

Ethics matters because (1) it is part of how many groups define themselves and thus part of the identity of their individual members, (2) other-regarding values in most ethical systems both reflect and foster close human relationships and mutual respect and trust, and (3) it could be "rational" for a self-interested person to be moral, because his or her self-interest is arguably best served in the long run by reciprocating the moral behavior of others.11

Ethics Knows No Boundaries

Webster's defines ethics as the discipline dealing with what is good and bad and with moral duty and obligation.[12] As a licensed MLO, one also needs to think in terms of having a fiduciary responsibility to our clients. Regardless of your licensing, be it the DRE or the Department and Financial Protection and Innovation (DFPI), MLOs must embrace the high standards of fiduciary responsibility. In other words, doing what is in the best interest of your client, your borrowers.

While the website of the DFPI has a very thorough glossary of financial terms, the words 'fiduciary responsibility' are not included. However, what is included is the

[11]https://www.youtube.com/watch?v=yesE4mcv4CM
[12] Merriam-Webster's Collegiate Dictionary, 11th edition

term, ‘financial fraud’. Its definition is “The crime of gaining money or financial benefits by deception or lying”.[13]

Going about your profession with an attitude of fiduciary responsibility, will pay you dividends of repeat and referral business. Clients tend to gravitate to MLOs who take the time to explain different mortgage options. This practice will also keep you busy with clients when other MLOs are slow. After all, it is about doing what is in the best interest of your clients.

Appraisal Fraud[14]

With the advent of appraisal management companies and the inability to speak to the appraiser, one might believe that appraisal fraud is a thing of the past. Not so!

Fannie Mae maintains a Mortgage Fraud Investigations (MFI) team that alerts the industry to potential and active mortgage fraud scenarios. Between 2021-2023, FNMA identified a significant number of loans that had appraisals that were completed by an unlicensed appraiser who was using the identities of other actively licensed appraisers. Evidently the Red Flags were missed by the MLO, the loan processor and the loan underwriter. Below is a list of the Red Flags that were noted:

1. The unlicensed appraiser’s name and signature are not found within the appraisals.
2. The company name, phone number, and address listed under “contact information” are different from that of the licensed appraiser.
3. Email contact information reflects a name other than the name of the appraiser.
4. The appraisal fees were paid with proceeds going directly to the mailing address of the unlicensed appraiser.

FNMA recommends that all those who are part of the mortgage origination and processing, look for and report Appraisal Red Flags, such as:

1. Data is inconsistent within the appraisal, or with other underwriting data and/or current market conditions.
2. A close relationship between the appraiser and Lender Sponsor.
3. Property’s appraised value is significantly greater than the value of comparable properties.
4. Appraiser selects inappropriate comparable properties.[15]

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[13] https://dfpi.ca.gov/glossary-of-financial-terms/
[14] www.appraisersforum.com/fraud-alert
[15] FNMA: “Potential Mortgage Fraud Red Flags”

Mortgage Fraud: CA Penal Code 532F

California Penal Code § 532f PC states that you can be charged with mortgage fraud if, "with the intent to defraud," you:

1. Deliberately make any inaccurate or misleading statements during the mortgage lending process;
2. You intentionally omit relevant information during the mortgage lending process that it be relied on by mortgage lender:
3. Receive funds as a result of information you knew to be false;
4. File documents containing the information you know to be false during the mortgage lending process.

This statute applies to anyone involved in a mortgage transaction, including the lender, borrower, along with others who participate in the process.

PC 532f covers not only residential mortgage loan transactions, but also commercial and other forms of credit. Put simply, mortgage fraud occurs when somebody commits a fraudulent act directly related to the purchase, sale, rental or financing of real estate property.

CFPB Orders Navy Federal Credit Union to Pay More Than $95 Million for Illegal Surprise Overdraft Fees[16]

In November, 2024, the CFPB took action against Navy Federal Credit Union for charging illegal overdraft fees. Between 2017 to 2022, Navy Federal charged customers surprise overdraft fees on certain ATM withdrawals and debit card purchases, even when their accounts showed sufficient funds at the time of the transactions. The CFPB is ordering Navy Federal to refund more than $80 million to consumers, stop charging illegal overdraft fees, and pay a $15 million civil penalty to the CFPB's victims relief fund. This is the largest amount the CFPB has ever obtained from a credit union for illegal activity.

"Navy Federal illegally harvested tens of millions of dollars in junk fees, from active duty service members and veterans," said CFPB Director Rohit Chopra. "The CFPB's work to rid the market of illegal junk fees has saved American families billions of dollars."

[16] https://www.consumerfinance.gov/about-us/newsroom/cfpb-orders-navy-federal-credit-union-to-pay-more-than-95-million-for-illegal-surprise-overdraft-fees/

Navy Federal Credit Union is the largest credit union in the United States, with headquarters in Vienna, Virginia. The credit union serves active-duty military members, veterans, Department of Defense civilian employees, and their families.

OOPS

Through its “Optional Overdraft Protection Service,” known as “OOPS,” Navy Federal charged consumers $20 for most overdraft transactions. The credit union collected nearly $1 billion in overdraft fees from 2017 to 2021.

Members were illegally charged overdraft fees in two ways. First, when they made purchases with their accounts showing enough money to cover the transaction, the credit union still charged them overdraft fees if the account had a negative balance once the purchase posted to the account, sometimes days later. Navy Federal collected an average of $44 million a year in these surprise fees. As early as 2015, federal regulators, including the CFPB and the Federal Reserve, began cautioning financial institutions against charging these surprise overdraft fees.

Second, when customers received money though payment services like Zelle, PayPal, and Cash App, Navy Federal’s systems showed the money as immediately available to spend. However, the credit union failed to disclose that payments received after 10:00 am Eastern (and later, after 8:00 pm Eastern) wouldn't actually post until the next business day. Some customers who tried to use this money were then charged overdraft fees. Through this practice, Navy Federal collected at least $4 million in fees.

The CFPB’s Order

1. Obtains more than $80 million in consumer redress: Navy Federal must refund overdraft fees improperly charged to affected consumers.
2. Bans Navy Federal from charging certain overdraft fees altogether: The credit union can no longer charge overdraft fees resulting from insufficient funds at the time of processing despite sufficient funds when the transaction occurred or overdraft fees resulting from the delayed posting of funds received through peer-to-peer payment networks.
3. Requires Navy Federal to pay a $15 million fine: Navy Federal will pay a $15 million civil penalty to the CFPB’s victim’s relief fund.

Time to Think 2.2

1. The Mortgage Fraud Investigations Team is housed within _________.
    a. Fannie Mae b. Freddie Mac

2. The largest credit union in the United States is _________.
    a. Navy Federal b. Army Federal

SECTION 4: ANTI-MONEY LAUNDERING

This new bill applies existing anti-money laundering requirements to digital assets providers and facilitators. Specifically, the bill makes digital assets providers and facilitators financial institutions under the Bank Secrecy Act. Under the act, financial institutions must keep records, file disclosures, and report suspicious activity to federal regulators to aid in detecting money laundering and terrorist financing activities.

Digital Assets are any assets that exists in a digital form and includes a right to use. The two most common kinds of digital assets are cryptocurrencies and NFTs (non-fungible tokens).

The bill also directs specified federal financial regulators to establish rules regarding digital assets.

The Financial Crimes Enforcement Network (FinCEN) must require U.S. persons to report cryptocurrency transactions through foreign accounts of over $10,000. FinCEN must also require digital asset kiosk owners and administrators to submit and update every 90 days the physical addresses of the kiosks.

The Department of the Treasury must establish regulations to mitigate risks for financial institutions handling, using, or transacting business with (1) digital asset mixers, privacy coins, and other anonymity-enhancing technologies; and (2) digital assets that have been anonymized by these technologies.

Treasury, the Securities and Exchange Commission, and the Commodity Futures Trading Commission must establish risk examination and review processes for their respective anti-money laundering programs.

SECTION 5: PREDATORY LENDING

Predatory lending includes any unscrupulous practices carried out by lenders to entice, induce, mislead, and assist borrowers toward taking out loans they are unable to pay back reasonably or must pay back at a cost that is extremely above the market rate. Predatory lenders take advantage of borrowers' circumstances or lack of knowledge.

Predatory lending puts many borrowers at risk, but it primarily targets those with few credit options or who are vulnerable in other ways - people whose inadequate income leads to regular and urgent needs for cash to make ends meet, those with low credit scores, those with less access to education, or those subject to discriminatory lending practices because of their race, ethnicity, age, or disability.

Predatory lenders often target communities where few other credit options exist, which makes it more difficult for borrowers to shop around. They lure customers with aggressive sales tactics by mail, phone, TV, radio, and even door-to-door and generally use a variety of unfair and deceptive tactics to profit.

Predatory Tactics to Watch For

Predatory lending is designed, above all, to benefit the lender. It ignores or hinders the borrower’s ability to repay a debt. Lending tactics are often deceptive and attempt to take advantage of a borrower’s lack of understanding of financial terms and the rules surrounding loans. These tactics can include those identified by the Federal Deposit Insurance Corporation (FDIC), along with several others:

1. **Excessive and abusive fees:** These are often disguised or downplayed because they are not included in a loan's interest rate. According to the FDIC, fees totaling more than 5% of the loan amount are not uncommon.
2. **Excessive prepayment** penalties are another example.
3. **Balloon payment:** This is one substantial payment at the end of a loan's term, often used by predatory lenders to make your monthly payment look low. The problem is you may not be able to afford the balloon payment and will have to refinance, incur new costs, or default on the loan.
4. **Loan flipping:** The lender pressures a borrower to refinance, again and again, generating fees and points for the lender each time. As a result, a borrower can end up trapped by an escalating debt burden.
5. **Asset-based lending and equity stripping:** The lender grants a loan based on your asset, say a home or a car, rather than on your ability to repay the loan. You risk losing your home or car when you fall behind on payments. Equity-

rich, cash-poor older adults on fixed incomes may be targeted with loans (say, for a house repair) that they will have difficulty repaying and that will jeopardize their equity in their home.

6. **Unnecessary add-on products or services,** such as single-premium life insurance for a mortgage.
7. **Steering:** Lenders steer borrowers into expensive subprime loans, even when their credit history and other factors qualify them for prime loans.
8. **Reverse redlining:** Redlining, the racist housing policy that effectively blocked Black families from getting mortgages, was outlawed by the Fair Housing Act of 1968. But redlined neighborhoods are still largely inhabited by Black and Hispanic communities. And in a kind of reverse redlining, they are often targeted by predatory and subprime lenders.

Common Types of Predatory Loans Subprime Mortgages

Classic predatory lending is centered around home mortgages. Because home loans are backed by a borrower's real property, a predatory lender can profit not only from loan terms stacked in their favor but also from the sale of a foreclosed home if a borrower defaults. Subprime loans aren't automatically predatory.

Their higher interest rates, banks would argue, reflect the greater cost of riskier lending to consumers with flawed credit. But even without deceptive practices, a subprime loan is riskier for borrowers because of the tremendous financial burden it represents. With the explosive growth of subprime loans came the potential for predatory lending.

When the housing market crashed, and a foreclosure crisis precipitated the Great Recession, homeowners with subprime mortgages became vulnerable. Subprime loans came to represent a disproportionate percentage of residential foreclosures. Black and Hispanic homeowners were particularly affected.

The Effect on Credit from Payday Lenders

The payday loan industry lends billions of dollars annually in small-dollar, high-cost loans as a bridge to the next payday. These loans typically are for two weeks, with annual percentage rates (APR) ranging from 390% to 780%. Payday lenders operate online and through storefronts largely in financially underserved—and disproportionately Black and Hispanic neighborhoods.

Although the federal Truth in Lending Act (TILA) requires payday lenders to disclose their finance charges, many people overlook the costs. Most loans are for 30 days or less and help borrowers to meet short-term liabilities. Loan amounts on these loans are usually from $100 to $1,000, with $500 being common. (California limits payday lender loans to a maximum of $300). The loans usually can be rolled over for additional finance charges, and many borrowers—as high as 80% of them—end up as repeat customers.

With new fees added each time a payday loan is refinanced, the debt can easily spiral out of control. A 2019 study found that using payday loans doubles the rate of personal bankruptcy. A number of court cases have been filed against payday lenders, as lending laws have been enacted since the 2008 financial crisis to create a more transparent and fair lending market for consumers. However, research suggests that the market for payday loans has only expanded since 2008 and that it enjoyed a boom during the 2020–2022 COVID-19 pandemic.

SECTION 6: BAD ACTORS IN LENDING

CFPB Orders Apple and Goldman Sachs to Pay Over $89 Million[17]

In October 2024, the CFPB took action against Apple and Goldman Sachs for customer service breakdowns and misrepresentations that impacted hundreds of thousands of Apple Card users. The CFPB found that Apple failed to send tens of thousands of consumer disputes of Apple Card transactions to Goldman Sachs, and when Apple did send disputes to Goldman Sachs, the bank did not follow numerous federal requirements for investigating the disputes.

Apple and Goldman launched Apple Card despite third-party warnings to Goldman that the Apple Card disputes system was not ready due to technological issues. These failures meant that consumers faced long waits to get money back for disputed charges, and some had ***incorrect and/or negative information added to their credit reports.***

The CFPB has ordered Goldman Sachs to pay at least $19.8 million in redress and a $45 million civil money penalty, and Apple to pay a $25 million civil money penalty. The CFPB is also banning Goldman Sachs from launching a new credit card unless it can provide a credible plan that the product will actually comply with the law.

Wells Fargo Settles With the Department of Justice

In 2012, Wells Fargo reached a $175 billion settlement with the Department of Justice to compensate Black and Hispanic borrowers who qualified for loans and were charged higher fees or rates or improperly steered into subprime loans. Other banks also paid settlements. But the damage to families of color is lasting. Homeowners not only lost their homes but the chance to recover their investment when housing values increased, contributing yet again to the racial wealth gap.

The Federal Reserve revealed that the average Black and Hispanic or Latino households earn about half as much as the average White household and own only about 15% to 20% as much net wealth.

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[17] https://www.consumerfinance.gov/about-us/newsroom/cfpb-orders-apple-and-goldman-sachs-to-pay-over-89-million-for-apple-card-failures/

Wells Fargo Pays Largest Settlement in FHA's History.[18]

One would think that one of the largest mortgage lenders in the world, would stay away from fraudulent lending practices. Unfortunately, not!

Wells Fargo Bank has admitted that it certified that loans they had originated were eligible for FHA mortgage insurance when they were not. Even though Wells Fargo identified, through internal quality assurance reviews, *thousands* of problematic loans, the bank decided not to report them to HUD. As a result, while the bank enjoyed huge profits from its FHA loan business, the Government was left holding the bag when the bad loans went bust.

To maximize its loan volume (and profits), Wells Fargo elected to hire temporary staff to churn out and approve an ever-increasing quantity of FHA loans, but neglected to provide this inexperienced staff with proper training. At this same time, Wells Fargo's management applied pressure on its underwriters to approve more and more FHA loans. The bank also paid bonuses to underwriters and other staff based on the number of loans approved.

However, when Wells Fargo's senior management was repeatedly advised by its own quality assurance reviews of serious problems with the quality of the retail FHA loans that the bank was originating, management disregarded the findings and failed to implement proper and effective corrective measures, leaving HUD to pay hundreds of millions of dollars in claims for defaulted loans.

Wells Fargo was ordered to pay to HUD, a settlement of $1.2 billion – the largest recovery for loan origination violations in FHA's history!

TD Bank Insider Arrested and Charged with Facilitating Money Laundering[19]

A former Florida-based employee of TD Bank N.A. was arrested and charged by criminal complaint for facilitating money laundering to Colombia through the financial institution.

According to court documents, Leonardo Ayala, 24, worked at a TD Bank store in Doral, Florida, between February and November 2023. Starting in June 2023, Ayala

[18] https://www.justice.gov/opa/pr/wells-fargo-bank-agrees-pay-12-billion-improper-mortgage-lending-practices
[19] https://www.justice.gov/opa/pr/three-real-estate-investors-plead-guilty-119m-mortgage-fraud-conspiracy

allegedly exploited his position as a bank employee to facilitate money laundering. As alleged, after another TD Bank employee opened accounts in the names of shell companies with nominee owners, Ayala assisted the money laundering network by issuing dozens of debit cards for the accounts in exchange for bribes. Those accounts were then allegedly used to launder millions of dollars in narcotics proceeds through cash withdrawals at ATMs in Colombia.

Ayala made his initial appearance in Miami federal court, and all future court proceedings will be in New Jersey. He is charged with one count of conspiracy to commit money laundering. If convicted, he faces a maximum penalty of 20 years in prison. A federal district court judge will determine any sentence after considering the U.S. Sentencing Guidelines and other statutory factors.

TD Bank Offers Tips on Preventing Fraud on Their Website[20]

While one may feel sorry for having a dishonest employee who is employed by the company you run, it is ironic to see that TD Bank offers tips on their Website into spotting dishonesty and how to report it. Perhaps we can all learn from this advice:

How Well-Protected is Your Business?[21]

The risk of fraud is always present. While you can't predict when or how your business may be targeted, there are many steps you can take to reduce the chances of a fraud attempt becoming a fraud loss. We've collected helpful tips that our customers have implemented as a source of ideas to develop or enhance your own fraud prevention plan. You will see that many of these practices can be implemented easily and inexpensively. Whatever you do, don't wait until your business suffers a loss to realize that fraud can be prevented. Now is the best time to take action to better protect your business.

[20] https://www.td.com/us/en/commercial-banking/security
[21] https://www.td.com/content/dam/tdb/document/pdf/commercial-banking/fraudprotection-en.pdf

Reverse Mortgage "Dirty Dozen"[22]

The **National Reverse Mortgage Lenders Association** (NRMLA) has an extensive Code of Ethics. Time doesn't allow for us to cover their Code; however, they have compiled a document called the **"Dirty Dozen Unethical Advertising Practices".** This list is something we can all learn from, whether you originate Reverse Mortgages or not.

The Dirty Dozen Unethical Advertising Practices

1. Advertising HECM loan programs as a "Government Loan" or "Government Benefit," or the lender's loan as HUD or AARP "approved."
2. Advertising that a failure of a senior to respond will or may result in the loss of a consumer benefit to which the consumer is entitled.
3. Advertising exaggerated or misleading benefits (such as "We (the lender) pay off your loan"), particularly without fairly describing related risks.
4. Advertising celebrity testimonials or endorsements without disclosing the paid nature of the arrangement.
5. Advertising a requirement that another product or service (such as an annuity) also must be purchased from the lender in order to obtain a reverse mortgage loan, particularly if such other product or service also does not provide a bona fide advantage to the consumer.
6. Advertising to a business partner unreasonably high compensation paid to it by the consumer through reverse mortgage loan proceeds, even if such compensation clearly and timely is disclosed to the consumer.
7. Loans are "no cost", "no risk", etc.
8. Advertising celebrity testimonials or endorsements that do not reflect the honest opinions and experiences of the endorsers.
9. Advertising that consumers are "pre-approved" or "pre-qualified" without also fully and clearly disclosing applicable approval and qualification conditions.
10. Advertising in a misleading way that if a consumer does not promptly respond, he or she may or will lose or miss out on a limited opportunity.
11. Advertising using simulated checks or currency.
12. Advertising using HUD or FHA logos or names.

[22] https://services.nrmlaonline.org/NRMLA_Documents/Ethics%20Advisory%20Opinion%202012-01.pdf

SECTION 7: VA APPRAISAL RULES

Unique Rules Regarding VA Appraisals

The VA appraisal is a crucial, two-pronged step in the home buying process.

One part of the appraisal reviews the property regarding general health and safety standards, known as the ***minimum property requirements***. The other major piece of the VA appraisal is determining the home's value.

Receiving a lower-than-expected appraisal can be frustrating for all parties to the transaction. Here is a review of the options available.

VA buyers can appeal a low VA appraisal through the VA Tidewater policy or a Reconsideration of Value (ROV).

VA Tidewater Policy

The VA's Tidewater process exists to combat low VA appraisals by allowing the appraiser to request additional comps and market data to support the sale price before finalizing the VA appraisal. The Tidewater policy is typically faster than an official reconsideration of value.

The Tidewater process is relatively simple: The lender, when requesting the appraisal, should provide the appraiser with specific Point of Contact (POC) information. That POC could be the Realtor, the MLO, loan processor or whomever they feel is most appropriate. If no POC has been provided, the appraiser is required to call the requestor to inform them of their findings. The appraiser is not at liberty to discuss the content of the appraisal with the POC at this point beyond explaining that they are calling for additional information that the POC may be able to provide in support of the transaction.[23]

Once notified, the POC has 2 working days to provide additional information to the appraiser, in a format similar to the comparable sales grid on the URAR. Verification that the sale actually closed is also a requirement. If a pending sale is used, the sales contract with all addendums, with a brief narrative describing the similarities or differences between the pending sale and the subject property should be included.

After considering the additional information, the appraiser will complete the appraisal and provide an addendum clearly titled “Tidewater.” If the new information does not

[23] VA Circular 26-17-18

result in a change of value, the appraiser is to submit an addendum describing the additional information and why it did not change the opinion of value.

In a perfect world, the Tidewater policy would look like this:

1. VA appraiser notifies the lender that the home's value will likely come in below the purchase price.
2. Alerting the lender of the property falling under the contract price is known as invoking the "Tidewater Initiative" or Tidewater for short, as listed in VA Circular 26-17-18.
3. The appraiser explains that the recent comparable home sales do not support the sale price.
4. The lender has two days to provide the appraiser with additional comparable home sales that support the purchase price.
5. Lenders typically turn to the buyer's real estate agent for help in finding acceptable recent comparable sales.
6. The appraiser will take those additional comps and issue the final appraisal report.
7. If the Tidewater process doesn't lead to a sufficient increase in value, the appraiser must provide a written explanation as to why.

Typically, a lender's Staff Appraisal Reviewer, or SAR, issues a final Notice of Value (NOV) on the property based on the appraiser's report. The NOV makes the home's value official for the VA's purposes. Once the property's lower appraised value is official, buyers can seek a more formal appeal through what's known as a Reconsideration of Value (ROV).[24]

VA Loan Reconsideration of Value

The VA recognizes that appraisal mistakes can happen. The Reconsideration of Value (ROV) is the formal process of appealing a low VA appraisal after the appraiser has made their determination.

There is no guarantee the ROV will increase the appraisal, but it at least gives buyers a shot at a higher appraisal value and a successful VA purchase. Should you have a VA loan with a lower than anticipated appraised value, you may consider this option. These are the steps involved:

[24] https://benefits.va.gov/stpaul/reconsiderations_of_value.asp

Comps That Weren't in the Initial Appraisal

You can submit up to three recent comparable home sales not included in the original appraisal, which closed before the appraisal report's effective date. This information needs to be inputted into a Reconsideration of Value grid, and you'll need to include printouts from the Multiple Listing Service (MLS) for each of the comps. Also, write a brief summary of why these comps are better than the ones used by the VA appraiser.

Evidence of Errors

Have the real estate agent scrutinize the original appraisal report. Does the report contain faulty information? Were old sales used? Are all comps similar to the subject home in size, age and condition? You'll need both a narrative summary outlining the perceived problems and evidence to support your claims.

A Letter From the Borrower

The letter is a written request for the Reconsideration of Value with the borrower's thoughts on why the appraised value should be increased and what they think the value should be.

The next step is submitting your ROV request to the correct VA Regional Loan Center for review. The final step is waiting on the VA to make a determination

A VA Reconsideration of Value typically takes no more than a few days but can take up to several weeks in some situations. There are many factors to take into consideration, so wait times for a ROV may vary.

Time to Think 2.3

1. Payday Lending in California is regulated by the ______________.
   a. DFPI b. DRE

2. FinCEN requires U.S. Persons to report cryptocurrency transactions through foreign accounts that are over ______________.
   a. $15,000 b. $10,000

CHAPTER 2: REVIEW QUIZ

1. The Tidewater Policy is an appraisal process related to ______ loans.
   a. Cal Vet   b. V.A.

2. In one case, Wells Fargo was ordered to pay a settlement of $_________.
   a. 100K   b. 1.2B

3. The CA Penal Code § 532f only applies to _________________.
   a. The Borrower   b. Anyone involved in the transaction

4. FNMA recommends that all those who are part of the mortgage origination process, should look for and report____________________.
   a. Appraisal Red Flags   b. Familial Status Discrimination

5. The Dodd Frank Act was effective in _________
   a. 1989   b. 2010

CHAPTER 3: *FEDERAL LAW*

SECTION 1: TOLERANCE LIMITS

Citation Violation 1: An estimated closing cost is in good faith if it does not exceed the amount originally disclosed. A revised estimate may be used in the event of a valid changed circumstance if the revised fee is disclosed to the borrower within three business days of the change. Third-party fees the borrower cannot shop for are subject to a zero percent tolerance limit. In addition, recording fees may increase by no more than ten percent from the amount initially disclosed on the Loan Estimate (LE) without a valid changed circumstance. § 1026.19(3) and (4).

Examination Findings: There was an increase in the appraisal fee and recording fee for a borrower without a valid changed circumstance. Further, it was a failure to disclose the final inspection fee and the state tax to the borrower within three business days.

TILA Requirements: The Truth in Lending Act (TILA) was initially enacted in 1968 and has been amended many times since. It primarily requires disclosure of the costs and terms of consumer loans.

The TRID Rules And Guidelines

Mortgage lenders must follow TRID guidelines when offering borrowers a loan, including:

1. No application fee: Under TRID rules, a mortgage lender can’t charge any fee before they provide a Loan Estimate. The only fee a lender can charge before providing a Loan Estimate is the fee to run your credit report.
2. Quick Loan Estimate delivery: A lender must issue a Loan Estimate within 3 days of receiving your mortgage application. Borrowers use the Loan Estimate to review a loan’s terms and costs and ask the mortgage loan originator any additional questions.
3. Closing Disclosure 3-day waiting period: Your mortgage lender must provide your Closing Disclosure at least 3 business days before you sign and finalize a mortgage. If you request changes to your Closing Disclosure, your mortgage

lender must provide a revised Closing Disclosure. And you'll have to wait an additional 3 business days to finalize the loan.

4. Furnish contact information: Your lender must provide their contact information and a way to contact the loan officer indicated in your Loan Estimate.

TILA-RESPA Integrated Disclosures

The TRID rules require that a good faith estimate of fees be given to the consumer on the Loan Estimate. If the fees increase after the LE is given, there are tolerances set for many of the fees, determining whether the borrower can be charged the higher fee, or not, unless there has been a bona fide change in circumstances. Fees paid by the borrower above the allowed tolerance must be refunded within 60 days after consummation.

Zero Tolerance

The following amounts disclosed on the LE cannot increase unless an exception applies:

1. Creditor's or broker's charges for their own services
2. Charges for services provided by an affiliate of the creditor or broker
3. Charges for services for which the consumer is not permitted to shop
4. Transfer Taxes

10% Aggregate Tolerance

The aggregate of the following amounts disclosed on the LE cannot increase by more than 10% unless an exception applies:

1. Third-party services selected from the Written List of Providers
2. Recording fees

No Tolerance

The following amounts disclosed on the LE must be based on "best information reasonably available at the time" using "reasonable due diligence," otherwise there is no limitation on fee increases:

1. Prepaid interest
2. Property insurance premiums

3. Amounts placed into escrow or impound account
4. Charges paid to consumer-selected, third-party service providers not on the list
5. Charges paid for third-party services not required by the creditor, even if paid to an affiliated of the creditor

SECTION 2: GOOD FAITH ESTIMATES

Citation Violation: The fees charged to a consumer for any settlement service shall not exceed the amount actually received by the settlement service provider.

Examination Findings: A loan was identified where there was a closing cost collected from the borrower that exceeded the estimated closing cost collected in the LE.

TILA Requirements: Under TILA-CFR 1026.19(e), An estimated closing cost disclosed pursuant to this section, is in good faith if the charge paid by or imposed on the consumer does not exceed the amount originally disclosed under paragraph (e)(1)(i) of this section, except as otherwise provided in paragraphs (e)(3)(ii) through (iv) of this section. The creditor did not refund the difference to the consumer within the required 60 days.

Change in Circumstances

As mentioned, the borrower cannot be required to pay for the increase in certain fees if the increase exceeds the applicable tolerance level, unless there has been a bona fide change in circumstances. Change in circumstances include:

1. **An Extraordinary event.** An event that is beyond the control of any interested party or other unexpected event specific to the consumer or transaction;
2. **Information.** The is specific to the consumer or transaction that the creditor relied upon when providing the LE and that was inaccurate or changed after the disclosures were provided; or
3. **New information.** That the creditor did not rely on when providing the original LE.
4. **Consumer request.** The consumer request revisions to terms or the settlement that cause an estimated charge to increase.
5. **Interest rate dependent charges.** Discount points, loan origination charges, and loan originator credits change because the interest rate was not locked when the LE was provided.
6. **Expiration.** Consumer does not indicate an intent to proceed with the transaction within 10 business days after the LE was provided, or within the time frame given on the LE, if greater than 10 business days.
7. **New Construction.** Closing more than 60 days after initial LE. The creditor must retain documents showing the original charge and the reason for the increase. The reason must be based on one of the allowable changes in

circumstances for the borrower to be charged for the increase in the fee above the applicable tolerance level.

Fees On The CD Exceed Amount Disclosed on LE

An estimated closing cost is in good faith if it does not exceed the amount originally disclosed. A revised estimate may be used in the event of a valid changed circumstance if the revised fee is disclosed to the borrower within three business days of the change. Third party fees the borrower cannot shop for are subject to a zero percent tolerance limit. In addition, recording fees may increase by no more than ten percent from the amount initially disclosed on the LE without a valid changed circumstance.

Section 19(e)(3)(i) provides the general rule that an estimated closing cost disclosed under this section is not in good faith if the charge paid by or imposed on the consumer exceeds the amount originally disclosed. "Paid by or imposed on the consumer" refers to the final amount for the charge paid by the consumer at consummation or settlement, whichever is later. The charges that are generally subject to this section include:

1. Fees paid to the creditor
2. Fees paid to a mortgage broker.
3. Fees paid to an affiliate of the creditor or mortgage broker.
4. Fees paid to an unaffiliated third party if the creditor did not permit the consumer to shop for a third party service provider for a settlement service.

SECTION 3: THIRD-PARTY FEES

Citation Violation: 12 CFR Section 1026.19(f)(1)(i) of Regulation Z (TILA) states: In a transaction subject to paragraph (e)(1)(i) of this section, the creditor shall provide the consumer with the disclosures required under Section 1026.38 reflecting the actual terms of the transaction.

Examination Findings: Consumer was charged an appraisal fee that had already been paid for by a prior lender; however, the consumer was charged for the same appraisal at closing. Only the cost of third-party fees for services may be assessed to consumers.

TILA Requirements: Section 1026.19(f)(3)(i) provides the general rule that the amount imposed on the consumer for any settlement service shall not exceed the amount actually received by the settlement service provider for that service. Except as otherwise provided in § 1026.19(f)(3)(ii), a creditor violates § 1026.19(f)(3)(i) if the amount imposed upon the consumer exceeds the amount actually received by the service provider for that service.

Conclusion

The examination findings indicate a clear violation of Regulation Z (TILA) due to the improper assessment of a duplicate appraisal fee. Under Section 1026.19(f)(3)(i), creditors are prohibited from charging consumers more than the actual cost of third-party settlement services. By imposing an additional fee for an appraisal that had already been paid by a prior lender, the creditor failed to comply with these regulatory requirements. To ensure adherence to TILA provisions, corrective action should be taken to refund affected consumers and implement measures to prevent similar violations in the future.

SECTION 4: CORRECTED CD

Citation Violation: 12 CFR Section 1026.19(f)(2)(v) requires that a lender shall refund any excess to the consumer no later than 60 days after consummation if the amounts paid at consummation exceed the amounts specified on the CD.

Examination Findings: Loans were identified where the file did not contain adequate evidence to show that a corrected CD or refund was issued to the Consumer within 60 days of consummation. The lender must deliver or place in the mail disclosures corrected to reflect the refund of such excess no later than 60 days after consummation. Also identified were loans where re-disclosure and refunds were provided more than 60 days past consummation.

TILA Requirements: Section 1026.19(f)(2)(v) provides that, if amounts paid at consummation exceed the amounts specified under § 1026.19(e)(3)(i) or (ii), the creditor does not violate § 1026.19(e)(1)(i) if the creditor refunds the excess to the consumer no later than 60 days after consummation, and the creditor does not violate this section and if the creditor delivers or places in the mail disclosures corrected to reflect the refund of such excess no later than 60 days after consummation.

Conclusion

The examination findings highlight noncompliance with Regulation Z (TILA) regarding the timely issuance of corrected Closing Disclosures (CDs) and refunds. Failure to provide adequate evidence of compliance, along with instances where re-disclosures and refunds exceeded the 60-day regulatory timeframe, constitutes a violation of 12 CFR Section 1026.19(f)(2)(v). To ensure compliance, the lender must establish and maintain robust procedures to verify timely issuance of corrected CDs and refunds. Corrective action should include refunding any affected consumers, implementing internal controls, and providing staff training to prevent future violations.

SECTION 5: LOAN ESTIMATES

Citation Violation 5: The lender had provided inaccurate information on Loan Estimates.

Examination Findings: Loans were identified showing inaccurate information on the LE had been disclosed.

TILA Requirements: TILA – 12 CFR Section 1026.37(a)(13)(i) was violated when the lender failed to disclose certain information on the Loan Estimate. For transactions in which the interest rate is locked for a specific period of time, the lender must provide the date and time (including the applicable time zone) as to when that period ends.

The lender is also required to provide a statement detailing any charge of the late payment amount, and the number of days that a payment must be late to trigger the late payment fee. The fee must also be labeled, "Late Payment."

Section 1026.37(m)(4) requires a disclosure if charges are added to an individual delinquent installment by a creditor that otherwise considers the transaction ongoing on its original terms. Late payment charges do not include: (i) The right of acceleration; (ii) fees imposed for actual collection costs, such as repossession charges or attorney's fees; (iii) referral and extension charges; or (iv) the continued accrual of simple interest at the contract rate after the payment due date. However, an increase in the interest rate on account of a late payment by the consumer is a late payment charge to the extent of the increase.

Time to Think 3.1

1. Any excess fees must be refunded within___________.
   a. 60 days b. 7 days

2. Prepaid interest's tolerance is _____________.
   a. 10% b. No tolerance

SECTION 6: NO DOCUMENTATION

Citation Violation 6: Regulation Z, 12 CFR 1026.19(f)(3)(i) provides the general rule that the amount imposed on the consumer for any settlement service shall not exceed the amount actually received by the settlement service provider for that service.

Examination Findings: Loan files were identified where documentation was not provided to support the amount of the credit report fee charged to the consumer.

TILA Requirements: Section 1026.19(f)(3)(i) provides the general rule that the amount imposed on the consumer for any settlement service shall not exceed the amount actually received by the settlement service provider for that service. Except as otherwise provided a creditor violates this section if the amount imposed upon the consumer exceeds the amount actually received by the service provider for that service. The lender must also be able to support with the proper documentation, that the accurate fee was indeed charged.

Section 1026.19(f)(3)(ii) Does allow a lender to disclose an “Average charge.” The requirements for Average-charge pricing are the exception to the rule in § 1026.19(f)(3)(i) that consumers shall not pay more than the exact amount charged by a settlement service provider for the performance of that service. If the creditor develops representative samples of specific settlement costs for a particular class of transactions, the creditor may charge the average cost for that settlement service instead of the actual cost for such transactions. An average-charge program may not be used in a way that inflates the cost for settlement services overall.

Defining the class of transactions; Section 1026.19(f)(3)(ii)(B) requires a creditor to use an appropriate period of time, appropriate geographic area, and appropriate type of loan to define a particular class of transactions. For purposes of this section, a period of time is appropriate if the sample size is sufficient to calculate average costs with reasonable precision, provided that the period of time is not less than 30 days and not more than six months. Additionally for purposes of this section, a geographic area and loan type are appropriate if the sample size is sufficient to calculate average costs with reasonable precision, provided that the area and loan type are not defined in a way that pools costs between dissimilar populations. For example:

Uniform use; If a creditor chooses to use an average charge for a settlement service for a particular loan within a class, this section of the rule requires the creditor to use that average charge for that service on all loans within the class.

SECTION 7: LATE REFUNDS

Citation Violation 7: Refunds related to the good faith analysis. Amounts charged to the consumer were in excess of the actual fees charged by the service provider.

Examination Findings: Loan files were identified where it showed the failure to provide the corrected CD and/or refund to the borrower within the 60-day timeframe after consummation and if the creditor delivers or places in the mail corrected disclosures that reflect such a refund no later than 60 days after consummation.

TILA Requirements: According to TILA Section 1026.19(f)(3)(i), provides the general rule that the amount imposed on the consumer for any settlement service shall not exceed the amount actually received by the settlement service provider for that service. Except as otherwise provided in, a creditor violates § 1026.19(f)(3)(i) if the amount imposed upon the consumer exceeds the amount actually received by the service provider for that service.

The rule goes on to state that, if amounts paid by the consumer exceed the amounts disclosed, the section requires that those amounts paid by the consumer, in excess of the correct amount, must be refunded to the consumer no later than 60 days after consummation. If the creditor delivers or places in the mail corrected disclosures that reflect such a refund, it also must be done no later than 60 days after consummation.

Section 1026.19(f)(2)(v) provides that, if amounts paid at consummation exceed the amounts specified under this rule, the creditor does not violate the rule if the creditor refunds the excess to the consumer no later than 60 days after consummation, and the creditor does not violate § 1026.19(f)(1)(i) if the creditor delivers or places in the mail disclosures corrected to reflect the refund of such excess no later than 60 days after consummation.

SECTION 8: NO APR DISCLOSURE

Citation Violation 8: TILA was violated due to a lender's advertisement failed to state the Annual Percentage Rate.

Examination Findings: Findings showed that the lender had placed an advertisement that stated a rate of a finance charge without stating the annual percentage rate.

TILA Requirements: Regulation Z (TILA) is very clear about this: If an advertisement states a rate of finance charge, it shall state the rate as an "annual percentage rate," using that term. If an advertisement is for credit secured by a dwelling, the advertisement shall not state any other rate, except that a simple annual rate that is applied to an unpaid balance may be stated in conjunction with, but not more conspicuously than the annual percentage rate.[25]

Under § 1026.24(d)(1), whenever certain triggering terms appear in credit advertisements, the additional credit terms enumerated in § 1026.24(d)(2) must also appear. These provisions apply even if the triggering term is not stated explicitly but may be readily determined from the advertisement. For example, an advertisement may state "80 percent financing available," which is in fact indicating that a 20 percent downpayment is required.

This section also gives us the official interpretation of "Triggering Terms."

Downpayment

The dollar amount of a downpayment or a statement of the downpayment as a percentage of the price **requires further information**. By virtue of the definition of *downpayment* in this rule, this triggering term is limited to credit sale transactions. It includes such statements as:

1. Only 5% down
2. As low as $100 down
3. Total move-in costs of $800

This provision applies only if a downpayment is actually required; statements such as **no downpayment** or *no trade-in required* do not trigger the additional disclosures under this paragraph. The above examples would require additional information.

[25] TILA – 12 C.F.R. §1026.24 (c)

Payment Period

The number of payments required or the total period of repayment includes such statements as:

1. 48-month payment terms.
2. 30-year mortgage.
3. Repayment in as many as 36 monthly installments.

But it does not include such statements as “pay weekly,” “monthly payment terms arranged,” or “take years to repay,” since these statements do not indicate a time period over which a loan may be financed.

Payment Amount

The dollar amount of any payment includes statements such as:

1. “Payable in installments of $103”
2. “$25 weekly”
3. “$500,000 loan for just $1,650 per month”
4. “$1,200 balance payable in 10 equal installments”

In the last example, the amount of each payment is readily determinable, even though not explicitly stated. But statements such as “monthly payments to suit your needs” or “regular **monthly** payments” are not deemed to be statements of the amount of any payment.

Finance Charge

The dollar amount of the finance charge or any portion of it includes statements such as:

1. “$500 total cost of credit”
2. “$2 monthly carrying charge”
3. “$50,000 mortgages, 2 points to the borrower”

In the last example, the $1,000 prepaid finance charge can be readily determined from the information given. Statements of the annual percentage rate or statements that there is no particular charge for credit (such as “no closing costs”) are not triggering terms under this paragraph.

SECTION 9: BORROWERS CD

Citation Violation 9: TILA was violated when the lender failed to ensure that the consumer received the disclosures required (CD), no later than three business before consummation.

Examination Findings: Borrowers CD was not provided within three business days before consummation.

TILA Requirements: Generally, as noted in TILA – 12 CFR 1026.19(f)(1)(i), the creditor shall ensure that the consumer receives the disclosures required under paragraph (f)(1)(i) of this Section no later than three business days before consummation. If any disclosures required under paragraph (f)(1)(i) of this section are not provided to the consumer in person, the consumer is considered to have received the disclosures three business days after they are delivered or placed in the mail.

Conclusion

The examination findings reveal a violation of **TILA – 12 CFR 1026.19(f)(1)(i)** due to the lender's failure to ensure that the Borrower's Closing Disclosure (CD) was received at least three business days before consummation. This failure compromises the consumer's ability to review final loan terms and costs in a timely manner. To achieve compliance, the lender must implement stricter disclosure tracking processes, enhance internal oversight, and provide staff training to ensure timely delivery of the CD. Corrective measures should be taken to prevent recurrence and uphold regulatory requirements.

SECTION 10: FEES INCORRECT

Citation Violation 10: Closing costs details and other costs were incorrectly disclosed on the Closing Disclosure.

Examination Findings: Examination findings showed certain loans where the recording fees were incorrectly disclosed as seller-paid at closing in the consumer's final CD. Additionally, there was a failure to disclose the transfer tax in the final CD provided to the borrowers.

TILA Requirements: Regulation Z (TILA) requires lenders to disclose Taxes and other government fees, stating whether the charge was borrower-paid at or before closing, seller-paid at or before closing, or paid by others. It also requires that all costs in connection with the transaction be listed in a table with a heading disclosed as "Other Costs" on the Closing Disclosure. Particularly important are the itemization of transfer taxes and recording fees.

Transfer Taxes - Itemization

The creditor may itemize the transfer taxes paid on as many lines as necessary pursuant to § 1026.38(g)(1) in order to disclose all of the transfer taxes paid as part of the transaction. The taxes should be allocated in the applicable columns as borrower-paid at or before closing, seller-paid at or before closing, or paid by others, as provided by State or local law, the terms of the legal obligation, or the real estate purchase contract.

Recording Fees

Section 1026.38(g)(1)(i)(A) requires, on the first line under the subheading "Taxes and Other Government Fees" and before the columns described in § 1026.38(g), disclosure of the total fees expected to be paid to State and local governments for recording deeds and, separately, the total fees expected to be paid to State and local governments for recording security instruments. On a line labeled "Recording Fees," with the additional labels "Deed" and "Mortgage," respectively.

Total of All Recording Fees

Section 1026.38(g)(1)(i)(B) requires, on the first line under the subheading "Taxes and Other Government Fees" and in the applicable column described in § 1026.38(g), disclosure of the total amounts paid for recording fees, including but not limited to the amounts subject to § 1026.38(g)(1)(i)(A). The total amount disclosed under

§ 1026.38(g)(1)(i)(B) also includes recording fees expected to be paid to State and local governments for recording any other instrument or document to preserve marketable title or to perfect the creditor's security interest in the property.

Facts About Truth In Lending Act

TILA requires the creditor retains proof that the consumer received their CD three business days before consummation. Section 1026.19(f)(1)(ii)(A) provides that the consumer must receive the disclosures no later than three business days before consummation. To comply with this requirement, the creditor must arrange for delivery accordingly. This section provides that, if any disclosures required under this rule are not provided to the consumer in person, the consumer is considered to have received the disclosures three business days after they are delivered or placed in the mail. Thus, for example, if consummation is scheduled for Thursday, a creditor would satisfy the requirements if the creditor places the disclosures in the mail on Thursday of the previous week, because for the purposes of this section, Saturday is a business day. The consumer would be considered to have received the disclosures on the Monday before consummation is scheduled.

A creditor would not satisfy the requirements of this section in this example if the creditor places the disclosures in the mail on the Monday before consummation. However, the creditor in this example could satisfy the requirements by delivering the disclosures on Monday, for instance, by way of electronic mail, provided the requirements of relating to disclosures in electronic form are satisfied and assuming that each weekday is a business day, and provided that the creditor obtains evidence that the consumer received the emailed disclosures on Monday. 19(f)(1)(iii)-2.

If the CD was delivered by mail, this section provides that, if any disclosures required under this rule are not provided to the consumer in person, the consumer is considered to have received the disclosures three business days after they are delivered or placed in the mail. If the creditor delivers the disclosures required under this section in person, consummation may occur any time on the third business day following delivery. If the creditor provides the disclosures by mail, the consumer is considered to have received them three business days after they are placed in the mail, for purposes of determining when the three-business-day waiting period requirement begins. The creditor may, alternatively, rely on evidence that the consumer received the disclosures earlier than three business days after mailing.

This section also allows for other forms of delivery. Creditors that use electronic mail or a courier other than the United States Postal Service also may follow the approach for disclosures provided by mail. For example, if a creditor sends a disclosure required under the guidelines of this section, via email on Monday, the consumer is considered to have received the disclosure on Thursday, three business days later.

The creditor may, alternatively, rely on evidence that the consumer received the emailed disclosures earlier after delivery. For example, if a creditor delivers the disclosures required to a consumer via email, but the creditor did not obtain the consumer's consent to receive disclosures via email prior to delivering the disclosures, then the creditor does not comply with this rule, assuming the disclosures were not provided in a different manner in accordance with the timing requirements.

Time to Think 3.2

1. In Federal Law what does CFR stand for: ___________
   a. Code of Federal Regulations b. Central Financial Registry

2. Advertisement violations concerning loan terms are discussed in: ___________
   a. TILA b. FCRA

SECTION 11: RESPA VIOLATIONS

In December 2024, the Consumer Financial Protection Bureau (CFPB) filed a lawsuit against Rocket Homes, to stop them from providing incentives to real estate brokers and agents in exchange for steering homebuyers to Rocket Mortgage, LLC for loans. The CFPB also sued Jason Mitchell, owner of JMG Holding Partners LLC. The Jason Mitchell Group, and the individual real estate brokerage companies in the 41 states and the District of Columbia where it does business as The Mitchell Group, for their role in the unlawful scheme.

Rocket Homes pressured real estate brokers and agents not to share valuable information with their clients concerning products not offered by Rocket Mortgage, such as the availability of down payment assistance programs, which often save homebuyers thousands of dollars. The CFPB is suing Rocket Homes, The Mitchell Group, and Jason Mitchell to stop the kickback scheme, provide consumer redress, and obtain a civil penalty which will be deposited into the CFPB's victims relief fund.

"Rocket engaged in a kickback scheme that discouraged homebuyers from comparison shopping and getting the best deal," said CFPB Director Rohit Chopra. "At a time when homeownership feels out of reach for so many, companies should not illegally block competition in ways that drive up the cost of housing."

Rocket Homes Real Estate, LLC is incorporated in Michigan and is an affiliate of Rocket Companies, Inc. which also operates Rocket Mortgage, one of the largest mortgage lenders in America. Rocket Homes' main office and principal place of business is located in Detroit, Michigan. Rocket Homes operates a referral network throughout the United States that matches consumers with real estate brokerages.

The Jason Mitchell Group is primarily located in Scottsdale, Arizona and has 45 affiliated real estate brokerages in 41 states and the District of Columbia.

The CFPB's investigation found that Rocket Homes gave referrals and other incentives to real estate brokerages under an agreement or understanding that the real estate brokers and agents would refer real estate settlement business to Rocket Mortgage and a separate Rocket affiliate called Amrock, which handles title, closing, and escrow services.

The CFPB's investigation further found that The Mitchell Group referred thousands of clients to Rocket Mortgage and Amrock. Jason Mitchell offered "Dog Bone" awards of $250 gift cards to Mitchell Group agents who made the most referrals to The Mitchell Group's favored partners, including Rocket Mortgage and Amrock.

Specifically, the CFPB alleges that Rocket Homes violated the Real Estate Settlement Procedures Act by:

1. Providing kickbacks in exchange for referrals: Rocket Homes gave incentives, such as home-buyer referrals and priority for future homebuyer referrals from the network, in exchange for brokers' and agents' mortgage lending and settlement service referrals.
2. Requiring brokers and agents to steer consumers toward Rocket Mortgage: Rocket Homes required that the brokers and agents receiving its referrals "preserve and protect" the relationship between the consumer and Rocket Mortgage by steering clients away from other competing lenders and preventing brokers and agents from sharing valuable information with their clients concerning products not offered by Rocket Mortgage, including the availability of programs that provide assistance for a borrower's down payment.

The CFPB further alleges that The Mitchell Group and Jason Mitchell also violated the Real Estate Settlement Procedures Act through its participation in Rocket's kickback and steering scheme. The Mitchell Group encouraged its network of real estate brokers and agents to engage in coercive tactics to get consumers to use Rocket Mortgage for their home loans. Agents were trained to suggest that house settlements could fall through if the homebuyer wanted to comparison shop with Rocket Mortgage's competitors.

SECTION 12: ECOA/REG B

Introduction

The Equal Credit Opportunity Act, as implemented by Regulation B, prohibits creditors from making any oral or written statement, in advertising or other marketing techniques, to applicants or prospective applicants that would discourage on a prohibited basis a reasonable person from making or pursuing an application. However, a creditor may affirmatively solicit or encourage members of traditionally disadvantaged groups to apply for credit, especially groups that might not normally seek credit from that creditor.

Creditors must observe the time frames outlined under Regulation B for notifying applicants of the outcome of their applications or requesting additional information for incomplete applications, whether those applications are received via social media or through other channels.

As with all prescreened solicitations, a creditor must preserve prescreened solicitations disseminated through social media, as well as the prescreening criteria, in accordance with Regulation B.

When denying credit, a creditor must provide an adverse action notice detailing the specific reasons for the decision or notifying the applicant of his or her right to request the specific reasons for the decision. This requirement applies whether the information used to deny credit comes from social media or other sources.

It is also important to note that creditors may not, with limited exceptions, request certain information, such as information about an applicant's race, color, religion, national origin, or sex. Since social media platforms may collect such information about participants in various ways, a creditor should ensure that it is not requesting, collecting, or otherwise using such information in violation of applicable fair lending laws. Particularly if the social media platform is maintained by a third party that may request or require users to provide personal information such as age and/or sex or use data mining technology to obtain such information from social media sites, the creditor should ensure that it does not itself improperly request, collect, or use such information or give the appearance of doing so.

Fair Housing Act[26]

The Fair Housing Act (FHA), among other things, prohibits discrimination based on race, color, national origin, religion, sex, familial status, or handicap in the sale and rental of housing, in mortgage lending, and in appraisals of residential real property. In addition, the FHA makes it unlawful to advertise or make any statement that indicates a limitation or preference based on race, color, national origin, religion, sex, familial status, or handicap. This prohibition applies to all advertising media, including social media sites. For example, if a financial institution engages in residential mortgage lending and maintains a presence on Facebook, the Equal Housing Opportunity logo must be displayed on its Facebook page, as applicable.

A Summary of Your Rights Under Fair Credit Reporting Act

The Fair Credit Reporting Act (FCRA) promotes the accuracy, fairness, and privacy of information in the files of consumer reporting agencies. There are many types of consumer reporting agencies, including credit bureaus and specialty agencies (such as agencies that sell information about check writing histories, medical records, and rental history records).

The following is a summary of the major rights granted to borrowers through the FCRA. [27]

You must be told if information in your file has been used against you. Anyone who uses a credit report or another type of consumer report to deny your application for credit, insurance, or employment – or to take another adverse action against you – must tell you, and must give you the name, address, and phone number of the agency that provided the information.

You have the right to know what is in your file. You may request and obtain all the information about you in the files of a consumer reporting agency (your "file disclosure"). You will be required to provide proper identification, which may include your Social Security number. In many cases, the disclosure will be free. You are entitled to a free file disclosure if:

1. A person has taken adverse action against you because of information in your credit report;
2. You are the victim of identity theft and place a fraud alert in your file;
3. Your file contains inaccurate information as a result of fraud;
4. You are on public assistance;

[26] https://www.justice.gov/crt/fair-housing-act-1
[27] https://files.consumerfinance.gov/f/documents/bcfp_consumer-rights-summary_2018-09.pdf

5. You are unemployed but expect to apply for employment within 60 days.

You have the right to ask for a credit score. Credit scores are numerical summaries of your credit-worthiness based on information from credit bureaus. You may request a credit score from consumer reporting agencies that create scores or distribute scores used in residential real property loans, but you will have to pay for it. In some mortgage transactions, you will receive credit score information for free from the mortgage lender.

You have the right to dispute incomplete or inaccurate information. If you identify information in your file that is incomplete or inaccurate, and report it to the consumer reporting agency, the agency must investigate unless your dispute is frivolous.

Consumer reporting agencies must correct or delete inaccurate, incomplete, or unverifiable information. Inaccurate, incomplete, or unverifiable information must be removed or corrected, usually within 30 days. However, a consumer reporting agency may continue to report information it has verified as accurate.

Consumer reporting agencies may not report outdated negative information. In most cases, a consumer reporting agency may not report negative information that is more than seven years old, or bankruptcies that are more than 10 years old.

Access to your file is limited. A consumer reporting agency may provide information about you only to people with a valid need – usually to consider an application with a creditor, insurer, employer, landlord, or other business. The FCRA specifies those with a valid need for access.

You must give your consent for reports to be provided to employers. A consumer reporting agency may not give out information about you to your employer, or a potential employer, without your written consent given to the employer.

You may limit "prescreened" offers of credit and insurance you get based on information in your credit report. Unsolicited "prescreened" offers for credit and insurance must include a toll-free phone number you can call if you choose to remove your name and address from the lists these offers are based on. You may opt out with the nationwide credit bureaus at 1-888-567-8688 (1-888-OPTOUT).

SECTION 13: ANTI-MONEY LAUNDERING

As required by the Bank Secrecy Act (BSA) and applicable regulations, depository institutions and certain other entities must have a compliance program that incorporates training from operational staff to the board of directors. In 2012, FinCEN issued a final rule titled "Anti-Money Laundering Program and Suspicious Activity Report Filing Requirements for Residential Mortgage Lenders and Originators", which defined non-bank residential mortgage lenders and originators as loan or finance companies for the purpose of requiring them to establish AML and SAR programs and comply with other requirements under FinCEN's Regulations. Non-bank residential mortgage lenders and originators must comply with this Final Rule as of August 13, 2012.[28]

Among other elements, the compliance program reporting requirements under the BSA are required to contain internal controls are the financial institution's policies, procedures, and processes designed to limit and control risks and to achieve compliance with the BSA. The level of sophistication of the internal controls should be commensurate with the size, structure, risks, and complexity of the financial institution. At a minimum, internal controls include but are not limited to; must include appropriate internal controls to ensure effective risk management and compliance with record keeping and

1. Implementing an effective customer identification program;
2. Implementing risk-based customer due diligence policies, procedures, and processes;
3. Understanding expected customer activity;
4. Monitoring for unusual or suspicious transactions; and
5. Maintaining records of electronic funds transfers.

An institution's BSA/AML[4] program must provide for the following minimum components:

1. A system of internal controls to ensure ongoing compliance
2. Independent testing of BSA/AML compliance
3. A designated BSA compliance officer responsible for managing compliance
4. Training for appropriate personnel

These controls should apply to all customers, products and services, including customers engaging in electronic banking (e-banking) through the use of social media, and e-banking products and services offered in the context of social media.

[28]https://www.fincen.gov/resources/statutes-regulations/administrative-rulings/compliance-obligations-certain-loan-or

Financial institutions should also be aware of emerging areas of BSA/AML risk in the virtual world. For example, illicit actors are increasingly using Internet games involving virtual economies, allowing garners to cash out, as a way to launder money.

SECTION 14: ECOA

Who Supervises the Equal Credit Opportunity Act?

The Consumer Financial Protection Bureau (CFPB) writes rules to implement ECOA and supervises institutions (e.g., banks and lending companies) to ensure they follow the law. Several other federal agencies share the job of supervising for compliance, including the:

1. Federal Deposit Insurance Corporation (FDIC)
2. National Credit Union Administration (NCUA)
3. Federal Reserve Board (FRB)
4. Office of the Comptroller of the Currency (OCC)

The CFPB enforces ECOA with the agencies listed above and the Department of Justice and the Federal Trade Commission.

Penalty for Violating the Equal Credit Opportunity Act (ECOA)

Lenders found in violation of ECOA can potentially face class-action lawsuits from the Department of Justice (DOJ) if the DOJ or any affiliate agencies recognize a pattern of discrimination. If found guilty, the offending organization could have to pay out punitive damages that can be significant and cover any costs incurred by the wronged party.

When a client applies for a loan or line of credit, ECOA gives them certain rights:

1. When considering your credit application or setting terms for a loan, creditors can only consider relevant financial factors - your credit score, income, and credit history, including your existing debt load.
2. You are entitled to have credit in your birth name (Kim Jones), your first name and your spouse's last name (Kim Smith), or your first name and a combined last name (Kim Jones-Smith).
3. You have the right to keep your own accounts after changing your name, marital status, reaching a certain age, or retiring unless the creditor can prove you're unwilling or unable to pay.
4. The creditor must tell you whether your application was accepted or rejected within 30 days of filing a complete application.
5. If the creditor denies your application, they must provide a specific reason or disclose that you’re entitled to learn the reason if you ask within 60 days.

Additionally, mortgage lenders may not impose different terms or conditions, such as:

1. Higher interest rate or higher fees - if based on your race, color, religion, national origin, sex, marital status, age, or whether you receive public assistance.
2. Refuse to consider reliable public assistance in the same way as other income.
3. Ask about your marital status if you're applying for a separate, unsecured account.
4. Ask if you're widowed or divorced.

SECTION 15: REGULATION N

Regulation N is known as the Mortgage Acts and Practices Advertising Rule, or MAPs rule because it regulates how mortgage lenders, servicers, mortgage brokers, advertising agencies, and others can advertise mortgage services. The rule forbids deceptive claims in mortgage advertising and other commercial communications sent to consumers by mortgage brokers, lenders, services, and advertising agencies.

Regulation N is a rule established by the Consumer Financial Protection Bureau (CFPB) and the Federal Trade Commission (FTC) that enforces compliance with the Credit Card Accountability and Responsibility and Disclosure Act of 2009 (CARD Act) and the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act of 2010 (Dodd-Frank Act).

Understanding Regulation N

Regulation N regulates what financial products constitute mortgage credit products. The regulation defines them as **"any credit product secured by a dwelling or other real property that is offered to a consumer for family, personal, or household use."** It also further regulates how mortgage brokers may represent their mortgage credit products to consumers. Compliance with Regulation N is overseen by the Federal Trade Commission (FTC).

Deceptive Mortgage Claims Banned Under Regulation N

Regulation N parallels Section 5 of the FTC Act, which prohibits false advertising and misleading claims in advertising. Some examples of deceptive claims prohibited under Regulation N include misrepresentations of:

1. The nature, amount, or existence of consumer fees associated with a mortgage product;
2. The type of mortgage or offer;
3. Terms, payments, amounts, or other requirements of the mortgage agreement, including those related to insurance and taxes;
4. Variability of interest rates, payment amounts, term lengths, and other mortgage terms;
5. What percentage of the monthly payment will go towards paying interest, the amount of the loan, or the total amount due;
6. The likelihood of the consumer to refinance or modify the mortgage or its terms, or the consumer's ability to do so;
7. Any prepayment penalties that the mortgage product may carry;
8. The potential for default and what circumstances constitute default;
9. The right of the consumer to reside in the dwelling being purchased;

10. The nature, substance, and availability of any expert advice or counseling services offered to the customer in regards to the mortgage credit product;
11. The source of commercial communication or advertisements regarding mortgage products.

Time to Think 3.3

1. Investigations of possible lender violations are completed by: ___________
   a. CFPB b. Dodd-Frank Act

2. ECOA was implemented by: ___________
   a. Reg Z b. Reg B

SECTION 16: MORTGAGE SERVICING RULES

More Options for Delinquent Borrowers

The Consumer Financial Protection Bureau has recently proposed new and, in some cases, streamlined rules governing what mortgage servicers must do after a borrower becomes delinquent. The proposed rules incorporate some pandemic-era practices, such as allowing servicers to offer assistance without a comprehensive review of the borrower's financial situation. According to the CFPB, the new rules would require mortgage servicers to prioritize loss mitigation over foreclosing, reduce paperwork requirements, improve communication with borrowers, and ensure critical information is provided in the borrowers' preferred language.

The proposed rule, if finalized, would amend various sections of Regulation X and introduce several significant changes, including these new defined terms:

A "**loss mitigation review cycle**" would begin if a borrower made a request for loss mitigation more than 37 days before a foreclosure sale. The review cycle would end either when the borrower became current or when the borrower had exhausted the foreclosure procedural safeguards described in the proposed rulemaking.

A "**request for loss mitigation assistance**" would be defined as any oral or written communication, occurring through any usual and customary channel for mortgage servicing communications, whereby a borrower asks a servicer for mortgage relief.

Foreclosure Procedural Safeguards

Under the proposed rule, once a loss mitigation review cycle begins, a servicer must ensure that one of the following procedural safeguards is met before beginning or advancing the foreclosure process:

1. The servicer has reviewed the borrower for all available loss mitigation options
2. The servicer has sent the borrower all notices required by the proposed rule, and either
3. The borrower has not requested any appeal within the applicable time period or
4. All of the borrower's appeals have been denied or
5. The borrower has not communicated with the servicer for at least 90 days despite the servicer having regularly taken steps to communicate with the borrower regarding the loss mitigation review.

SECTION 17: RULINGS TO LEARN BY

Federal Trade Commission Orders Credit Karma to Refund Clients[29]

The Federal Trade Commission is sending more than $2.5 million to consumers who were misled by deceptive claims from credit services company Credit Karma.

The FTC took action against Credit Karma in 2022, alleging that the company told consumers they were "pre-approved" and had "90% odds" of approval to entice them to apply for credit card offers that, in many instances, they ultimately did not qualify for. Credit Karma agreed to an FTC order that required the company to stop making these types of deceptive claims and to pay money to compensate consumers who were harmed.

In October 2024, the FTC started sending this money to consumers. The FTC is sending checks and PayPal payments to 50,994 consumers who filed a valid claim before the March 4, 2024 deadline. The Commission's interactive dashboards for refund data provide a state-by-state breakdown of refunds in FTC cases. In 2023, FTC actions led to $330 million in refunds to consumers across the country.

Three Bay Area Real Estate Professionals Sentenced to Prison[30]

Three Bay Area real estate professionals have been sentenced to federal prison for their roles in a $55 million mortgage fraud conspiracy, the U.S. Attorney's Office announced.

In December 2024, Tjoman Buditaslim, 52, Jose De Jesus Martinez, 59, and Jose Alfonso Tellez, 27, were sentenced to 24 months, 14 months, and 12 months in prison, respectively.

The three, along with a fourth defendant, Travis Holasek, 52, were indicted in November 2023 on charges of wire fraud and conspiracy to commit wire fraud. All four pleaded guilty to conspiracy to commit wire fraud.

From 2018 through 2022, the group originated 102 home mortgage loans, based upon false and fraudulent documents – including judicial divorce decrees, alimony/child

[29] https://www.ftc.gov/news-events/news/press-releases/2023/12/ftc-announces-claims-process-consumers-harmed-credit-karma-pre-approved-offers-which-they-were
[30] https://www.eastbaytimes.com/2024/11/30/3-bay-area-real-estate-professionals-sentenced-to-prison-in-55-million-fraud-scheme/

support checks, bank statements, and loan applications – and submitted those documents to multiple loan companies. These lenders relied on falsely inflated income information in the fraudulent documents to extend mortgages.

Senior U.S. District Judge Charles R. Breyer also ordered the three to collectively pay more than $3 million in restitution and serve three years of supervised release following their prison terms.

According to Mark Kaminsky, Special Agent-in-charge with the U.S. Department of Housing and Urban Development, these defendants took advantage of their knowledge and training in the mortgage industry to circumvent the rules and abused the positions of trust they held as real estate professionals and gatekeepers of FHA-insured loans in order to line their own pockets.

The scheme was carried out from 2018 to 2022, which involved submitting fake income documents to secure approximately 102 home loans totaling $55 million, the news release said.

Buditaslim, a former real estate broker whose license was revoked in 2019, admitted to creating falsified financial documents, including fake bank statements and divorce decrees, to help unqualified applicants secure loans, the U.S. Attorney's Office said.

Martinez, a real estate agent, referred clients to Buditaslim, knowing the loan applications would include fraudulent information. He earned nearly $590,000 in commissions from the deals, according to his plea agreement. Meanwhile, Tellez, a loan officer, knowingly processed 30 fraudulent loans, earning $134,000 in commissions, his plea agreement noted.

CFPB Shuts Down Mortgage Loan Business of RMK Financial (Majestic Home Loans)[31]

In February 2023, the Consumer Financial Protection Bureau (CFPB) permanently banned RMK Financial Corporation, which does business as Majestic Home Loans, from the mortgage lending industry by prohibiting RMK from engaging in any mortgage lending activities or receiving remuneration from mortgage lending. In 2015, the CFPB issued an agency order against RMK for, among other things, sending advertisements to military families that led the recipients to believe the company was affiliated with the United States government.

[31] https://www.consumerfinance.gov/enforcement/actions/rmk-financial-corp-majestic-home-loan-mhl/

Despite the 2015 order's prohibition on these and other actions, the company engaged in a series of repeat offenses, including disseminating millions of mortgage advertisements to military families that deceptively used fake U.S. Department of Veterans Affairs (VA) seals, the Federal Housing Administration (FHA) logo, and other language or design elements to falsely imply that RMK was affiliated with the government.

In addition to the ban, RMK will also pay a $1 million penalty that will be deposited into the CFPB's victims' relief fund.

"Even after the 2015 law enforcement order, RMK continued to lie to military families by falsely implying government endorsement of its home loans," said CFPB Director Rohit Chopra. "Our action reflects our commitment to weed out repeat offenders, and we are shutting down this outfit for good."

RMK is a privately held corporation with its principal place of business in Ontario, California. RMK is a nonbank that is licensed as a mortgage broker or lender in at least 30 states and Puerto Rico. RMK originates consumer mortgages, including mortgages guaranteed by the VA and mortgages insured by the FHA. However, RMK is affiliated with neither government agency.

In 2015, the CFPB took action against RMK to end its use of deceptive mortgage advertising practices, including advertisements that led potential homebuyers to believe that the company was affiliated with the VA or FHA. RMK sent these deceptive advertisements to tens of thousands of military families as well as to other holders of VA-guaranteed mortgages. In addition to paying a fine, RMK was required to end its illegal and deceptive practices.

The CFPB has previously warned about VA home loan scams. Many service members, veterans, and military spouses receive fraudulent calls and mailers from companies claiming to be affiliated with the government, the VA, or their home loan servicer.

In the case of RMK, the CFPB found that the company disseminated millions of mortgage advertisements to military families that made deceptive representations or contained inadequate or impermissible disclosures in violation of the 2015 order, the Consumer Financial Protection Act, the Mortgage Acts and Practices Advertising Rule, and the Truth in Lending Act. Specifically, the company harmed military families and other consumers by sending millions of advertisements for mortgages that were fraudulent.

Man Sentenced to Prison for FHA Fraud Scheme[32]

Jason Trador, a resident of West Virginia was sentenced in July 2024 for fraudulently obtaining a $223,870 FHA-Insured Home Mortgage by making a false statement to federal agents, willfully overvaluing property on a loan application, and making a false statement to HUD.

A federal jury convicted Trador of the five felony offenses on in April 2024, after a two-day trial. Evidence at trial proved that Trador fraudulently obtained a $223,870 home mortgage insured by the FHA from his then-employer, Victorian Finance LLC, a mortgage lending business. At the time he applied for the FHA loan in August 2018, Trador was delinquent on paying his federal taxes for a prior tax year. Because of the tax debt, Trador was not eligible for an FHA loan under existing FHA program rules.

Trador deceived Victorian Finance into approving the application and the FHA into insuring the mortgage by providing a series of falsified documents including a falsified Internal Revenue Service (IRS) tax transcript purporting to show a payoff of the delinquent $8,151 tax debt.

Trador also submitted three heavily edited bank statements to Victorian Finance. Each falsified bank statement substantially inflated the balances in Trador's bank accounts. Two of the falsified statements reported balances of approximately $27,000 and $15,000 for Trador's personal bank account when in fact the account had negative balances.

Line items, such as for insufficient funds fees, were removed from the falsified bank statements and a line item was added to deceive Victorian Finance into believing that he had paid off the delinquent $8,151 tax debt. Evidence at trial proved the purported payoff never occurred and that Trador was still delinquent on the federal tax debt as of March 2024.

On September 4, 2018, Trador willfully overvalued his assets on a loan application when he signed a Uniform Residential Loan Application that included the false balances from the falsified bank statements.

On May 6, 2022, Trador lied to investigators with HUD's Office of Inspector General (OIG) and the Federal Bureau of Investigation (FBI) when they interviewed Trador at his residence about his application for the FHA-insured mortgage.

[32] https://www.mortgagefraudblog.com/

Trador denied submitting false bank statements with his loan application, and blamed his fellow employees of the mortgage lending business for the inclusion of the false bank statements in the FHA loan file.

Trador was sentenced to one year and six months in prison, to be followed by three years of supervised release, and ordered to pay $65,302.16 in restitution.

SECTION 18: PAYDAY LOANS[33]

As an MLO, many times we are faced with clients who have less than perfect credit. Mortgage lenders have certainly been accused of predatory lending over the years, but today, clients are falling victim to a newer predatory lender.

Most MLOs will try to help clients improve their financial management habits or at least, refer them to a non-profit agency that specializes in helping a client become "mortgage ready." HUD approved housing counselors can be a valuable asset for the MLO and the future homeowner.

Payday lending is not based on credit. The Payday lender is not the least bit concerned about helping a family achieve homeownership. Experian offers a few key things to understand about payday loans.

1. State rules vary significantly. Some states completely ban payday loans, while others place regulations on the age of the borrower, the amount that can be borrowed, repayment terms and so on. (CA limits the loan amount to $300.)
2. The fees add up. In addition to hefty interest rates, payday loans notoriously pile on other fees, such as those for late payment, insufficient funds, returned payment and rollovers.
3. It's easy to get stuck. Due to high fees and short terms, borrowers often can't repay on time and have to keep rolling over or taking out new payday loans to cover the last. According to the CFPB, more than 4 in 5 payday loans are reborrowed, with nearly 1 in 4 being reborrowed nine or more times. The fees quickly outpace the original amount borrowed. The CFPB introduced rules requiring lenders to more carefully consider the borrower's ability to repay, but these loans are still problematic.
4. They can impact your credit. Payday loans don't appear on credit reports when in good standing. But if you can't pay your payday loan and the account goes into collections, it could wind up on your credit report and hurt your credit scores.

[33] https://www.experian.com/blogs/ask-experian/why-are-payday-loans-bad/

Alternatives to Payday Loans[34]

In desperate times, payday loans may seem like your best option. But due to their risk, consider alternatives first, such as:

1. Ask the other party for an extension. Let the business or creditor you owe money to know about your situation, and they just might allow a delayed payment or repayment plan. Depending on the debt, you may be able to seek forbearance or deferment.
2. Apply for a traditional loan. While personal loans or unsecured loans are harder to get approved for, some are open to borrowers with bad credit. Make sure to look at credit unions and online lenders, which may be more flexible.
3. Request a short-term loan from family or friends. You can offer to pay interest. To avoid conflict, it's wise to get the agreement in writing.
4. Find additional income. Earning extra cash could be one way to avoid taking out a payday loan, whether this means pulling extra hours at work, finding a short-term part-time job or getting a side hustle.
5. Get a paycheck advance. Ask your employer for an advance on a paycheck. Alternatively, there are also mobile apps that advance money for a fee.
6. Consider consolidating your payday loans. If you've already taken out payday loans and are trying to break the cycle, consider consolidating your payday loans with a personal loan at a lower interest rate.

DFPI Oversees Payday Lending in CA[35]

In California, payday lenders are governed by the Department of Financial Protection and Innovation. The department has put together a very informative brochure that can easily be ordered online without charge. This information might be beneficial to a client and to the person who gave them a copy! Here is the link that will take you directly to the order page:https://dfpi.ca.gov/about/dfpi-divisions-and-offices/public-affairs/outreach/educational-materials/

[34] https://www.experian.com/blogs/ask-experian/why-are-payday-loans-bad/
[35] https://dfpi.ca.gov/wp-content/uploads/sites/337/2019/07/What-You-Need-to-Know-about-payday-loans-pdf.jpg

SECTION 19: REPORT MISCONDUCT[36] TO CFPB

Whether you're a whistleblower or just have concerns you want to flag for us, we strongly encourage current or former industry employees and industry insiders to reach out to us about possible violations of consumer financial rights. We review every submission.

You can send an email to ***whistleblower@cfpb.gov*** **.**

Further options are forthcoming for those who wish to use additional layers of encryption when contacting us via email.

You can call a dedicated phone number and leave a voicemail.

The CFPB's Whistleblower Tip line is: **(855) 695-7974**

You can send a letter or package to us at:

Consumer Financial Protection Bureau
ATTN: Office of Enforcement, WB
1700 G Street, NW
Washington, D.C. 20552

What Happens When You Submit Information to the CFPB?

The CFPB processes all tips it receives. Applicable CFPB subject-matter experts, including fair lending experts and technologists, review, assess, and determine appropriate action for all credible tips.

Our investigations are confidential, so you should not expect information on the existence or status of an investigation.

You can submit information to us without providing your name or other personally identifiable information, or you can provide your contact information so that we can evaluate your information more thoroughly by contacting you.

Any information you provide to us, including any personal information you choose to provide, may be shared with other federal and state regulators, as authorized.

[36] https://www.consumerfinance.gov/enforcement/information-industry-whistleblowers/

What Information is Relevant to the CFPB?

Here are some examples of types of misconduct we're interested in:

1. Any discrimination related to consumer financial products or services or small businesses
2. Any use of artificial intelligence/machine learning models that is based on flawed or incomplete data sets, that uses proxies for race, gender, or other group characteristics, or that impacts particular groups or classes of people more than others
3. Misleading or deceptive advertising of consumer financial products or services, including mortgages
4. Failure to collect, maintain, and report accurate mortgage loan application and origination data
5. Failure to provide or use accurate consumer reporting information
6. Failure to review mortgage borrowers' loss mitigation applications in a timely manner
7. Any unfair, deceptive, or abusive act or practice with respect to any consumer financial product or service

Time to Think 3.4

1. Which Regulation regulates advertising? ___________
   a. Reg N b. Reg Z

2. Which agency oversees Payday Lending in California? ___________
   a. CHFA b. DFPI

CHAPTER 3: REVIEW QUIZ

1. ATR stands for ___.
   a. Ability-to-Pay　　　　b. Agency-Trust Region

2. A-T-P was an amendment to
   a. ECOA　　　　b. Reg Z

3. You have ____ days to issue a corrected CD
   a. 60　　　　b. 30

4. The NMLS Requirement for Pre-Licensure education hours is _______
   a. 8　　　　b. 20

5. Creditors must communicate acceptance within _______.
   a. 30 days　　　　b. 45 days

CHAPTER 4: *CA SPECIFIC*

SECTION 1: MORTGAGE LENDING

Introduction

One of the biggest questions that we receive as educators is "what are the different licensing types in California" and "what are the main differences between them?" Since we are covering California specific law, we wanted to address the different paths to mortgage lending in this state.

In California, mortgage lending can take several forms, each regulated by specific laws and agencies. The appropriate path depends on your business model, the types of loans you wish to offer, and whether you aim to operate as a broker, lender, or servicer. Below is an overview of the primary pathways:

California Financing Law

California Financing Law (CFL) is regulated by the Department of Financial Protection and Innovation (DFPI). You would operate under the CFL License.

This license is ideal for companies offering diverse loan types, including consumer, commercial, and residential mortgage loans, and also businesses that do not require real estate-specific licensing.

Some of the key features of this type of licensing include:

1. Allows brokering and lending across consumer, commercial, and real estate-secured loans.
2. Does not require a real estate license.
3. Requires a $25,000 surety bond.

This licensure type does not permit residential loan servicing without additional licensing.

California Residential Mortgage Lending Act

California Residential Mortgage Lending Act **(CRMLA)** is regulated by the DFPI. You would operate under the CRMLA.

This license is ideal for companies focusing on residential mortgage lending and servicing.

Some of the key features of this type of licensing include:

1. Tailored for residential mortgage loans on 1–4 unit properties.
2. Requires at least two years of residential mortgage experience for a Qualified Individual.
3. Surety bond starts at $50,000, scaling with loan volume.

This licensure is restricted to residential lending and servicing—does not permit brokering non-mortgage loans.

DRE MLO

This license is ideal for real estate professionals expanding into mortgage brokering. It is a mortgage endorsement (MLO) to the Real Estate license. It combines real estate and mortgage brokering under a single license. There is no surety bond required.

Time to Think 4.1

1. Which California lending law requires a $25,000 Surety Bond?
   a. CRMLA b. CFL

2. The CRMLA is regulated by
   a. DFPI b. FHA

What License Is Best For You?

If you are trying to decide which license would best suit your needs, you should consider a side by side comparison of the two licensures under the DFPI

Feature	CRMLA	CFL
Primary Focus	Residential mortgages	Broader lending activities
Loan Servicing	Permitted	Not permitted
Loan Types	Residential only	Residential, commercial, consumer
Surety Bond	$50,000+ (based on volume)	$25,000 flat rate
Ideal For	Mortgage-focused companies	Companies with diverse portfolios
Networth	$250,000	$250,000/$50,000

You will need to consider the following to be able to choose the right license:

1. **CRMLA**: Best for residential lending and servicing.
2. **CFL**: Ideal for diversified lending portfolios or non-mortgage lending.
3. **DRE**: Suitable for real estate professionals.
4. **Both**: If your business spans multiple areas, holding both licenses ensures maximum operational flexibility but increases compliance costs.

By selecting the licensing path that aligns with your goals, you can ensure compliance while optimizing your business operations. Carefully evaluate the regulatory and financial implications of each option to make the best choice.

If you're considering opening your own mortgage lending or brokering company in California, the requirements will depend on the regulatory path you choose.

To help you choose the right lending path when considering opening your own company depends on your career goals, the type of business you want to establish and the services you will offer.

Assess Your Career Goals

You will need to ask yourself several questions.

1. Do you want to **act as a lender** or focus solely on brokering loans?
   a. **Lender**: Consider CRMLA or CFL.
   b. **Broker**: DRE or CFL are more appropriate.
2. Do you want the **freedom to work independently**, or would you prefer a structured company environment?
   a. **Independent Office**: CFL or DRE are best.
   b. **Company Sponsorship**: CRMLA is more structured but limits independence.
3. Are you planning to **specialize in consumer loans**, or do you want the flexibility to offer other types of financing (e.g., commercial loans)?
   a. **Consumer Loans Focus**: CRMLA or CFL.
   b. **Diverse Loan Offerings**: CFL is broader.

Each licensing path has unique costs and operational hurdles:

1. **CRMLA**:
   a. Higher financial and compliance requirements.
   b. Requires bonding, financial audits, and annual reporting.
   c. More suitable for businesses with significant capital backing.
2. **CFL**:
   a. Lower barriers to entry than CRMLA.
   b. Fewer financial and regulatory requirements.
   c. Good choice for small to mid-sized businesses.
3. **DRE**:
   a. Requires real estate broker experience (2+ years) and additional education.
   b. Suitable for professionals with a dual focus on real estate and mortgage brokering.
   c. Offers an established reputation in the industry.

Evaluate the Services You Plan to Offer. Your business model should align with the licensing requirements as well as the different competitive and operational advantages.

Speak with Industry Professionals. You should reach out to:

1. Experienced brokers or lenders under each licensing path.
2. Regulatory consultants who specialize in licensing for California mortgage professionals.

3. Industry associations like **CAMP (California Association of Mortgage Professionals)** or **NAMB (National Association of Mortgage Brokers)** for guidance.

Evaluate Your Long-Term Vision. Consider your growth potential, the different regulatory burdens of the different licenses as well as market differentiation.

1. **Growth Potential**: Do you want to expand into multiple states or stay California-focused? CRMLA may provide better scalability for lending, while CFL offers versatility.
2. **Regulatory Burden**: Are you prepared for the higher compliance demands of CRMLA, or would you prefer the moderate oversight of CFL/DRE?
3. **Market Differentiation**: How do you want your business to stand out—lending credibility, flexibility, or real estate synergy?

Do your research. Make sure you have a thorough understanding of the licensure requirements. There are many sources for you to review.

1. **Research Licensing Requirements**: Visit the **DFPI website** for CRMLA and CFL details, and the **DRE website** for real estate licensing. **www.dfpi.ca.gov**
2. **Outline Your Business Plan**: Include your target market, loan types, and operational scale.
3. **Apply for the Appropriate License**: Choose CRMLA, CFL, or DRE based on your decision and start the application process.
4. **Stay Compliant**: Ensure you meet education, bonding, and regulatory reporting requirements.
5. **Evaluate the Services You Plan to Offer.** Your business model should align with the licensing requirements:

Conclusion

Choosing the right licensing path is a critical decision that will shape your career in the mortgage industry. By assessing your career goals, evaluating the services you plan to offer, and understanding the regulatory requirements, you can make an informed choice that aligns with your business aspirations. Whether you prioritize independence, scalability, or specialization, each license—CRMLA, CFL, or DRE—offers distinct advantages and challenges.

Take the time to research thoroughly, consult industry professionals, and map out a strategic plan for long-term success. By doing so, you can position yourself for a thriving career in California’s competitive mortgage landscape.

SECTION 2: ADU'S AND JADU'S

Accessory Dwelling Units (ADUs) and Junior Accessory Dwelling Units (JADUs), often referred to as Granny Flats, In-Law Units, or Guest Houses, are becoming increasingly popular for a variety of reasons:

1. **Increased Property Value**: ADUs add significant value to your property.
2. **Affordable Construction Options**: Especially attractive for garage conversions, ADUs are a cost-effective solution for expanding living space.
3. **Rental Income Potential**: With rising rental prices, ADUs provide an excellent source of supplemental income.
4. **Affordable Housing for Families**: ADUs offer a practical housing solution for extended family members while maintaining privacy.
5. **Senior Living Flexibility**: ADUs allow seniors to age in place while preserving independence and shared living arrangements.

The Surge in ADU Development

As of 2024, the State of California has passed several laws to lift restrictions and make it easier and more affordable to build ADUs. Since the first ADU reform bill was introduced in 2016, over 80,000 ADUs have been permitted statewide. This surge in development underscores the growing demand for these versatile living spaces.

Highlights of 2024 ADU Legislation

AB 1033 was signed into law September 2023 by Governor Gavin Newsom. This law authorizes a local agency to adopt a local ordinance to allow the separate conveyance of the primary dwelling unit and accessory dwelling unit or units as condominiums.

1. **Separate Sale of ADUs**: Homeowners can now sell ADUs separately from their primary residence, a significant shift from previous laws. This applies to condominiums authorized by local ordinances with approval from the California Department of Real Estate.
2. **Homeowners Associations (HOAs)**: Property owners may establish HOAs to manage common property between the primary residence and the ADU.

As of June 2024, only San Jose has adopted AB 1033. Other cities to adopt in in 2024 are Chula Vista, Encinitas, and San Diego. Carlsbad has an ordinance under review and is expected to implement it in early 2025.

AB 976

AB 976 was signed into law, in October 2023 by Governor Gavin Newsom and became effective on January 1, 2024.

Prohibition of Owner-Occupancy Requirements: The prohibition on requiring owner-occupancy for ADUs permitted between January 1, 2020, and January 1, 2025, is now extended indefinitely for new and converted ADUs. However, owner-occupancy requirements remain applicable to JADUs.

AB 434

AB 434 was signed into law in 2017, but it didn't become effective until July 1, 2019 in order to align with the broader goals of the Americans with Disabilities Act and Section 508 of the Rehabilitation Act.

Pre-Approved Plans: Cities and municipalities must have pre-approved ADU plan schemes in place by January 1, 2025. These plans, typically submitted by architects, streamline the permitting process. Cities may charge fees for accessing and modifying these plans to meet property-specific requirements.

Key Laws from 2023: A Review

Changes to the 60-Day Rule (AB 2221)

All agencies involved in reviewing ADU plans, including planning departments and utility companies, must respond within 60 days of submission, reducing application processing times.

Revised ADU Height Restrictions

1. **16 feet**: Permitted under all circumstances.
2. **18 feet**: Allowed for ADUs within ½ mile of public transit or on properties with a two-story multi-family dwelling.
3. **25 feet**: Permitted if the ADU is attached to the primary dwelling, depending on zoning codes.

Setback Adjustments

ADUs less than 800 sq. ft. can no longer be denied based on front setback requirements.

Unpermitted Structures (SB 897)

Restrictions regarding non-conforming zoning conditions, building code violations, or unpermitted structures have been lifted unless they pose health or safety concerns. This change simplifies the development process and reduces costs.

Fire Sprinkler Requirements

Fire sprinklers are no longer required for the main dwelling when permitting an ADU.

Other Notable Changes

1. **JADU Bathrooms**: JADUs no longer require their own bathroom if one is accessible in the primary dwelling.
2. **Demolition Permits**: Cannot be withheld if an ADU permit has been issued.
3. **California ADU Fund**: Established to provide financial assistance to eligible recipients.

Next Steps. Given the complexity of ADU laws, consult with a licensed architect or professional familiar with California's 2024 regulations. They can guide you through the permitting process, ensure compliance, and help you leverage the benefits of these new laws to achieve your housing goals.

Time to Think 4.2

1. The State of California is attempting to make it _____ to build ADU's.
   a. Easier b. more difficult

2. Separate conveyance of the primary and accessory dwelling units was authorized by Bill ____________.
   a. AB 1033 b. AB434

SECTION 3: FORECLOSURE UPDATE

On January 1, 2025, California's foreclosure law, Assembly Bill (AB) 2424 became effective. This law is aimed at reducing stress and providing more protection for California Homeowners facing foreclosure.

Under the existing law, several requirements must be met before a lender can exercise the power of sale under a mortgage or deed of trust. The process begins with the recording of a notice of default, which serves as the official initiation of the foreclosure proceedings. Once recorded, the lender must provide the borrower, also known as the mortgagor or trustor, with a copy of the recorded notice of default.

In addition, the borrower must receive notification of the time and place scheduled for the public auction sale of the property, along with any other notices required by law related to the sale. The law also mandates that the lender determines the fees and expenses that may be paid from the proceeds of the sale, ensuring that these costs are clearly accounted for.

Also, the law specifies who is authorized to conduct the sale and act as the auctioneer on behalf of the trustee. It also requires the lender to establish the time and location for the auction and to disclose this information publicly. Finally, guidelines must be put in place to specify how bids can be made and accepted during the auction process. These provisions collectively ensure that the foreclosure and sale process is carried out in a transparent, fair, and legally compliant manner.

AB 2424: Regulations for Lenders

Improve Notifications: Lenders are required to provide clear, detailed notices with specific timelines to help homeowners better understand their situation.

More Time for Homeowners: Extended time frames have been implemented, giving homeowners additional opportunities to avoid unexpected foreclosure proceedings.

Third Party Assistance: Homeowners can designate a trusted third party (such as a relative or counselor) to receive copies of foreclose notices and assist in avoiding foreclosure.

Prohibition of Low Sale Prices: Foreclosure sales cannot be conducted for less than 67 % of the home's fair market value, protecting homeowners from excessively low sale prices.

Opportunities for Qualified Buyers: After the auction, the law provides tenants, nonprofits, and other qualified individuals the chance to purchase foreclosed properties, promoting fairness in the process.

Limited Redemption Period: In certain cases, homeowners have a chance to reclaim their homes by paying off the mortgage balance even after the auction has taken place.

Some Additional Details About AB 2424

1. The law applies to mortgage loans secured by residential properties with 1 to 4 units
2. Lenders must provide homeowners with a written disclosure outlining these protections before they sign the deed of trust.
3. Properties cannot be bundled together for sale unless explicitly required by the deed of trust, ensuring each property is handled individually.

Discussion Questions:

1. Increased Transparency for Homeowners
2. Greater Consumer Protections
3. Opportunity for Community Stability
4. Enhanced Support for Homeowners Through Third-Party Assistance
5. Empowering Homeowners to Regain Their Property
6. Applicability to Residential Properties
7. Strengthened Oversight of the Foreclosure Process

CASE STUDY

This case highlights the importance of attention to detail, compliance with state-specific regulations, and proper planning when transitioning to an independent broker model.

Background: Acme Home Lending, a mortgage company, recently decided to transition from operating as a loan origination branch under a national lender to becoming an independent mortgage broker licensed through the California Department of Financial Protection and Innovation (DFPI).

Since Acme Home Lending needed to establish a new company name, they chose "Golden State Brokers." The company began advertising under the new business name before verifying its availability or registering it with the DFPI and the Secretary of State. This caused confusion and a possible trademark conflict with another broker. Additionally, their initial application was submitted without critical documents, including financial statements and a surety bond. The DFPI flagged the application as incomplete, requiring multiple resubmissions.

Questions for Discussion

1. **What steps should Smith & Associates have taken to ensure the new business name was available?**

2. **Which documents are mandatory for a DFPI broker application, and how could Smith & Associates have organized their submission better?**

    a. Provide a business plan
    b. Provide audited financial statements (minimum of $25,000 net worth)
    c. Surety Bond of $25,000 payable to the DFPI
    d. Resume for Responsible officer (RO)
    e. Ownership Information
    f. Compliance Policies
    g. License fees;
    h. Organizational chart;
    i. Tax documents (FEIN);
    j. NMLS registration and ID

3. **What qualifications and experience are required for someone to serve as the Responsible Officer (RO) in a DFPI application?**

   RO typically has a minimum of 2 – 5 years of experience in mortgage lending, finance or a related field. Must pass a criminal background check, be in good standing.

CHAPTER 4: REVIEW QUIZ

1. CRMLA licensees need to have a tangible net worth of ____________?
   a. $250,000 b. $50,000

2. California Financing Law (CFL) is regulated by______?
   a. DRE b. DFPI

3. A Surety Bond under CRMLA must be _______?
   a. $50,000 b. $1,000,000

4. A Responsible Officer needs to have a minimum of _______ years of experience.
   a. 5 b. 2

5. Agencies must respond to submission of ADU plans within ___ days?
   a. 7 b. 60

FINAL PROJECT - TRIVIA PURSUIT

There are two methods to end an NMLS 8 Hour Continuing Education Course: Final Exam or Final Project. Our past students when surveyed preferred a project.

TRIVIA PURSUIT: Today we will be using a Trivia Pursuit method. The instructor will read a question and two answers, A and B. The student will enter their answer in the Chat Box. The instructor will then present the correct answer and move on to the next question.

Only 20 minutes are allowed for this project. So be ready to answer. There are 30 questions on the exam allowing less than one minute for each question. Please keep track of your correct answers. At the conclusion the instructor will request that you enter how many questions you answered correctly in the chat box.

Good Luck and Good Trivia. We know that you will do well.

1. Hard money loans are normally offered by _________.
   a. banks b. private investors

2. Hard money loans have ___________ costs and risks.
   a. higher b. lower

3. On a 15 year loan, the mortgagor pays __________ principal as/than a 30 year loan mortgagor.
   a. more b. the same

4. The tax rate on recaptured depreciation is _________ than the tax rate on Capital Gains.
   a. higher b. lower

5. Common Shared Equity Transactions involve occupiers and a(an) __________.
   a. bank b. investor

6. NMLS stands for ______________________________________.
   a. Nationwide Multi-State Licensing System and Registry b. National Mortgage Lending Services

7. The top two Reverse Mortgage Lenders in 2024 were Mutual of Omaha and ________________.
   a. Finance of America b. Southwest Bancorp

8. The 203B loan is a _____________loan.
   a. rehab b. basic home loan

9. LHCA is a ________________________.
   a. Local Housing Counseling Agency b. Land Trust Homes in California

10. How many questions must a HECM Counselor ask?
    a. Ten b. Five

11. Who was President of the United States when the HUD law was passed?
    a. Johnson b. Nixon

12. The Navy Federal Credit Union was guilty of surprise _________fees.
    a. notary b. overdraft

13. NRT's are ________________________.
    a. Non-Fungible Tokens b. National Financial Treasures

14. The special VA appraisal appeal process is _____________.
    a. Tidewater b. POC

15. The CFPB was established by the_____________________.
    a. Dodd Frank Act b. FCRA

16. DFPI was most recently called _______________________.
    a. Department of Corporations b. Department of Business Oversight

17. A Zero Tolerance fee with no exception is _________.
    a. a transfer fee b. property insurance

18. A change in circumstances could include ____________.
    a. consumer request b. creditor complaint

19. The TRID rules became effective in _________.
    a. 2011 b. 2015

20. The time frame to return any refunds is ____________.
    a. 7 days b. 60 days

21. APR disclosure regulations are in ____________.
    a. Reg. Z b. Reg. N

22. CFR stands for ________________.
    a. Central Financial Registry   b. Code of Federal Regulations

23. The FHA Handbook is number_________.
    a. 4000.1   b. 370.5

24. Anti-Money Laundering Requirements are under __________ compliance.
    a. FinCEN   b. Conference of Bank Supervisors

25. The maximum amount of a Payday Loan in California is___________.
    a. $300.00   b. $5,000.00

26. In which city is the Department of Financial Protection and Innovation located? ______________
    a. Los Angeles   b. Sacramento

27. FinCEN is ________________.
    a. Financial Crimes Enforcement Network   b. Financial Center Federal Government

28. The first California ADU reform bill was passed in__________.
    a. 2010   b. 2016

29. The new Foreclosure Update Bill AB 2424 was effective ________.
    a. 9/11/2011   b. 1/1/2025

30. Under CRMLA, a qualified individual is required to have _______ years of residential mortgage experience.
    a. two   b. five

31. A CRMLA applicant must show a net worth of _____________.
    a. $100,000.00   b. $250,000.00

32. Who was your MLO Education Provider for 2024?_________
    a. Duane Gomer, Inc.   b. Other

Now, You Be Safe Out There.
See You Next Year
&
Thank You For Your Support

Duane Gomer Education Disclosure

Duane Gomer
Founder, Owner

We sincerely appreciate your support and attendance. It is an honor, privilege and a pleasure to help you renew your endorsement. If you have any comments, complaints or problems please contact me at duane.g@duanegomer.com We are here to serve (since 1963) and we thank you, each and every MLO.

Sincerely,

DJ + Duane

About Duane Gomer Inc.,

DUANE GOMER INC. was founded in 1963 to specialize in Real Estate Commercial Sales, Property Management, Syndication and Receiverships. In 1978 a Real Estate Education Company was established. The Mission Viejo Company has grown to be one of the most prolific and professional education companies in California and the United States. Their materials, procedures, testing and instructors are considered State of the Art. Courses are presented live and on the Internet. Passing rates for DGS students are always the highest.

Duane Gomer has authorized many textbooks and has been a columnist in California newspapers. His academics include UCLA MBA, Indiana University B.S., U.S. Navy Commission, and Certified Property Manager.

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