



Duane Gomer Education Presents



PROFESSIONAL EDUCATION FOR PROFESSIONAL

MLO'S

2026 TEXTBOOK

BY DUANE GOMER

CA DRE/DFPI SAFE COMPREHENSIVE 8 HOURS OF CONTINUING EDUCATION

STUDENT COPY



MLOCE 2026



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8 Hour CA-DFPI SAFE Comprehensive: Professional MLO Education 2026 Edition

Course Provider: **Duane Gomer Inc.**

Address: **23312 Madero #J**

Mission Viejo, CA 92691

800-439-4909



NMLS Course Provider #**1400388**

NMLS Course #**18623**



Date of Course Content: March 2026

Date Course Approved: 3/27/2026

Attachments:

1. NMLS Rules of Conduct for Students
2. Course Syllabus



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 2026 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 <https://duanegomer.com/swc/mlo/pdfs/2026.pdf>

Thank you,



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

Updated March 20, 2024

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 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 PE or CE I attest the course format I am being credit banked for has been entirely completed by myself alone 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 identity
- 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:
 - Provided adequate camera access to ensure visibility for the entire duration of the course by enabling the proctor to ensure I was 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):
 - Personal identification requirements set forth by the provider
- Have not and 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):
 - 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
- Have not and 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. I will not use or attempt to use any artificial intelligence and/or large language model chatbots and/or other assistance to complete 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 ROC to the (MTEB).
10. Understand the CSBS Privacy Notice is applicable to these Rules of Conduct. The CSBS Privacy Notice can be found here: <https://www.csbs.org/privacy-policy>

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# _____

8 Hour CA-DFPI SAFE Comprehensive: Professional MLO Education 2026 Edition

Course Description and Purpose

This course satisfies the requirements set forth by the Secure and Fair Enforcement Mortgage Licensing Act for a comprehensive 8-hour continuing education course for mortgage loan originators. 8 HOUR CA-DFPI SAFE COMPREHENSIVE; PROFESSIONAL MLO EDUCATION 2026 EDITION covers topics required by the SAFE Act: (2) hours of Non-Traditional Mortgage lending, (2) hours of Ethics, (3) hours of Federal Law, plus (1) hour of California-DFPI law.

Course Provider

School Name: Duane Gomer Inc.
Address: 23312 Madero #J, Mission Viejo, CA 92691
Phone: 949-457-8930
Other Contact Information: Duane Gomer or Christie Olson
Course Date/Times: TBD
Location: TBD

Course Instructor

Instructor Name: See Instructor List
Qualifications: See Instructor's Bio's

Course Learning Objectives

Course Topics that will be presented to enable MLOs to protect and service clients:

Digital Currency and Mortgages
Non-QM Mortgages
Portfolio Loans
50 Year Mortgages
VA Loans
Digital Currency and Mortgages
Non-QM Mortgages
Portfolio Loans
Ethics in The Mortgage Industry
Ethical Behavior Across the Loan Life Cycle
Fraud in The Mortgage Industry
Consumer Protection and Ethical Lending Practices
Advertising Regulations With the NMLS
Cybersecurity
Who Chooses Topics
ECOA - Notifications
ECOA – Notifications of Actions Taken
ECOA – Adverse Action Not Compliant-Failure to Indicate Specific Reasons
ECOA – Records to Be Maintained
TILA – Timely Disclosure
TILA – Loan Estimate Tolerance
TILA – Tolerance: Good Faith Costs Exceeded
TILA – Loan Estimate-Allowable Reasons And Timing For Revised Disclosure
TILA – 0% Tolerance- Collection of Excessive Fees

Course Learning Objectives cont.

TILA – Closing Disclosure Not Completed Correctly
State Specific Law (California)
DFPI Up Close
DFPI VS. CFPB
Homeowners Bill of Rights Changes
Final Project

Required Course Materials

The core instruction text for this course: 8 Hour CA-DFPI SAFE Comprehensive: Professional MLO Education 2026 Edition. This book is to be downloaded as a PDF document. Students will be given the proper link on their registration receipt and in the webinar materials.

Course Expectations

Attendance: Attendance is mandatory to receive course credit.

Participation: Active participation is required in this course. Students are expected to be actively engaged with the material, listen to and follow the directions of the instructor and participate in group discussions and activities, and complete exercises as assigned, including the final activity.

Behavior: Students are expected to be respectful when interacting with the instructor and other students in the webinar and refrain from inappropriate language or derogatory comments. Students will also be on camera and adhere to an appropriate dress code.

Students will read the Rules of Conduct before the start of class and follow the Rules during the entire webinar time. They will sign a statement that they were provided the Rules, read the Rules, and followed the Rules. This statement, as part of the Course Evaluation, will be collected and filed by Duane Gomer, Inc.

Course Completion Requirements: Before your completion status can be transmitted to the Nationwide Mortgage Licensing System & Registry (NMLS), students are required to:

- Spend the minimum required amount of time in the course.
- Attend and participate in all course sessions.
- Complete all the required activities including a final class project.
- Multiple-choice chapter quizzes are included as additional activities with no passing score required.
- Download their course certificate from our website.

At the conclusion of the course, students will be asked to complete a Course Evaluation/Student Survey.



Professional MLO Education 2026 Edition

Course Outline and Schedule

Schedule	Module
95 mins.	Chapter 1 NON-TRADITIONAL MORTGAGES
	Section 1 – Digital Currency and Mortgages
	<i>Introduction</i>
	<i>Potential Benefits of Digital Currency in Residential Mortgages</i>
	<i>Challenges in Using Digital Currency for Mortgages</i>
	<i>Risks to Borrowers and Lenders</i>
	<i>Risks</i>
	<i>Conclusion</i>
	<i>Digital Currency in Residential Mortgages: Practical Takeaways</i>
	<i>Key Takeaways</i>
	<i>Time to Think 1.1</i>
	Section 2 – Non-QM Mortgages
	<i>Introduction</i>
	<i>Who Uses Non-QM Loans</i>
	<i>How They Differ From Qualified Mortgages (QMs)</i>
	<i>Trade-offs</i>
	<i>Key Takeaway</i>
	<i>Income-Based Alternatives</i>
	<i>Asset-Based Loans</i>
	<i>Investment-Focused Loans</i>
	<i>Identity And Specialized Programs</i>
	<i>Integration of AI and Automation</i>
	<i>Diversification of Borrower Profiles</i>
	<i>Product Innovation and Flexibility</i>
	<i>Case Study: Citibank, N.A.-Non-QM</i>
	<i>Brief Facts</i>
	<i>Legal Issues</i>
	<i>Outcome</i>
	<i>Significance</i>
	<i>Questions For Discussion</i>
	Section 3- Portfolio Loans
	<i>Introduction</i>
	<i>What Is A Portfolio Loan?</i>
	<i>Why Lenders Use Portfolio Loans?</i>
	<i>Main Risks</i>
	<i>Underwriting Rules</i>
	<i>Documentation (What Must Be In File)</i>
	<i>Ongoing Monitoring (Especially Important For Portfolio)</i>

	<i>What Examiners Commonly Criticize</i>
	<i>Time to Think 1.2</i>
	Section 4 – 50 Year Mortgages
	<i>Introduction – The 50 Mortgage: Benefits, Risks, and Practical Considerations</i>
	<i>Benefits of a 50-Year Mortgage</i>
	<i>Concerns and Risks</i>
	<i>Real-Life Illustration</i>
	<i>Some Thoughts From The Field</i>
	<i>Conclusion</i>
	Section 5 – VA Loans
	<i>Introduction</i>
	<i>Eligibility Requirements</i>
	<i>Key Features and Benefits of VA Loans</i>
	<i>VA Funding Fee</i>
	<i>Property Requirements and Occupancy</i>
	<i>Credit and Income Considerations</i>
	<i>VA Loan Limits and Entitlement</i>
	<i>Refinancing With VA Loans</i>
	<i>Conclusion</i>
	<i>Case Study</i>
	<i>Misleading Veterans About Mortgage Costs</i>
	<i>Facts</i>
	<i>Ethical Lesson</i>
	<i>Questions For Discussion</i>
	<i>Time To Think 1.3</i>
	<i>Socrates Time</i>
	<i>Chapter 1: Review Quiz</i>
10 mins	- Break -
95 mins.	Chapter 2 ETHICS
	Section 1 – Ethics in the Mortgage Industry
	<i>What Does “Ethics” Mean in the Mortgage Origination?”</i>
	<i>Why Ethics Matters in the Mortgage Industry</i>
	<i>The Ethical Standard: Duty, Honest, and Fairness</i>
	<i>Ethics vs. Incentives: Why Good People Make Bad Decisions</i>
	Section 2 – Ethical Behavior Across the Loan Life Cycle
	<i>Marketing and Lead Generation Ethics</i>
	<i>Truth in Advertising</i>
	<i>Clear Communication About Limitations</i>
	<i>Ethical Qualifications And Pre-Approval Practices</i>
	<i>Product Selection And Ethical “Steering”</i>
	<i>Unethical Disclosures</i>
	<i>Unethical Documentation Practices</i>
	<i>Ethical Closing Practices</i>
	<i>Time To Think 2.1</i>

	Section 3 – Fraud In The Mortgage Industry
	<i>Introduction</i>
	<i>What is Mortgage Fraud?</i>
	<i>Income and Employment Fraud</i>
	<i>Occupancy Fraud</i>
	<i>Asset and Down Payment Fraud</i>
	<i>Straw Buyer/Identity Fraud</i>
	<i>Appraisal Fraud and Value Manipulation</i>
	<i>Undisclosed Kickbacks and Side Deals</i>
	<i>Fraud Consequences (Borrowers, MLOs And Companies)</i>
	<i>Case Study: Zelle Fraud Allegations</i>
	<i>Brief Facts</i>
	<i>Legal Issues</i>
	<i>Outcome</i>
	<i>Significance</i>
	<i>Questions for Discussion</i>
	Section 4 – Consumer Protection and Ethical Lending Practices
	<i>Introduction</i>
	<i>The Consumer’s Vulnerability Points</i>
	<i>Unfair, Deceptive Or Abusive Practices</i>
	<i>Transparent Communications and Informed Consent</i>
	<i>Errors VS Misconduct</i>
	<i>Data Privacy And Consumer Information Protection</i>
	<i>Time to Think 2.2</i>
	Section 5 – Advertising Regulations With The NMLS
	<i>Introduction</i>
	<i>The NMLS Connection To Mortgage Advertising</i>
	<i>Core Advertising Standards</i>
	<i>Common Advertising Violations</i>
	<i>Digital and Social Media Advertising</i>
	<i>Recordkeeping and Oversight</i>
	<i>Conclusion</i>
	<i>Case Study: RMK Financial Corp-Misleading Mortgage Advertising</i>
	<i>Overview</i>
	<i>Legal Issues</i>
	<i>Outcome</i>
	<i>Significance</i>
	<i>Questions For Discussion</i>

	Section 6– Cybersecurity
	<i>Introduction</i>
	<i>Data Breaches</i>
	<i>Identity Fraud</i>
	<i>Ransomware</i>
	<i>Supply Chain Risk</i>
	<i>Time To Think 2.3</i>
	<i>Socrates Time</i>
	<i>Chapter 2: Review</i>
30 mins	- Lunch Break -
95 mins.	Chapter 3 FEDERAL LAW
	Section 1 – Who Chooses Topics
	<i>Introduction</i>
	<i>Who Sets Requirements</i>
	<i>How Topics are Selected</i>
	<i>Why This Matters</i>
	<i>Conclusion</i>
	Section 2 – ECOA - NOTIFICATIONS
	<i>Citation Violation</i>
	<i>Examination Findings</i>
	<i>Consequences</i>
	<i>Compliance Best Practices and Recommendations</i>
	<i>Real-World Case Example</i>
	<i>The Thirty-Day Clock and Regulatory Interpretation</i>
	<i>Summary and Key Takeaways</i>
	Section 3 – ECOA – Notifications of Actions Taken
	<i>Citation Violation</i>
	<i>Examination Findings</i>
	<i>Consequences</i>
	<i>Compliance Best Practices and Recommendations</i>
	<i>Real-World Case Example</i>
	<i>The Critical Distinction Between Inquiries and Applications</i>
	<i>Summary and Key Takeaways</i>
	<i>Case Study: LendUp Loans, LLC Agency/Law Involved</i>
	<i>Brief Facts</i>
	<i>Legal Issues</i>
	<i>Outcome</i>
	<i>Significance</i>
	<i>Questions For Discussion</i>
	<i>Time To Think 3.1</i>

	Section 4 – ECOA – Adverse Action Not Compliant Failure To Indicate Specific Reasons
	<i>Citation Violation</i>
	<i>Examination Findings</i>
	<i>Consequences</i>
	<i>Examination Finding And Why It Is A Violation</i>
	<i>Detailed Discussion of Consequences</i>
	<i>Compliance Best Practices and Recommendations</i>
	<i>Real-World Case Example</i>
	<i>Summary and Key Takeaways</i>
	<i>The Specificity Requirement and Consumer Empowerment</i>
10 mins	- Break -
50 mins	Section 5 – ECOA – Records To Be Maintained
	<i>Citation Violation</i>
	<i>Examination Findings</i>
	<i>Consequences</i>
	<i>Compliance Best Practices and Recommendations</i>
	<i>Real-World Case Example</i>
	<i>Summary and Key Takeaways</i>
	<i>The Strategic Importance of Comprehensive Recordkeeping</i>
	<i>Case Study: Synapse Financial Technologies, Inc.</i>
	<i>Brief Facts</i>
	<i>Legal Issues</i>
	<i>Outcome</i>
	<i>Significance</i>
	<i>Questions for Discussion</i>
	<i>Time To Think 3.2</i>
	<i>Socrates Time</i>
	Section 6 – TILA – Timely Disclosure
	<i>Citation Violation</i>
	<i>Examination Findings</i>
	<i>Consequences</i>
	<i>Understanding the Violation</i>
	<i>Potential Consequences</i>
	<i>Operational & Financial Impact and Recommendations</i>
	<i>Consumer Impact</i>
	<i>Recommendations To Prevent Violations</i>
	Section 7 – TILA – Loan Estimate Tolerance
	<i>Citation Violation</i>
	<i>Examination Findings</i>
	<i>Understanding The Violation</i>
	<i>Potential Consequences</i>
	<i>Examples</i>
	<i>Corrective Actions</i>
	<i>Time To Think 3.3</i>

	Section 8 – TILA – 0% Tolerance: Good Faith Costs Exceeded
	<i>Citation Violation</i>
	<i>Examination Findings</i>
	<i>Consequences</i>
	<i>Potential Consequences</i>
	<i>Recommendations</i>
	Section 9– TILA – Loan Estimate – Allowable Reasons And Timing For Revised Disclosure
	<i>Citation Violation</i>
	<i>Examination Findings</i>
	<i>Consequences</i>
	<i>Potential Consequences Examples</i>
	<i>Recommendations</i>
	Section 10– TILA – 0% Tolerance: Collection of Excessive Fees
	<i>Citation Violation</i>
	<i>Examination Findings</i>
	<i>Potential Consequences Examples</i>
	<i>Recommendations</i>
	<i>Case Study: Freedom Mortgage Corporation</i>
	<i>Overview</i>
	<i>Key Facts</i>
	<i>Legal Issues</i>
	<i>Outcome</i>
	<i>Significance</i>
	<i>Questions For Discussion</i>
	Section 11– TILA – Closing Disclosure Not Completed Correctly
	<i>Citation Violation</i>
	<i>Examination Findings</i>
	<i>Consequences</i>
	<i>Recommendations</i>
	<i>Conclusion</i>
	<i>Time To Think 3.4</i>
	<i>Socrates Time</i>
	<i>Chapter 3: Review Quiz</i>
45 mins.	Chapter 4 CALIFORNIA SPECIFIC
	Section 1 – State Specific Law
	<i>Introduction</i>
	<i>Lots of Acronyms and Lots of Regulatory Agencies</i>
	<i>Continuing Education (CE)</i>
	Section 2 – DFPI UP CLOSE
	<i>Overview of DFPI</i>
	<i>Modern Mission</i>
	<i>Sanctions by DFPI</i>
	<i>Enforcement Actions And Orders Database</i>

	<i>Mortgage Related and Consumer Protection Enforcement</i>
	<i>Consumer Protection Enforcement (Broad Scope)</i>
	<i>Expanded Enforcement Authority</i>
	<i>How It Relates To The Homeowner Bill Of Rights (HBOR)</i>
	<i>Time To Think 4.1</i>
	Section 3 – DFPI VS CFPB
	<i>How They Compare – Where DFPI Goes Further</i>
	<i>Coordination Between DFPI And CFPB</i>
	Section 4 – Home Owners Bill of Rights Changes
	<i>Introduction</i>
	<i>Strengthened Foreclosure Protections (Effective 2025)</i>
	<i>California Legislature Creates “Redemption Right” For Trustee Sales Of Residential Properties</i>
	<i>SB 1079 Loopholes</i>
	<i>Case Study: Lagrisola v. North American Financial Corp, CA Court of Appeal</i>
	<i>Agency/Law Involved</i>
	<i>Brief Facts</i>
	<i>Legal Issues</i>
	<i>Outcome</i>
	<i>Significance</i>
	<i>Questions For Discussions</i>
	<i>Socrates Time</i>
	<i>Time To Think 4.2</i>
	<i>Chapter 4: Review Quiz</i>
<i>20 mins.</i>	FINAL PROJECT
	<i>Trivia Pursuit – 30 Questions</i>

CHAPTER 1:*NON-TRADITIONAL*



MLO CE Class Pre-Covid

SECTION 1: DIGITAL CURRENCY AND MORTGAGES

Introduction

Digital currency is increasingly influencing the financial system, raising important questions about its role in residential mortgage lending. Digital currencies generally fall into two categories: decentralized cryptocurrencies such as Bitcoin, and centralized digital currencies such as Central Bank Digital Currencies (CBDCs). While traditional mortgage lending remains firmly rooted in fiat currency and regulated banking systems, digital currency is beginning to intersect with mortgage processes such as payment methods, down payments, and asset verification. Understanding both the opportunities and limitations of digital currency is essential for lenders, borrowers, and regulators.

Potential Benefits of Digital Currency in Residential Mortgages

One potential benefit of digital currency in residential mortgages is payment efficiency. Blockchain-based transactions can settle faster than traditional banking systems, particularly across borders. In theory, mortgage payments made using a CBDC or a

regulated digital currency could reduce settlement delays, lower transaction costs, and improve transparency. Smart contracts may also automate payment processing, escrow management, or interest adjustments, reducing administrative overhead.

Digital currency may also enhance financial inclusion. Borrowers who lack traditional banking access but hold digital assets could, under regulated frameworks, participate more fully in the housing market. CBDCs, in particular, could offer government-backed digital payment systems that integrate directly with existing mortgage servicing platforms.

In asset verification, blockchain technology offers the possibility of real-time verification of funds. A transparent, immutable ledger could help confirm ownership, transfer history, and availability of assets used for down payments or reserves, reducing fraud and documentation errors.

Challenges in Using Digital Currency for Mortgages

Despite potential advantages, digital currency presents significant challenges in mortgage lending. One of the primary issues is price volatility, especially with cryptocurrencies like Bitcoin. Mortgage underwriting relies on predictable asset values, while cryptocurrencies can experience large price swings in short periods. This volatility complicates their use for down payments, reserves, or ongoing mortgage payments.

Another major challenge is regulatory uncertainty. Mortgage lending is heavily regulated, and most jurisdictions require transactions to occur in fiat currency through regulated financial institutions. While CBDCs may eventually integrate seamlessly into mortgage systems, decentralized cryptocurrencies currently face inconsistent regulatory treatment, making lender adoption difficult.

Operational challenges also exist. Most mortgage servicing systems are not designed to accept digital currency payments, requiring costly infrastructure upgrades. Additionally, compliance requirements such as Know Your Customer (KYC), Anti-Money Laundering (AML), and source-of-funds verification are more complex when digital wallets and blockchain addresses are involved.

Risks to Borrowers and Lenders

Digital currency introduces several risks in the mortgage context. Market risk is a major concern; a borrower using cryptocurrency for a down payment may see the asset's value

decline sharply between pre-approval and closing. This can jeopardize loan qualification or require last-minute restructuring.

Risks

Liquidity risk is another factor. Converting digital currency into fiat currency at closing may take time, incur fees, or trigger unfavorable market conditions. For lenders, this creates settlement risk and uncertainty around funding timelines.

There are also legal and compliance risks. Improper documentation of digital asset ownership or insufficient tracing of funds could violate lending regulations and expose lenders to enforcement actions. Cybersecurity risks, including wallet theft or transaction errors, pose additional concerns for both borrowers and institutions.

Conclusion

While digital currency has the potential to modernize aspects of residential mortgage lending, its current role remains limited. CBDCs may eventually integrate into mortgage payment systems with fewer risks, while decentralized cryptocurrencies face challenges related to volatility, regulation, and compliance. For now, digital currency is more likely to function as a supplemental asset—subject to strict verification—rather than a primary funding or payment method. As technology, regulation, and market practices evolve, mortgage professionals must remain informed to balance innovation with stability and consumer protection.

Digital Currency in Residential Mortgages: Practical Takeaways

Digital currency has emerging—but limited—applications in residential mortgage lending. While Central Bank Digital Currencies (CBDCs) and cryptocurrencies such as Bitcoin differ significantly, both raise important considerations for payments, down payments, and asset verification.

CBDCs may eventually support faster, more efficient mortgage payments by allowing instant settlement within regulated financial systems. Because they are government-issued, CBDCs could integrate with existing mortgage servicing and compliance frameworks more easily than decentralized cryptocurrencies.

Cryptocurrencies present greater challenges, particularly for down payments and

borrower qualification. Price volatility can affect loan approval if asset values change between application and closing. As a result, lenders typically require cryptocurrency to be converted to fiat currency well before funding.

Blockchain technology may assist with asset transparency, but it does not replace traditional compliance requirements. Lenders must still verify identity, source of funds, and regulatory compliance through established KYC and AML standards.

Operational and security risks also remain significant. Transaction delays, exchange limitations, cybersecurity threats, and the loss of digital wallets can disrupt closings or result in permanent financial loss.

Key Takeaways

- CBDCs may improve mortgage payment efficiency due to faster settlement and regulatory oversight.
- Cryptocurrencies are volatile and generally unsuitable as direct mortgage payment methods.
- Digital assets used for down payments typically must be liquidated into fiat currency.
- Blockchain records can support asset verification but do not replace compliance requirements.
- Digital currency currently functions best as a supplemental asset, not primary mortgage funding.

Time to Think 1.1

1. Which Agency chooses your topics for today?
 - a. MMC
 - b. DFPI
2. What is a major concern of Digital Currency for Mortgages?
 - a. Processing
 - b. Liquidity Risk

SECTION 2: NON-QM MORTGAGES

Introduction

A Non-QM (Non-Qualified Mortgage) loan is a home loan for borrowers who don't fit standard mortgage requirements, using flexible income verification (like bank statements for self-employed individuals) or accommodating unique financial situations, like past credit issues, by allowing different underwriting and higher debt-to-income ratios, though often with higher rates. These loans provide options for freelancers, independent contractors, construction workers, investors, and the likes, or those with past foreclosures who struggle with traditional lenders.

Who uses Non-QM Loans?

- **Self-Employed:** Can use bank statements or 1099s instead of W-2s.
- **Investors:** May use Debt-Service Coverage Ratio (DSCR) to qualify on rental property income.
- **Borrowers with Credit Issues:** Can qualify sooner after bankruptcy or foreclosure.
- **High-Net-Worth Individuals:** Can use assets to qualify.
- **Foreign Nationals:** Non-U.S. citizens who may not have a Social Security number or U.S. credit history.
- **Credit-Challenged Borrowers:** Individuals recovering from recent financial setbacks who do not yet qualify for government-backed programs.

How they differ from Qualified Mortgages (QMs)

- **Income Verification:** QMs require traditional proof (W-2s, pay stubs); Non-QMs use bank statements, P&L, or asset verification.
- **Debt-to-Income (DTI) Ratio:** QMs cap DTI at 43%; Non-QMs often allow ratios above 50%.
- **Credit Flexibility:** Non-QMs are more lenient with past credit events (foreclosures, bankruptcies).
- **Loan Features:** Non-QMs can have features like 40-year terms, banned in QMs.
- **Cost:** Typically have higher interest rates and fees than QMs.

Trade-offs

- **Cost:** Because they are considered riskier for lenders, Non-QM loans usually carry higher interest rates (often 1–2% higher than traditional rates) and higher upfront fees.
- **Down Payment:** Lenders typically require larger down payments, often ranging from 15% to 20% or more.
- **Regulation:** These loans lack certain consumer protections required by the CFPB, making it essential for borrowers to carefully review all terms.

Key Takeaway

Non-QM loans offer a pathway to homeownership for those with unique financial profiles, acting as an alternative when standard mortgages aren't an option, but often come with higher costs due to increased lender flexibility and risk.

In 2026, Non-QM loans continue to offer specialized paths to financing for those who do not fit traditional "qualified" mortgage profiles.

Common types include:

Income-Based Alternatives

Bank Statement Loans: Ideal for self-employed borrowers, freelancers, or independent contractors. Lenders verify income by averaging 12 to 24 months of deposits from personal or business bank statements instead of using tax returns.

1099 Income Loans: Specifically for independent contractors who receive 1099 forms. Qualification is often based on the gross income reported on these forms, sometimes applying a standard expense ratio rather than net business income.

P&L (Profit and Loss) Loans: Small business owners can qualify using a year-to-date profit and loss statement, often prepared or reviewed by a CPA, to demonstrate current business health.

Asset-Based Loans

Asset Depletion/Utilization Loans: High-net-worth individuals or retirees with significant liquid assets can use them to qualify. Lenders use a formula to "deplete"

these assets over the loan term, converting them into a qualifying monthly income stream.

Asset Qualifier Loans: Similar to asset depletion, these loans focus on the borrower's total asset position rather than a monthly income calculation, often requiring high credit scores and substantial reserves.

Investment-Focused Loans

DSCR (Debt Service Coverage Ratio) Loans: A cornerstone for real estate investors in 2026, these are qualified based on the property's rental income rather than the borrower's personal income. If the rent covers the mortgage payment (typically a ratio of 1.0 or higher), the loan can be approved.

Fix-and-Flip/Bridge Loans: Short-term, asset-based financing used by investors to purchase and renovate properties before selling or refinancing into long-term debt.

Identity & Specialized Programs

Foreign National Loans: Designed for non-U.S. residents purchasing property in the U.S. without a U.S. credit history or Social Security number.

ITIN Loans: For residents who have an Individual Taxpayer Identification Number but no Social Security number.

Recent Credit Event Loans: Tailored for borrowers with recent bankruptcies, foreclosures, or short sales that occurred as recently as one day to two years ago.

In 2026, Non-QM lending has transitioned from a niche alternative into a mainstream mortgage segment, projected to account for over 15% of total mortgage originations. Emerging trends are driven by shifts in the workforce, technological advancement, and a maturing secondary market.

Integration of AI and Automation

Technology is no longer optional for Non-QM success. Lenders are increasingly using AI-driven workflows to reduce the complexity of underwriting alternative income profiles:

Faster Processing: AI-powered verification tools have cut loan turn times by up to **30%** and significantly reduced underwriting errors.

Sophisticated Income Analysis: Machine learning tools now detect stability patterns across bank statements and evaluate cash flow variability for gig workers more accurately than traditional manual reviews.

Diversification of Borrower Profiles

The pool of Non-QM borrowers is expanding beyond typical self-employed professionals to include:

- **"Shadow Debt" Considerations:** Lenders are integrating consumer data like "Buy Now, Pay Later" (BNPL) and cryptocurrency holdings into their 2026 underwriting models to better understand borrower risk.
- **Modern Earners:** New products are targeting digital-first borrowers, such as **influencers** and freelancers with multiple irregular income streams.
- **Foreign Investment:** There is a surge in Foreign National and ITIN loans, with lenders now accepting a wider range of international currencies and global asset documentation.

Product Innovation and Flexibility

- **50-Year Mortgages:** To combat high interest rates and rising home costs, 50-year loan terms are emerging in certain high-cost regions to improve affordability.
- **Hybrid Products:** New "Non-QM/Conventional" hybrids are designed for borrowers who almost qualify for traditional loans but need slight flexibility on credit scores or specific property types.
- **Expanded DSCR Uses:** Investors are now using DSCR (Debt Service Coverage Ratio) loans for a broader range of properties, including small commercial spaces, mixed-use buildings, and short-term rental portfolios.

Case Study: Citibank, N.A. – Non-QM (Ability-to-Repay Violations: ATR)

Agency Involved: Consumer Financial Protection Bureau (CFPB)

Brief Facts

Citibank was investigated by the CFPB for improper mortgage underwriting and origination practices. The Bureau found the bank issued non-QM loans without adequately verifying borrowers' income and employment, relying on insufficient documentation and failing to meet ATR requirements under TILA.

Legal Issues

The CFPB alleged violations of:

- Truth in Lending Act (TILA)
- Regulation Z – Ability-to-Repay Rule (12 C.F.R. §1026.43)

The primary legal issue was that Citibank failed to make a reasonable and good-faith determination of borrowers' ability to repay their loans, a core requirement for Non-QM lending. Without QM protections, lenders must demonstrate strict compliance with ATR standards, which Citibank failed to do.

Outcome

Citibank entered into a consent order with the CFPB requiring:

- Payment of approximately \$4.75 million in consumer restitution
- Payment of a \$4.75 million civil money penalty
- Implementation of stronger underwriting controls and compliance systems
- Enhanced documentation and verification procedures for borrower income and assets

Significance

This case underscores the heightened risk associated with NQMs, where lenders do not benefit from QM safe harbor protections. It highlights that:

- Lenders must rigorously verify borrower income, assets, and debts
- Non-QM lending requires stronger compliance oversight and documentation

For mortgage professionals, the case serves as a reminder that Non-QM loans are permissible but carry increased regulatory scrutiny and legal exposure if ATR standards are not strictly followed.

Questions For Discussion

- How should companies make sure the Reg Z requirements are met on non-QM loans?
- Were the penalties adequate for these violations?

SECTION 3: PORTFOLIO LOANS

Introduction

A collateral loan uses an asset (like real estate, stocks, or equipment) as security, reducing lender risk and often resulting in lower rates, while a portfolio loan is offered by lenders holding loans in-house (not selling them off), allowing for customized terms for unique borrowers, often with higher down payments but flexible underwriting. Essentially, collateral loans are asset-backed, and portfolio loans are relationship-based lending, with some loans combining both concepts, using your investment portfolio as collateral.

What is a Portfolio Loan?

- A portfolio loan is a loan the institution keeps in its own portfolio instead of selling it to investors (like a typical “secondary market” mortgage). Because the lender keeps the loan, it may allow more flexible guidelines—but the lender also keeps more risk.
- **Key idea:** Flexible underwriting is allowed, but the loan must still be safe, sound, and well documented.

Why Lenders Use Portfolio Loans

Portfolio loans are often used when a borrower is strong, but the loan doesn't fit standard rules, such as:

- Self-employed income (harder to document)
- Unique properties (non-standard)
- Non-traditional income sources
- Borrowers with strong assets but “unusual” credit profile
- Commercial or specialty lending needs

Not a free pass: “Portfolio” does not mean “skip the rules.”

Main Risks

- **Credit risk** – borrower may not repay
- **Concentration risk** – too many similar loans in one area/type

- **Collateral risk** – value may drop or be hard to sell
- **Liquidity risk** – can't quickly sell the loan if needed
- **Reputation/compliance risk** – weak documentation or unfair practices create findings

Underwriting Rules

Ability to Repay (primary focus)

- Verify the borrower can realistically make payments
- Review income/cash flow, debts, and overall stability
- Avoid approvals based only on collateral or “relationship”

Clear Loan Purpose and Good Structure

- Make sure the purpose makes sense (business need, purchase, refinance, etc.)
- Match terms to repayment ability (rate, amortization, maturity)

Policy Limits and Exceptions

- Stay within internal limits (LTV, DTI/DSCR, loan size, term)
- If policy is exceeded, document:
 - a. Why it makes sense
 - b. Who approved it
 - c. Compensating factors (strong cash reserves, low leverage, long history, etc.)

Examiner language: Exceptions must be supported, approved, tracked, and monitored.

Documentation (What Must Be in the File)

- Signed note / loan agreement and required disclosures
- Income/cash flow support (tax returns, statements, financials, rent roll, etc.)
- Credit report and repayment analysis
- Collateral documentation and valuation (when applicable)
- Exception memo (if outside policy) + approval evidence
- Ongoing monitoring plan (especially for commercial loans)

Red flag: “We kept it in portfolio” with no support for repayment ability.

Ongoing Monitoring (Especially Important for Portfolio)

Because the lender keeps the loan, it must monitor risk over time:

- Annual/periodic financial updates for higher-risk borrowers
- Watch for delinquencies, extensions, repeat renewals
- Re-check collateral value if conditions change
- Track concentrations (property type, industry, geography)

What Examiners Commonly Criticize

- Approving based on relationship instead of repayment ability
- Weak or missing income support
- Too many undocumented exceptions
- Outdated valuations or poor collateral analysis
- High concentrations without controls
- Inconsistent treatment of borrowers (fair lending risk)

Bottom line: Portfolio loans can be flexible, but they still require strong repayment analysis, documentation, exception control, and monitoring.

Time to Think 1.2

1. Portfolio loans are more?
 - a. Flexible
 - b. Restricted
2. Non-QM loans normally have ____ interest rate?
 - a. Higher
 - b. Lower

SECTION 4: 50 YEAR MORTGAGES

Introduction

The 50-Year Mortgage: Benefits, Risks, and Practical Considerations

A 50-year mortgage is a long-term home loan that extends the repayment period well beyond traditional mortgage terms, which typically range from 15 to 30 years. While not widely offered in the U.S. mortgage market, 50-year mortgages occasionally emerge during periods of housing affordability challenges as an alternative financing option for certain borrowers. Understanding both the benefits and concerns associated with these loans is essential for mortgage professionals and regulators.

Benefits of a 50-Year Mortgage

The primary benefit of a 50-year mortgage is lower monthly payments. By spreading repayment over a longer period, borrowers can reduce their required monthly principal and interest obligation, making homeownership more accessible—particularly for first-time buyers or borrowers in high-cost housing markets. This structure may allow borrowers to qualify for a loan amount they otherwise could not afford under standard 30-year terms.

Lower payments may also improve short-term cash flow, giving borrowers more flexibility to manage other expenses such as childcare, healthcare, or education. For lenders, 50-year mortgages can increase loan origination opportunities in markets where rising home prices have outpaced income growth.

Concerns and Risks

Despite affordability advantages, 50-year mortgages raise significant consumer protection and financial stability concerns. The most notable risk is the substantially higher total interest cost over the life of the loan. Because interest accrues for an extended period, borrowers may pay hundreds of thousands of dollars more in interest compared to a 30-year mortgage.

Another concern is slow equity accumulation. Borrowers build equity very gradually in the early years of a 50-year loan, leaving them vulnerable to market downturns. If

property values decline, borrowers may find themselves owing more than the home is worth, increasing default risk.

From a regulatory perspective, these loans may also raise questions related to ability-to-repay standards, particularly if borrowers qualify based solely on lower payments without considering long-term financial sustainability. Additionally, extended loan terms may disproportionately impact lower-income borrowers, potentially leading to long-term financial strain.

Real-Life Illustration

Consider a borrower purchasing a \$400,000 home with a fixed interest rate of 6%.

- Under a 30-year mortgage, the monthly principal and interest payment is approximately \$2,400, with total interest paid over the life of the loan around \$460,000.
- Under a 50-year mortgage, the monthly payment drops to approximately \$2,000, improving short-term affordability. However, total interest paid over 50 years exceeds \$800,000—nearly double the interest cost of the 30-year loan.

While the lower payment may help the borrower qualify initially, the long-term financial burden is significantly greater, and equity growth is much slower.

Some Thoughts From The Field

During the later months of late 2025, there were many public discussions about the pros and cons of 50 Year Mortgages. I would wager that these discussions were similar to discussion held in 1934 when the 20 year mortgage was authorized, in 1948 when the 30 year mortgage was authorized for construction loans, and in 1954 when 30 year loans were authorized for residential loans.

There is one question that might be pertinent to the discussions that was never asked; “How many borrowers currently keep their loans for 30 years and have a mortgage burning celebration.

Mortgages get paid off early because of many factors affecting borrowers including:

- Changed home size, value, etc.
- Marriage, divorced, births
- Acquired some funds

- Moved because of job, money
- Death, foreclosure, bankruptcy, HOA's and Taxes
- Children or grandchildren
- Flood, fire, earthquake
- Refinancing for a lower interest rate or to get some equity cashed out,
- Etc., Etc., Etc.

And if a couple gets a 50 year loan because their income doesn't qualify for a 30 year loan, they can always refinance sometime during the term or just make extra payments.

Conclusion

The 50-year mortgage can offer short-term affordability benefits by reducing monthly payments, but it carries substantial long-term risks, including higher interest costs, slower equity accumulation, and increased vulnerability to market fluctuations. For mortgage professionals, it is critical to balance access to credit with responsible lending practices, clear disclosures, and borrower education. From an NMLS perspective, understanding these tradeoffs is key to promoting fair, safe, and sustainable home financing, but it does help some prospects to buy sooner.

SECTION 5: VA LOANS

Introduction

The Department of Veterans Affairs (VA) home loan program is one of the most significant benefits available to eligible members of the United States military, veterans, and certain surviving spouses. Established in 1944 as part of the Servicemen's Readjustment Act, commonly known as the GI Bill, the VA loan program was designed to help returning service members reintegrate into civilian life by making homeownership more accessible. Over the decades, the program has evolved, but its core mission remains the same: to reduce barriers to homeownership for those who have served the nation.

Unlike conventional mortgage loans, VA loans are not issued directly by the Department of Veterans Affairs. Instead, they are originated by private lenders such as banks, mortgage companies, and credit unions. The VA provides a guaranty on a portion of the loan, which protects the lender against loss if the borrower defaults. This guaranty allows lenders to offer more favorable terms than are typically available with other loan programs.

Interesting stat – of all the different loan programs including Conventional, FHA, Fannie/Freddie, HOEPA etc., VA loans have the best payment records in every year that I have studied.

Eligibility Requirements

Eligibility for a VA loan is based primarily on military service. Borrowers must meet minimum service requirements, which vary depending on whether they served during wartime or peacetime, and whether they were active duty or members of the National Guard or Reserves. In general, veterans must have completed a minimum period of service and received a discharge other than dishonorable.

In addition to veterans, active-duty service members may be eligible after serving a required length of time. Certain surviving spouses of service members who died in the line of duty or as a result of a service-connected disability may also qualify. Eligibility is documented through a Certificate of Eligibility (COE), which verifies to lenders that the borrower meets VA requirements.

While the VA establishes eligibility standards, lenders still apply their own underwriting criteria. This includes evaluating credit history, income stability, and residual income. The VA loan program is designed to be flexible, but it does not eliminate the need for borrowers to demonstrate an ability to repay the loan.

Key Features and Benefits of VA Loans

One of the most attractive features of VA loans is the ability to purchase a home with no down payment. Unlike conventional loans that often require 5% to 20% down, VA loans allow qualified borrowers to finance up to 100% of the home's value, provided the purchase price does not exceed the property's appraised value.

Another major benefit is the absence of private mortgage insurance (PMI). Conventional loans with low down payments typically require PMI, which increases the borrower's monthly payment. VA loans do not require PMI, resulting in significant long-term savings for borrowers.

VA loans also feature competitive interest rates, which are often lower than those of conventional or FHA loans. Because the VA guaranty reduces lender risk, lenders are able to offer more favorable pricing. Additionally, VA loans limit certain closing costs that veterans can be charged, further reducing out-of-pocket expenses.

VA Funding Fee

Although VA loans offer substantial benefits, most borrowers are required to pay a VA funding fee. This fee helps offset the cost of the loan program to taxpayers and ensures the program remains self-sustaining. The funding fee is calculated as a percentage of the loan amount and varies based on several factors, including whether the borrower has used a VA loan before and whether a down payment is made.

The funding fee can be paid upfront at closing or rolled into the loan amount. Certain borrowers are exempt from the funding fee, including veterans receiving VA disability compensation and surviving spouses eligible for VA benefits. Understanding the funding fee is important when comparing VA loans to other mortgage options.

Property Requirements and Occupancy

VA loans are intended for primary residences only. Borrowers must certify that they intend to occupy the property as their primary residence within a reasonable period,

typically 60 days after closing. Investment properties and vacation homes are not eligible under the VA loan program.

Properties financed with VA loans must meet the VA's Minimum Property Requirements (MPRs). These standards are designed to ensure the home is safe, structurally sound, and sanitary. The VA appraisal process evaluates both the value of the property and its condition. While the requirements are not intended to be overly strict, they may require repairs before loan approval if safety or habitability issues are identified.

Credit and Income Considerations

The VA does not set a minimum credit score requirement, but most lenders establish their own minimum standards. Many lenders look for credit scores in the mid-600 range, though some may approve borrowers with lower scores depending on compensating factors.

A unique aspect of VA underwriting is the use of residual income. Residual income refers to the amount of money remaining after all major monthly obligations are paid, including housing expenses, debts, taxes, and utilities. The VA has established residual income guidelines based on family size and geographic region. This approach focuses on the borrower's ability to maintain a reasonable standard of living after paying housing costs, rather than relying solely on debt-to-income ratios.

VA Loan Limits and Entitlement

VA loan entitlement represents the amount the VA will guarantee on behalf of the borrower. While traditional loan limits once restricted how much a veteran could borrow without a down payment, recent changes have eliminated loan limits for borrowers with full entitlement. This allows eligible veterans to purchase higher-priced homes without a down payment, provided they qualify based on income and credit.

Borrowers who have used part of their entitlement may still be eligible for additional VA loans, depending on the amount of remaining entitlement. Entitlement can often be restored once a VA loan is paid off or refinanced into a non-VA loan.

Refinancing with VA Loans

The VA offers refinancing options, including the Interest Rate Reduction Refinance Loan (IRRRL), commonly known as a VA streamline refinance. This option allows borrowers to refinance an existing VA loan to obtain a lower interest rate with minimal documentation and no appraisal in many cases.

VA cash-out refinancing is also available, allowing borrowers to refinance their mortgage and access home equity. This option can be used for debt consolidation, home improvements, or other financial needs, though it increases the loan balance and should be considered carefully.

Conclusion

VA loans are a powerful home financing tool that reward military service by making homeownership more attainable. With features such as no down payment, no private mortgage insurance, competitive interest rates, and flexible underwriting standards, VA loans provide substantial advantages over many other loan programs. Understanding eligibility, benefits, costs, and requirements allows borrowers and mortgage professionals alike to make informed decisions and fully leverage the value of the VA loan program.

Case Study

Misleading Veterans About Mortgage Costs

Regulator: Consumer Financial Protection Bureau (CFPB)

Company: NewDay USA (non-bank mortgage lender)

Facts

NewDay USA marketed VA cash-out refinance loans to military servicemembers and veterans through television and online advertising. The CFPB found that the company's marketing materials misled consumers about the true cost and benefits of the loans. According to regulators, the lender suggested that refinancing would significantly improve borrowers' financial situations but failed to clearly disclose the full costs and risks of the refinance, including fees and the potential for increased long-term debt.

Ethical Issues

The conduct violated core ethical principles expected in mortgage lending:

- Lack of transparency about costs and loan terms
- Misleading advertising implying financial benefits
- Targeting vulnerable borrowers (veterans and servicemembers)

Mortgage professionals have an ethical duty to present loan products honestly and explain both benefits and risks, rather than emphasizing only the advantages.

Outcome

The CFPB issued a consent order requiring the lender to pay approximately \$2.25 million in penalties and consumer relief.

Ethical Lesson

Mortgage professionals must:

- Clearly disclose fees, interest costs, and long-term consequences of refinancing.
- Avoid marketing that creates unrealistic expectations about financial benefits.

Ethical lending requires explaining whether a refinance truly benefits the borrower, even if it means losing a commission.

Questions For Discussion

- What are some types of misleading advertisements that you have observed?
- Which costs should be discussed?

Time to Think 1.3

1. One advantage of a VA loan is?
a. No down payment b. No fees
2. The primary benefit of a 50 year Mortgage is?
a. Lower Payments b. High Interest

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.

Question	Answer
1. A big advantage to borrowers of a 15 year loan is?	Earlier Payoff
2. Is a 15 year loan a tradition loan?	NO
3. In a reference for Rehab loans such as 24 CFR 203.50, CFR represents?	Code of Federal Regulations
4. What is a 203B Loan?	Regular FHA loan
5. Reverse Mortgages have been in existence for how many years?	59 years
6. What is the link to research California Civil Codes?	leginfo.ca.gov
7. What is the 12-month loan limit under the federal seller-financing exception?	3 or fewer properties
8. Why is a 15 year loan normally at a lower interest rate than a 30 year loan?	The bank's money is not tied up as long
9. In a 4/1/5 ARM which number is the lifetime interest cap?	5
10. IRRRL pertains to loans?	VA

11. How many counties are in California?	58
12. What is the number of the FHA Rehabilitation loan?	203K
13. Can a flipper get a 203K loan?	NO
14. What does NINA stand for?	Borrower with no Income, No Assets
15. LESA stands for?	Life Expectancy Set Aside
16. Which type of loans have the lowest default rate?	VA
17. The lender on a Reverse Mortgage is called the ____ in California?	Beneficiary
18. Private Reverse Mortgages are called?	Proprietary
19. The Non-Traditional portion of MLO CE education is ____ hours?	2
20. The acronym SAFE stands for?	Safe and Fair Enforcement Act
21. A loan estimate is required because of which Federal Act?	TILA
22. The maximum Mortgage Insurance rate on a VA loan is?	0%
23. A special VA appraisal procedure is called?	Tidewater

24. The down payment on a VA Loan is?	0%
25. The Usury limit on consumer loans in California is?	10%
26. The document that shows that a loan has been made is?	Promissory Note
27. Seller financing is exempt from California Usury Regulations?	True
28. If a lender can only look to the property to cover a debt, the loan is?	Nonrecourse
29. A loan recorded after a Senior Loan, is called a?	Junior Loan
30. Which agency was established by the Dodd-Frank Act?	CFPB (Consumer Financial Protection Bureau)
31. What does the acronym NMLS stand for?	Nationwide Mortgage Licensing System and Registry
32. What does ATR stand for?	Ability to Repay
33. What is churning?	Refinancing often
34. On an ARM loan in California the borrower is probably called the_____?	Trustor

CHAPTER 1 REVIEW QUIZ

1. Who would be more likely to use a Non-QM loan?
 - a. Investor
 - b. Retired couple

2. Guidelines would normally be more flexible with a _____ loan?
 - a. Reverse Mortgage
 - b. Portfolio

3. When were VA loans established?
 - a. 1944
 - b. 1910

4. A primary issue of using Digital Currency?
 - a. No risk
 - b. Price volatility

5. ATR stands for?
 - a. Ability to Repay
 - b. Association of Transaction Regulations

Neither a borrower nor a lender be. Shakespeare

CHAPTER 2: *ETHICS*



Our Outstanding Instructors

SECTION 1: ETHICS IN THE MORTGAGE INDUSTRY

What Does Ethics Mean in Mortgage Origination?

Ethics refers to the principles and standards of behavior that guide decisions and actions—especially when rules are unclear or pressure is high. In the mortgage industry, ethics means more than “following the law.” It means:

- Being truthful with consumers
- Being transparent about costs, options, and risks
- Avoiding conduct that misleads, manipulates, or exploits
- Acting with professional integrity even when it costs time or commissions

A mortgage loan originator (MLO) has direct influence over one of the largest financial transactions in a consumer's life. That influence creates a responsibility: to protect the borrower from misinformation, confusion, and unfair outcomes.

A useful way to think about ethics in mortgage lending:

Compliance asks: "Is it legal?"

Ethics asks: "Is it right, fair, and honest?"

Ethics is often tested when:

- A borrower is desperate to qualify
- A realtor is pushing for speed over accuracy
- An LO's income depends on closing
- A file is "almost approvable" but not quite
- Someone suggests "we can fix it later"

Ethical behavior means refusing to cross the line—even when it feels easier in the moment.

Why Ethics Matters in the Mortgage Industry

Borrower Harm

Unethical loans can lead to payment shock, default, loss of savings, and foreclosure.

Company Risk

- Regulatory enforcement
- Buyback demands
- Civil lawsuits
- Reputation damage
- Termination and licensing consequences

Industry trust

Mortgage lending relies on trust. When that trust breaks, consumers are harmed and public confidence declines.

The Ethical Standard: Duty, Honesty, and Fairness

Duty to the consumer

You are not the borrower's financial advisor, but you must avoid steering them into harmful outcomes and must provide information that supports informed decisions.

Truthfulness

Ethics requires accuracy in advertising, rate quotes, fees, timelines, and qualification expectations.

Fairness

Fairness means treating consumers consistently and avoiding discrimination, manipulation, or exploitation.

Ethics vs. Incentives: Why Good People Make Bad Decisions

Unethical behavior isn't always driven by "bad people." Sometimes it grows from:

- Pressure to hit production goals
- Fear of losing referral partners
- A company culture that rewards speed over quality
- "Everybody does it" thinking
- Overconfidence ("I can control this file")
- Commission-based decision-making

Common rationalizations include:

- "It's just helping the borrower."
- "The underwriter will catch it."
- "It's only a small detail."
- "We'll fix it after closing."
- "It's not technically lying."

SECTION 2: ETHICAL BEHAVIOR ACROSS THE LOAN LIFE CYCLE

Ethical responsibilities show up at every stage of a mortgage transaction. A helpful way to organize ethical decision points is the loan lifecycle model:

- Marketing and lead generation
- Intake and qualification
- Product selection and recommendation
- Disclosures and documentation
- Processing and underwriting
- Closing and post-closing responsibilities

Marketing and Lead Generation Ethics

This is where ethics begins. Consumers may first encounter mortgage services through:

- Online ads and websites
- Lead vendors
- Social media
- Realtor referrals
- Cold calls or triggers leads

Truth in advertising

Advertising must not mislead consumers about:

- Rates and APR
- Terms and conditions
- Down payment requirements
- “Guaranteed approval” language
- “No closing costs” claims without explanation

Clear communication about limitations

If a consumer sees “as low as 5.99%,” ethical marketing requires clarity:

- What credit score?
- What points?
- What loan type?
- What LTV and occupancy?
- Is it temporary buydown pricing?

Ethical Qualification and Pre-Approval Practices

Pre-approvals are powerful. They influence buying decisions and emotional commitment. Unethical pre-approval behavior includes:

- Issuing approvals without reviewing income documentation
- Minimizing the risk of denial (“You’re basically approved”)
- Encouraging borrowers to hide debts or not disclose information
- Overstating qualification to “win the deal”

Ethical best practice:

Explain what the borrower’s approval depends on and what could change it.
Examples:

- Final underwriting review
- Appraisal results
- Employment verification
- Debt changes
- HOA dues
- Property type restrictions

Product Selection and Ethical “Steering”

A major ethical risk occurs when MLOs recommend a product based on what benefits the originator instead of what fits the borrower. Examples:

- Encouraging higher-cost loans to increase compensation
- Discouraging lower-rate options that reduce revenue
- Using fear tactics (“This is your only shot”)
- Pushing unnecessary points or lender credits without explanation

Ethical product selection should consider:

- Borrower goals
- Timeline (short-term vs. long-term holding)
- Risk tolerance
- Cash-to-close capacity
- Income stability
- Interest rate sensitivity

Ethical principle: Borrowers should understand tradeoffs.

If the borrower chooses a higher-cost option knowingly, that can be ethical. The issue is lack of clarity, manipulation, or omission.

Unethical Disclosures

- Rushing a borrower through without explanation
- “Forget” to issue disclosures on time
- Downplaying costs (“Don’t worry about those fees”)
- Using confusing language intentionally

Ethical best practices:

- APR vs. rate
- Cash-to-close drivers
- Escrows
- How lender credits/points work
- Whether fees may change and why

Unethical Documentation Practices

- Altering documents
- Omitting pages
- Using unverified income
- Encouraging fake “gift” letters
- Misrepresenting occupancy
- Stating employment that isn’t true

Ethical Closing Practices

- Ensuring the borrower understands final figures
- Explaining last-minute changes
- Avoiding “surprise” fees
- Not pressuring signatures if the borrower is uncomfortable

Time to Think 2.1

1. Steering is done by lenders and _____?
a. Sales agents b. Escrow officers
2. MLO’s should learn to explain _____ to clients?
a. DFPI b. APR

SECTION 3: FRAUD IN THE MORTGAGE INDUSTRY

Introduction

Fraud is a major driver of consumer harm, investor losses, and regulatory enforcement.

Fraud can involve:

- Borrowers
- Industry professionals
- Third-party vendors
- Organized crime rings
- Combinations of the above

What Is Mortgage Fraud?

Mortgage fraud involves a material misrepresentation, omission, or deception used to obtain a mortgage loan or favorable terms. Mortgage fraud generally falls into two categories:

Fraud for Housing

Borrowers misrepresent facts to qualify for a home they may not otherwise be able to obtain.

- Inflated income
- Undisclosed debts
- False occupancy claims
- Gift funds that are actually borrowed
- Fake employment verification

Fraud for Profit

A scheme designed to generate financial gain, often involving multiple parties.

- Property flipping scams
- Straw buyers
- Identity theft
- Appraisal inflation
- Seller kickbacks or undisclosed concessions

Income and Employment Fraud

What it looks like:

- Fake pay stubs or W-2s
- Edited bank statements
- “Verbal VOE” coached by borrower
- Temporary job arrangements presented as stable employment

Red flags:

- Pay stubs with inconsistent YTD totals
- Employer phone number routes to borrower
- Deposits that don't match payroll timing
- Sudden jump in income near application

Occupancy Fraud

Occupancy fraud occurs when a borrower claims a property is a primary residence when it is actually:

- An investment property
- A second home
- Intended for rental immediately

Occupancy matters because it affects:

- Interest rate
- Down payment requirements
- Underwriting standards
- Risk classification

Red flags:

- Borrower currently lives far from subject property with no explanation
- Purchase in a location unrelated to work
- Borrower owns multiple properties
- Rental listings appear quickly after closing

Asset and Down Payment Fraud

- Borrowed funds presented as “gift”
- Temporarily deposited cash
- “Rent-back” arrangements hiding seller concessions
- Undisclosed second liens

Red flags:

- Large deposits right before application
- Gift donor has no ability to give
- Bank statements show unusual transfers

Straw Buyer / Identity Fraud

A straw buyer purchases a property on behalf of someone else, often because the true buyer:

- Has poor credit
- Cannot qualify
- Wants to hide ownership
- Identity fraud includes stolen or synthetic identities.

Red flags:

- Buyer unfamiliar with property details
- Inconsistent signature patterns
- Borrower avoids direct contact
- Third party dominates the process

Appraisal Fraud and Value Manipulation

Appraisal fraud happens when property value is inflated to:

- Support a higher loan amount
- Hide distressed sale conditions
- Enable flipping schemes

Red flags:

- Pressure to “hit value”
- Comparable sales far away or not similar
- Rapid value increase without market support
- Undisclosed property condition issues

Undisclosed Kickbacks and Side Deals

- Referral fees not allowed by law
- Undisclosed compensation for leads
- “Marketing agreements” that hide payment-for-referral
- Builders or sellers offering perks not properly disclosed

Fraud Consequences (Borrowers, MLOs, and Companies)**Borrowers:**

- Loan denial
- Losing earnest money
- Foreclosure risk
- Civil liability
- Criminal prosecution

MLOs:

- License suspension or revocation
- Termination
- Fines and restitution
- Criminal exposure
- Permanent industry exclusion

Companies:

- Enforcement actions
- Financial penalties
- Buybacks and investor claims
- Reputational loss
- Increased audits and restrictions

Case Study: Zelle Fraud Allegations

Brief Facts

In December 2024, the CFPB sued JPMorgan Chase, Bank of America, Wells Fargo, and Early Warning Services (operator of Zelle), alleging they enabled widespread fraud on the peer-to-peer payment platform. The Bureau claimed the banks rushed Zelle to market without adequate fraud controls and later failed to properly investigate complaints or reimburse victims, leading to consumer losses exceeding \$870 million.

Legal Issues

The CFPB cited violations of the Consumer Financial Protection Act (unfair/deceptive practices) and the Electronic Fund Transfer Act (failure to investigate unauthorized transactions). The core issue was inadequate fraud safeguards and failure to meet consumer protection obligations.

Outcome

The CFPB sought damages and restitution, but in March 2025 the case was dismissed with prejudice, meaning it cannot be refiled and no consumer recovery resulted.

Significance

The case underscores increasing regulatory scrutiny of digital payment platforms and highlights the need for strong fraud prevention systems, timely investigations, and effective consumer reimbursement practices.

Questions for Discussion

- What does dismissed with prejudice indicate?
- Were the penalties adequate?

SECTION 4: CONSUMER PROTECTION AND ETHICAL LENDING PRACTICES

Introduction

Consumer protection laws exist because mortgage lending can create:

- Knowledge imbalance (professionals know more than consumers)
- High financial stakes
- Long-term consequences

Consumers are Vulnerable, They

- Don't understand loan terms
- Are anxious to close quickly
- Feel embarrassed about credit or finances
- Are first-time buyers
- Have language barriers
- Rely completely on the LO's interpretation

Unfair, Deceptive, or Abusive Practices

- Promising a rate without conditions
- "Bait and switch" pricing tactics
- Misleading "no closing costs" claims
- Pressuring borrowers to sign immediately
- Hiding fees inside vague categories
- Misrepresenting payment changes

Transparent Communication and Informed Consent

- Interest rate and APR
- Monthly payment (principal, interest, taxes, insurance, HOA)
- Whether payment can increase
- Prepayment penalties (if any)

- Total cash-to-close
- Loan term and long-term cost impact

Errors vs. Misconduct

- Mistake: incorrect data entered accidentally, corrected quickly, disclosed appropriately
- Misconduct: knowingly hiding, altering, or misrepresenting information
- Correct errors promptly
- Communicate changes transparently
- Document what happened
- Prevent recurrence through better controls

Data Privacy and Consumer Information Protection

Mortgage files include highly sensitive consumer data:

- Social Security numbers
- Bank statements
- Pay stubs
- Tax returns
- Employment details
- IDs and residency documents

Ethical requirements include:

- Only collecting what is necessary
- Using secure systems
- Avoiding texting sensitive documents
- Not sharing borrower information with unauthorized parties
- Following company information security policies

Time to Think 2.2

1. Fraud can be for profit or?
 - a. Housing
 - b. Charity
2. Someone who purchases for another is called a _____ buyer?
 - a. Alternate
 - b. Straw

SECTION 5: ADVERTISING REGULATIONS WITH THE NMLS

Introduction

Advertising is one of the most visible ways mortgage companies and Mortgage Loan Originators (MLOs) communicate with consumers. Because mortgage ads can influence major financial decisions, they are closely regulated to prevent confusion, deception, and unfair practices.

While the Nationwide Multistate Licensing System (NMLS) is not the direct “advertising police,” it plays a critical role in mortgage advertising compliance by providing the licensing framework that state regulators enforce. In short, advertising must reflect who you are, what you are licensed to do, and what you can truthfully deliver.

The NMLS Connection to Mortgage Advertising

The NMLS is the national system used to license and track mortgage companies and MLOs across participating states. It creates a public record—through NMLS Consumer Access—where consumers can verify an individual’s or company’s licensing status. For that reason, many state regulators expect advertising to clearly identify the licensee and often require the NMLS Unique Identifier (NMLS ID) to appear on marketing materials. Advertising that does not properly identify the licensee may be considered misleading, even if the ad’s loan information is accurate.

Core Advertising Standards

Advertising must be truthful and not misleading.

Ads must not misrepresent rates, fees, loan terms, qualification requirements, or approval likelihood. Any language that could cause a consumer to misunderstand the true offer may lead to regulatory action.

The advertiser must be clearly identified.

Most states require that advertisements display the company’s legal name or an approved trade name (DBA) that matches NMLS records. This ensures consumers know exactly who is offering the service.

NMLS ID disclosure is a major compliance expectation.

Many states require the NMLS ID for companies and/or individual MLOs in advertising. Even when not strictly required in every format, consistent use is strongly recommended because it supports transparency and consumer verification.

Advertising must match the license authority.

Licensees cannot market or solicit mortgage business in states where they are not properly licensed, unless a specific exemption applies. This is especially important with online advertising, where ads may reach consumers nationwide.

Common Advertising Violations

- **Misleading rate claims:** Advertising low rates without proper context (loan type, points, credit assumptions, or APR) can be viewed as deceptive.
- **Improper claims of guaranteed approval:** Phrases such as “everyone qualifies,” “instant approval,” or “guaranteed acceptance” may be misleading and are often prohibited.
- **Missing or incorrect company name:** Using an unregistered DBA, an informal abbreviation, or branding that does not match NMLS records can create compliance problems.
- **Omitting the NMLS ID:** Forgetting to include licensing identifiers on websites, flyers, social media ads, or email marketing is a common and avoidable mistake.
- **False appearance of government affiliation:** Ads cannot imply the company is a government agency or is “official” simply because it offers FHA, VA, or other government-backed loan programs.

Digital and Social Media Advertising

Online platforms have increased both marketing opportunities and compliance risk. Paid ads, landing pages, lead forms, and social media posts can spread quickly—and errors can spread even faster. Character limits may make disclosures difficult, but they do not eliminate legal requirements. Companies are also responsible for advertising done by third parties such as lead generators, marketing agencies, and affiliates.

If an outside vendor promotes your services incorrectly, regulators generally hold the licensee accountable. Because of these risks, many organizations require pre-approval for social media posts and provide staff with strict guidelines on what can be posted publicly. Monitoring online presence regularly is also critical, since ad content may change or be reposted without compliance review.

Record Keeping and Oversight

Mortgage advertising compliance is not only about what you publish—it is also about what you can prove. Many regulators expect companies to maintain copies of advertisements for a set retention period. Even when not required, archiving marketing materials is a best practice. Companies should be able to show what was advertised, when it ran, where it was published, and who approved it.

Strong advertising compliance programs typically include:

- A written advertising policy
- Clear approval procedures before publishing
- Required use of legal names and NMLS IDs
- Ongoing audits of websites and social media
- Vendor compliance controls and monitoring
- Regular staff training

Conclusion

Advertising in the mortgage industry is heavily regulated because it impacts consumer trust and financial decision-making. The NMLS supports advertising accountability by tying marketing practices to licensing identity and state oversight. To remain compliant, mortgage companies and MLOs should ensure advertising is accurate, clearly identifies the licensee, includes NMLS identifiers when required, and reflects authorized activity in the states being targeted. When marketing and compliance work together, organizations not only reduce regulatory risk—they also build credibility and long-term confidence with consumers.

Case Study

RMK Financial Corporation (Majestic Home Loan) – Misleading Mortgage Advertising

Overview

In February 2023, the CFPB took action against RMK Financial Corporation, a mortgage lender marketing to U.S. servicemembers and veterans. The company sent millions of mailers that appeared to be official government communications, using fake VA and FHA insignia and misleading language suggesting government affiliation or endorsement. These advertisements falsely implied that recipients were being contacted by official mortgage benefits or programs.

Legal Issues

The CFPB alleged violations of the Consumer Financial Protection Act, citing deceptive advertising and misrepresentation of government affiliation. The core issue was that RMK misled consumers—particularly military families—into believing it was connected to federal housing agencies.

Outcome

Under a consent order, RMK was permanently banned from the mortgage industry, fined \$1 million, and prohibited from engaging in deceptive marketing practices.

Significance

This case demonstrates strict enforcement against misleading advertising, especially involving vulnerable groups. It reinforces that lenders must avoid implying government affiliation, cannot use deceptive logos or seals, and must ensure all marketing is truthful and compliant with federal law.

Questions For Discussion

- Should claiming government affiliation when not true be cited?
- What is the Federal Regulation that discussed advertising?

SECTION 6: CYBERSECURITY

Introduction

Cybersecurity is a core concern in the lending industry because lenders handle large volumes of high-value, highly sensitive data—such as Social Security numbers, income details, bank account information, credit reports, and payment histories. This data is attractive to cybercriminals, and the systems that process it are often connected to multiple third parties (credit bureaus, payment processors, loan servicing platforms, customer identity tools, and cloud providers). As lending becomes increasingly digital and automated, cybersecurity is no longer just an IT issue—it is directly tied to customer trust, regulatory compliance, and financial stability.

Data Breaches

One of the biggest cybersecurity threats in lending is data breaches, where attackers gain unauthorized access to customer records. This can happen through phishing emails, credential theft, malware, or misconfigured cloud storage. A single breach can expose thousands (or millions) of customer profiles and create long-term harm through identity theft and financial fraud. Beyond reputational damage, lenders also face strict compliance obligations under privacy and financial regulations, making breach recovery expensive and complex.

Identity Fraud

Another major risk is account takeover and identity fraud, which has grown alongside online and mobile lending. Criminals may use stolen personal information to open loans under false identities or hijack legitimate borrower accounts to redirect funds and payments. This is especially dangerous in fast-approval environments where speed and convenience reduce the time available for manual review. Lenders must balance user experience with strong identity verification, fraud monitoring, and multi-factor authentication to prevent these incidents.

Ransomware

Lending organizations are also vulnerable to ransomware, where attackers encrypt critical systems and demand payment for restoration. For lenders, a ransomware incident can cripple loan origination, underwriting, customer service, and payment processing. Even short downtime can result in missed transactions, regulatory

reporting failures, and customer complaints. These attacks often succeed because of weak patch management, lack of segmentation between systems, or insufficient employee security training.

Supply Chain Risk

A less visible but equally serious concern is third-party and supply chain risk. Most lenders rely on external vendors for functions like credit scoring models, document verification, customer relationship management, cloud hosting, and analytics. If one of these providers is compromised, the lender can be exposed even if its own systems are well defended. Vendor risk management, contract-based security requirements, and continuous monitoring are essential to reduce the weakest link problem.

Time to Think 2.3

1. NMLS stands for?
 - a. Nationwide Multistate Licensing System
 - b. National Mortgage Licensing Services

2. It is important to use your _____ in business?
 - a. Business Card
 - b. NMLS ID

SOCRATES TIME

Question	Answer
1. Suspected Money Laundering should be reported on?	Suspicious Activity Reports
2. A loan or finance company for an anti-money laundering program must designate a _____?	Compliance Officer
3. How long are blocked records to be retained?	5 Years
4. FINCEN stands for?	Financial Crimes Enforcement Network
5. Is AML reporting required for \$8k cash plus a \$2.5k money order?	Yes
6. Where can you check a DRE licensee to see if there are any State sanctions?	Dre.ca.gov
7. What are loan flipping, serial refinancing and churning?	Predatory Lending
8. Can a person tell me not to call if I just finished a loan 3 months ago?	Yes
9. Telemarketers have how many days to stop calling after a name is put in the DNC list?	31
10. The _____enforces the Telemarketing Sales Rule (TSR)?	Federal Trade Commission (FTC)
11. _____can occur when a loan has a low introductory rate which then jumps up to a much higher rate.?	Payment Shock

12. A second lien loan increases risk because it reduces the borrower's _____ in the property?	Equity
13. In a Reverse Mortgage, who owns the home?	The Homeowner
14. The acronym MARS stands for?	Mortgage Assistance Relief Service
15. Jumbo Reverse Mortgages are under the control of HUD T or F	False
16. What is tenure?	Equal Monthly Payment
17. The two areas of fraud are fraud for profit and fraud for?	Housing
18. Panic Selling is considered the same as?	Blockbusting
19. Redlining is practiced by?	Lenders
20. What does Regulation N regulate?	Advertising
21. Most of violations of RESPA are concerned with?	Kickbacks
22. Which bill addressed Financial Privacy?	Gramm-Leach-Bliley
23. Entities with common corporate parents are called?	Affiliates
24. FCRA stands for?	Fair Credit Reporting Act
25. CFPB stands for?	Consumer Financial Protection Bureau
26. You should follow the _____ and letter of the law?	Spirit

27. Counselors on which type of mortgage must have additional training? **Reverse Mortgage**

28. The maximum prison sentence for Identity Theft is? **15 Years**

29. The Ability to Repay rule was established in? **2014**

30. The City in the US with the highest % of Mortgage Fraud is? **Las Vegas**

*A bank is a place that will lend you money
if you can prove that you don't need it.*

Bob Hope

CHAPTER 2: REVIEW QUIZ

1. An unethical example of steering is?
 - a. Encouraging higher priced loans
 - b. Considering borrower's goals

2. Claiming your rental property is your residence is?
 - a. Never done
 - b. Occupancy fraud

3. Pressuring an appraiser to hit a value is?
 - a. Appraisal fraud
 - b. Helping your client

4. Mortgage advertising rules are the same in every state?
 - a. True
 - b. False

5. A red flag is?
 - a. Large deposits just before application
 - b. Disclosed second liens

CHAPTER 3: *FEDERAL LAW*



...Your road to success

SECTION 1: WHO CHOOSES TOPICS

Introduction

Today we're going to discuss who determines the continuing education topics you're required to complete each year, and more importantly, why these specific topics were chosen for 2026.

Who Sets the Requirements?

The required CE topics for 2026 have been established by the Multi-State Mortgage Committee, commonly referred to as the MMC. This committee is composed of 10 appointed state regulator members plus one representative from the Conference of State Bank Supervisors, or CSBS.

The MMC's primary role is to implement cooperative protocol between state agencies and the financial industry. Essentially, they serve as a bridge between regulators and mortgage professionals, ensuring consistency in regulatory oversight across state lines.

How Topics Are Selected

So how did the MMC determine these specific topics? The selection process is data-driven and based on real-world issues. The 2026 required topics were derived from multi-state examinations that closed between the fourth quarter of 2023 and the first quarter of 2024.

The MMC identified the top 10 most common violation areas discovered during these examinations. These aren't arbitrary choices—they represent actual problems that regulators found during audits of mortgage loan originators and lending institutions across multiple states. The committee has determined that these topics contain critical information that every Mortgage Loan Originator must understand and adhere to during the loan origination process to prevent violations that could result in regulatory action.

Why This Matters

You might wonder what happened as a result of these examination findings. The violations discovered led to serious consequences, including additional audits, requirements to issue corrected disclosures to borrowers, written letters of explanation to regulators, refunding of borrower funds, implementation of improved internal controls, mandatory employee training programs, corrective action taken against employees, and written assurances from companies detailing policy and procedure amendments designed to prevent future violations.

These weren't minor paperwork issues; they were significant enough that state regulators took formal action. That's precisely why the MMC wants to ensure every MLO receives education on these topics: to prevent these violations before they occur and to protect both consumers and your professional standing.

Conclusion

Understanding where these requirements come from should underscore their importance. These topics reflect real problems found in the field, and mastering them is essential to your compliance and professional success.

SECTION 2: ECOA – 12 Code of Federal Regulation (C.F.R.) §1002.9(a)(1)

NOTIFICATIONS

Citation Violation

A creditor shall notify an applicant of action taken within: (i) 30 days after receiving a completed application concerning the creditor's approval of, counter offer to, or adverse action on the application.

Examination Findings

It was noted that on eleven (11) loan files the Licensee failed to provide the applicant a Notice of Incompleteness or a Notice of Adverse Action (a/k/a Statement of Credit Denial, Termination, or Change) or retain a copy of the letter when issued by the broker or lender within 30 days of a complete or incomplete application concerning the creditor's approval of, counteroffer to, or adverse action on the application, or 90 days after notifying the applicant of the counter offer if the applicant does not expressly accept or use the credit offered. The Licensee's MLOs obtained application information, such as credit reports, to evaluate the applicants' credit worthiness but failed to act with reasonable diligence to collect information to complete the application. The Licensee's records failed to document the actions taken by the Licensee to complete the application nor sent a Notice of Incompleteness or denying the application outright for an incomplete application.

The Licensee is required to provide the consumer with a Notice of Action Taken as outlined in Regulation B §1002.9(c)(2) and commentary 2(f)-6 requires the creditor to act with reasonable diligence to collect information needed to complete the application.

Consequences

When a creditor fails to notify applicants of action taken, it undermines transparency and the applicant's right to understand their credit evaluation outcome. Regulators interpret this as a procedural deficiency that can also carry discrimination implications under ECOA. Potential consequences include:

- **Civil Money Penalties:** Up to \$10,000 per violation, or up to \$500,000 / 1% of

net worth for patterns or practices of violations.

- **Supervisory Enforcement Actions:** Mandated audits, revised procedures, and resubmission of compliant adverse action notices.
- **Consumer Remedies:** Borrowers may pursue actual and punitive damages under 15 U.S.C. §1691e.
- **Reputational Damage:** Public disclosure of enforcement can harm consumer trust and lender reputation.

Compliance Best Practices and Recommendations

- Implement an automated tracking system to ensure notices are sent within 30 days of completed applications.
- Train MLOs on definitions of application, adverse action, inquiry, and incomplete application.
- Document every communication with the applicant showing reasonable diligence to obtain missing information.
- Conduct quarterly compliance audits to verify adherence to notification procedures.
- Maintain a consistent record retention process and review all files before regulator examinations.

Real-World Case Example

The CFPB took action against Franklin Loan Corporation for failing to provide timely adverse action notices. The lender paid \$730,000 in restitution and was required to develop enhanced compliance oversight. This case highlights that even procedural failures, without evidence of intent to discriminate, can trigger substantial penalties.

The Thirty-Day Clock and Regulatory Interpretation

Understanding when the 30-day notification period begins is essential for Regulation B compliance. The clock starts when a creditor receives a “completed application,” as defined by the creditor’s normal procedures and the type of credit requested. Under Official Staff Commentary §1002.2(f)-3, an application is considered complete once the creditor has received all information it regularly obtains and considers for similar credit requests. Creditors may not delay the deadline by requesting unnecessary information that is not routinely required.

Creditors are also expected to exercise “reasonable diligence” in obtaining missing information. This requires active efforts such as repeated contact attempts through

appropriate channels, clear explanations of what is needed, and documented follow-up within reasonable timeframes. A single request letter with no follow-up generally does not meet this standard.

If an application is incomplete, the creditor may either send a notice of incompleteness or continue pursuing the missing information. However, if the creditor evaluates the incomplete application and makes an adverse decision, the 30-day adverse action notice requirement begins immediately upon that decision.

The 30-day period is measured in calendar days, and mailing does not extend the deadline. Best practices include generating and sending notices well before the deadline and using authorized electronic delivery when possible. Finally, compliance requires not only timely delivery, but also that notices are accurate, complete, and meet Regulation B's content and specificity requirements.

Summary and Key Takeaways

Failure to issue timely Action Taken Notices violates ECOA and undermines consumer protections. Regulators expect lenders to demonstrate reasonable diligence and document every step of the application process.

SECTION 3: ECOA – 12 C.F.R.

§§1002.9(a)(1)(ii), (c)(1), 1002.12(b)(1), 1002.2(f)

NOTIFICATIONS OF ACTIONS TAKEN

Citation Violation

- 12 C.F.R. §§ 1002.9(a)(1)(ii) and (c)(1) Requires a creditor notify an applicant of action taken within 30 days after taking an adverse action on an incomplete application or notify an applicant of application being incomplete.
- 12 C.F.R. § 1002.12(b)(1) Requires a creditor to retain, for 25 months, the notification of action taken in original form or a copy thereof.
- 12 C.F.R. § 1002.2(f) Defines an application as “an oral or written request for an extension of credit that is made in accordance with procedures used by a creditor for the type of credit requested.” The creditor is also responsible for reasonable due diligence to obtain any required information for a completed application.

Examination Findings

A one-month sample of credit bureau logs along with the originated and adverse loan production logs were reviewed.

There were 61 credit pulls classified by the company as a Prequalification with No GFE/ Inquiry only. No other documentation was tied to the credit pulls. Upon questioning, the company's explanation was “Pursuant to ECOA, there are situations where a borrower can simply inquire, and the inquiry does not rise to the level of an ECOA application. ECOA gives lenders the latitude to establish their own application process and decide what information is required to constitute an application. However, the company has a dedicated team in its Consumer Direct division responsible for contacting consumers who submit an inquiry through the online portal, assuming actual accurate contact information was provided.”

Of the 61 missing transactions, 21 had credit information requested by a company licensed online tool and 40 transactions had credit information requested by the MLO. Amongst several items the borrowers' entire credit profile was obtained.

The company policy document stated that “For purposes of Regulation B, the company uses the same procedures and requires receipt of the same information in the same format and same location as described above in the TRID Section to define an “Application.” According to the company's own definition, all 61 missing applications would have been considered incomplete applications. The company failed to produce the Notice of Incompleteness, or any supporting documentation including conversation logs and notes regarding the transactions.

Furthermore, records of 15 credit pulls related the handling of the request for credit including any conversation logs or supporting documentation were requested. The company failed to produce any Notice of Adverse Action, Notice of Incompleteness, or any supporting documentation including conversation logs and notes regarding the transactions. The company failed to act with reasonable due diligence to complete the application in violation of Regulation B § 1002.2(f). Compliance with ECOA was unable to be determined regarding the purpose (purchase/refinance) for the request for credit due to the company's lack of supporting documentation.

Consequences

The consequences of failing to properly identify and manage applications include regulatory penalties and increased risk of discrimination claims. Specific consequences may include:

- **Civil penalties** up to \$10,000 per instance.
- **Recordkeeping violations** leading to heightened scrutiny or license conditions.
- **Findings of disparate impact** due to inconsistent treatment of incomplete applications.
- **Mandatory policy revisions** and regulator-mandated monitoring.

Compliance Best Practices and Recommendations

- Align company definitions of 'application' with federal definitions under 12 C.F.R. §1002.2(f).
- Develop a centralized database for tracking applications and incomplete files with retention for 25 months.
- Implement staff training to differentiate between inquiries and applications and understand due diligence responsibilities.
- Document communication with applicants to demonstrate compliance with reasonable diligence requirements.
- Perform quarterly internal audits to verify timely and accurate notices.

Real-World Case Example

Synchrony Bank was fined for improperly handling credit applications and failing to send required adverse action notices. The CFPB required the bank to pay \$225 million in redress and implement strict documentation procedures. The case underscores the importance of distinguishing applications from inquiries and maintaining complete records.

The Critical Distinction Between Inquiries and Applications

One of the most challenging aspects of ECOA compliance involves properly distinguishing between inquiries and applications. This distinction carries significant regulatory implications; as applications trigger specific notification, recordkeeping, and fair lending obligations that do not apply to mere inquiries. Misclassification can result in widespread compliance failures affecting hundreds or thousands of consumer interactions.

The regulatory framework provides flexibility for creditors to establish their own application procedures, but this flexibility comes with responsibility. Once a creditor establishes procedures for what constitutes an application, those procedures must be applied consistently across all applicants. Inconsistent application of internal definitions can create fair lending risks, particularly if certain demographic groups are systematically treated as inquiries while others are classified as applications for similar interactions.

Credit pulls present a particularly complex scenario. When a creditor obtains a consumer report or credit score, this action strongly suggests that an application has been received, as creditors typically do not incur the cost and regulatory obligations associated with credit pulls for casual inquiries. Regulatory guidance emphasizes that pulling credit is a clear indicator that the creditor has moved beyond the inquiry stage and has received sufficient information to warrant evaluation of creditworthiness.

The examination finding highlighting 61 credit pulls classified as "Prequalification with No GFE / Inquiry Only" illustrates a common compliance failure. If these interactions met the company's own definition of an application—meaning the company had received the information it regularly requires to evaluate such requests—then ECOA obligations were triggered regardless of how the company labeled these transactions internally. This demonstrates that creditors cannot avoid ECOA requirements simply by labeling applications as inquiries or pre-qualifications.

The reasonable diligence standard applies specifically to applications, not inquiries. Once an interaction is properly classified as an application, the creditor must either obtain the information necessary to make a credit decision or formally notify the applicant that the application is incomplete. Allowing applications to languish without follow-up violates the reasonable diligence requirement and may trigger adverse action notice obligations if the creditor decides not to pursue the application further.

Documentation practices must reflect the true nature of consumer interactions. If loan officers or mortgage brokers are having substantive conversations with potential borrowers, discussing specific loan products, terms, and qualifications, these interactions likely constitute applications under most creditor procedures. Creditors should establish clear protocols for when and how these interactions transition from inquiries to applications, with corresponding documentation and system entries to ensure proper tracking and compliance.

The 25-month retention requirement for application records means that creditors must maintain comprehensive documentation for all classified applications, including incomplete applications and applications that result in no credit being extended. This extended retention period allows regulators to conduct fair lending analyses that examine patterns over time and across different applicant demographics. Failure to maintain these records not only violates recordkeeping requirements but also prevents creditors from defending against potential discrimination allegations.

Summary and Key Takeaways

Incomplete applications require prompt follow-up and appropriate notices under ECOA. Lenders must maintain full documentation for 25 months and demonstrate diligence in obtaining information. Accurate classification between inquiries and applications protects both consumers and the lender from compliance violations.

Case Study

Company Cited: LendUp Loans, LLC

Agency/Law Involved: CFPB, ECOA, Reg B

Brief Facts

In December 2021, the CFPB took enforcement action against LendUp Loans, a fintech lender offering small-dollar consumer loans, for multiple consumer protection violations. The Bureau found that LendUp failed to provide accurate disclosures regarding credit decisions and loan terms. In particular, consumers who were denied credit or experienced changes in loan terms often did not receive proper Adverse Action Notices explaining the reasons for those decisions.

Legal Issues

The CFPB alleged violations of ECOA and Reg B, which require lenders to provide timely, written notices clearly stating the specific reasons for adverse credit decisions. Regulators determined that LendUp failed to meet these requirements and engaged in deceptive practices related to loan availability and credit-building claims.

Outcome

Under a stipulated final judgment, LendUp was ordered to pay a \$100,000 civil penalty, was permanently banned from issuing new loans, and was prohibited from collecting on certain loans. The violations impacted more than 140,000 consumers.

Significance

This case highlights the importance of Adverse Action Notice requirements in promoting transparency and preventing discrimination in lending. It reinforces that lenders must provide clear, timely explanations for credit decisions and that failure to comply can result in severe penalties, including being barred from lending activities.

Questions For Discussion

- What should be covered in company training for handling Adverse Action Notes?
- Is the penalty appropriate in this case?

Time to Think 3.1

1. Another name for Statement of Credit Denial is?
 - a. Notice of Adverse Action
 - b. Negative Qualification

2. Action forms must be retained for?
 - a. Two Years
 - b. 25 Months

SECTION 4: ECOA – 12 C.F.R.

§1002.9(a)(2)(i) and (ii)

ADVERSE ACTION NOT COMPLIANT- FAILURE TO INDICATE SPECIFIC REASONS

Citation Violation

A notification given to an applicant when adverse action is taken shall contain “A statement of specific reasons for the action taken; or a disclosure of the applicant’s right to a statement of specific reasons within 30 days, if the statement is requested within 60 days of the creditor’s notification.” Whereas Section 1002.9(b)(2) states “Statement of specific reasons. The statement of reasons for adverse action required by paragraph (a)(2)(i) of this section must be specific and indicate the principal reason(s) for the adverse action. Statements that the adverse action was based on the creditor's internal standards or policies or that the applicant, joint applicant, or similar party failed to achieve a qualifying score on the creditor's credit scoring system are insufficient.”

Examination Findings

The company issued Notifications of Action Taken stating: “Does not meet minimum investor guidelines” as the reason for the denial. This general explanation for denial does not provide the applicant with specific information regarding the reasons for the application’s rejection and therefore considered insufficient.

Consequences

When a creditor takes adverse action, the notice must either (1) include specific reasons for the denial, or (2) disclose the applicant’s right to request those specific reasons within the required timeframes. Regulation B further requires that the “statement of specific reasons” be specific and identify the principal reason(s) for the adverse action—generic statements such as “based on internal standards” are explicitly deemed insufficient.

Examination Finding And Why It Is A Violation

The company's Notifications of Action Taken listed the denial reason as: "Does not meet minimum investor guidelines." Examiners concluded this was too general and did not provide meaningful, specific reasons for the rejection. That finding aligns with Regulation B's requirement that the notice state the principal, specific reason(s) (e.g., "DTI exceeds maximum," "insufficient income," "credit history length," "LTV too high," etc.), not a broad reference to unspecified investor criteria.

Detailed Discussion of Consequences

Vague adverse action notices violate ECOA and deprive applicants of their right to understand how credit decisions were made. Possible consequences include:

- Civil monetary penalties and consumer restitution orders.
- Private civil lawsuits seeking damages and attorney fees.
- Requirement to reissue corrected adverse action notices to all affected consumers.
- Comprehensive audits of decision-making and communication practices.

Compliance Best Practices and Recommendations

- Use standardized templates with clear, specific reason codes based on FCRA Model Form C-1.
- Train staff to accurately identify and document principal reasons for denial.
- Require dual review of all adverse action notices before issuance.
- Maintain communication logs and supporting documentation in each loan file.
- Periodically review decision-making algorithms and investor guideline communications for clarity.

Real-World Case Example

The DOJ and CFPB took enforcement action against Ally Financial for ECOA violations related to vague adverse action reasons and discriminatory effects. The company paid \$98 million in restitution and penalties. The case highlights how generic or overly broad denial reasons can lead to significant financial and reputational harm.

Summary and Key Takeaways

Adverse action notices must clearly state specific reasons for denial. This transparency allows consumers to understand and correct deficiencies. Failure to provide specific reasons can be seen as concealment or discrimination. Compliance officers must ensure that every notice includes clear, documented, and accurate reasoning.

The Specificity Requirement and Consumer Empowerment

The requirement to provide specific reasons for adverse action under ECOA promotes transparency, accountability, and fairness in credit decisions. It helps consumers understand how their creditworthiness was evaluated, allows them to take corrective steps, and creates a safeguard against discrimination by requiring creditors to articulate legitimate, nondiscriminatory reasons for denial.

Regulation B §1002.9(b)(2) requires that adverse action notices state the principal, specific reasons for the decision. Generic or conclusory statements such as “does not meet investor guidelines,” “insufficient credit profile,” or “failed to meet credit standards” are insufficient because they describe outcomes rather than the underlying facts. A noncompliant notice might say, “You do not meet our credit criteria,” which provides no meaningful guidance. A compliant notice, by contrast, would identify specific factors such as “insufficient income for the amount requested,” “debt-to-income ratio too high,” or “credit history too limited.” Regulation B generally requires disclosure of up to four principal reasons, or fewer if fewer were determinative.

Automated underwriting systems do not eliminate this obligation. Even when decisions are generated by algorithms or investor systems, creditors must ensure that reason codes are sufficiently specific and clearly communicated. Similarly, when adverse action is based on a consumer report, the creditor must comply with both ECOA (specific reasons) and FCRA (identifying the consumer reporting agency). If investor guidelines are the basis for denial, the creditor must state the specific guideline not met for example, “DTI exceeds 43% maximum” rather than citing “investor guidelines” broadly.

Although Regulation B allows creditors to provide reasons upon oral request, many choose to include specific reasons in the initial notice to ensure compliance and improve customer service.

SECTION 5: ECOA – 12 C.F.R.

§1002.12(b)(1)

RECORDS TO BE MAINTAINED

Citation Violation

For 25 months (12 months for business credit, except as provided in paragraph (b)(5) of this section or otherwise provided for in subpart B of this part) after the date that a creditor notifies an applicant of action taken on an application or of incompleteness, the creditor shall retain in original form or a copy thereof: (i) Any application that it receives, any information required to be obtained concerning characteristics of the applicant to monitor compliance with the Act and this part or other similar law, any information obtained pursuant to § 1002.5(a)(4), and any other written or recorded information used in evaluating the application and not returned to the applicant at the applicant's request.

Examination Findings

The company was using the Factual Pre-Qualification Credit Report product, which enables it to obtain a credit report from the three major credit reporting agencies (Transunion, Equifax, and Experian) through a soft credit inquiry for the purpose of prequalifying consumers. The process for pulling soft credit inquiries is to obtain the consumers name, social security number, and date of birth, current address, and authorization for prequalification credit report. This report allows the mortgage loan originator (MLO) to review the borrower's liabilities, credit history and credit scores prior to pulling a hard pull credit report.

The credit inquiry is downloaded into the company's underwriting software and allows the MLO to generate a prequalification estimate. During the meeting, it was represented by the company that other than the credit bureau record, no records such as a conversation log detailing the MLOs discussion with the consumer, or copies of the pre-qualification letter (unless the consumer completes an application), are maintained in their loan origination software (LOS) or company records.

It appears the Licensee does not consider the process of gathering demographic information, such as a social security number, date of birth, address, and name as taking an application. It was also represented that if the consumer did not qualify for a mortgage program, the branch would need to submit a statement of denial. Other than encouraging the consumer to complete an application when a consumer qualifies for a residential mortgage loan, there is no record of the company's due diligence to complete the applications. The Licensee should be aware of the use of the consumer credit report to make a credit decision requires a Notice of Action Taken, or Notice of Incompleteness, as required by 12 CFR §1002.9(c)(1).

Also, the Act requires the Licensee to maintain records of its MLO actions so that the Director can determine compliance. The Department suggests the company review Commentary for 12 CFR §1002.2(f) regarding the company's responsibilities to complete the application. Most specifically, comment 2(f)-5(ii) which provides examples of applications, and Comment 2(f)-6 which describes the due diligence requirements to complete the application.

It appears based on commentary that the company is taking an application but treating the request as an inquiry or prequalification. The Licensee represented that they do not consider the credit bureau pulls completed via the soft pull prequalification an application for credit until the consumer officially completes an application.

The Licensee should be aware that a credit report is not a requirement for an application as defined by 12 CFR §1026.2(a)(3)(ii) which requires, in addition to other elements, the consumers social security number to obtain a credit report. Until the Licensee can demonstrate compliance with the use of the prequalification soft credit pulls to include oversight, handling, and record retention, the Licensee should not be offering this product to consumers seeking a residential mortgage loan.

Consequences

The company used a "soft pull" tri-merge prequalification product, collecting identifying data (e.g., SSN, DOB, address) and authorization to obtain a full credit profile from the major bureaus. Examiners were told that, other than the credit bureau record, the company generally does not retain conversation logs, prequalification letters, or diligence documentation unless the consumer later completes a full application. This creates two core problems: (1) the company cannot demonstrate compliance with ECOA notice rules when a credit decision is made using consumer report data, and (2) it cannot satisfy the 25-month requirement to retain the "written or recorded information used in evaluating the application."

Failure to retain application records undermines a creditor's ability to prove compliance. Regulators view this as a serious procedural weakness. Possible consequences include:

- Civil penalties up to \$5,000 per day for ongoing recordkeeping failures.
- Determinations of unsafe or unsound practices resulting in license restrictions or suspension.
- Increased risk of consumer litigation and state audits.
- Damage to institutional credibility and consumer confidence.

Compliance Best Practices and Recommendations

- Retain all loan and prequalification records, including logs and consumer communications, for at least 25 months.
- Implement a secure, centralized electronic recordkeeping system accessible for audits.
- Require written authorization for soft credit pulls and ensure records are linked to each applicant file.
- Conduct semiannual record retention audits and staff refresher training.
- Clarify company policies distinguishing prequalification from application to ensure consistent regulatory treatment.

Real-World Case Example

The CFPB fined Freedom Mortgage Corporation \$1.75 million for failing to maintain adequate records and issue proper notices of action taken. The order required the company to implement enhanced oversight, strengthen documentation, and retrain staff on ECOA compliance.

Summary and Key Takeaways

Record retention is not merely administrative, it is essential for demonstrating compliance. Lenders must keep detailed, organized records of every applicant interaction and credit decision. Consistent documentation helps institutions prove their diligence and fairness in the lending process.

The Strategic Importance of Comprehensive Recordkeeping

Record retention under ECOA is more than a technical requirement, it protects creditors and supports fair lending accountability. Strong recordkeeping helps defend against

complaints or litigation, supports internal quality control, and provides evidence that credit decisions were based on legitimate, nondiscriminatory factors. The 25-month retention period is designed to give regulators enough time to analyze lending trends over seasonal cycles and allows consumers time to identify and report potential violations. Failure to retain records can leave creditors unable to prove compliance and may result in adverse conclusions by regulators or courts.

ECOA requires retention of not only the application, but all information obtained and used in evaluating the credit request, including credit reports, income and employment documentation, appraisals, bank statements, underwriting notes, loan officer communications, and decision worksheets.

Creditors must also retain records of action taken, such as adverse action notices, approvals, and documentation supporting the reasons for the decision. Importantly, these requirements apply to denied and withdrawn applications, not just approved loans, since denied-file reviews are essential to fair lending examinations.

Prequalification programs are a common weakness. Even if a creditor labels the activity as “inquiry only,” pulling credit and evaluating eligibility may trigger ECOA requirements. Creditors must retain records of prequalification credit pulls, consumer communications, prequalification letters, and analyses performed. Effective compliance typically requires secure electronic record systems with audit trails, backups, and controls preventing unauthorized changes. Finally, creditors should maintain written retention policies, train staff on documentation standards, and conduct periodic audits to ensure records are properly retained and available for examination.

Case Study

Company Cited: Synapse Financial Technologies, Inc.

Agency/Law Involved: Consumer Financial Protection Bureau (CFPB)

Brief Facts

Synapse Financial Technologies, Inc., a Delaware corporation headquartered in Woodland Hills, California, provided technology that connected fintech platforms offering banking-like services with partner banks that held consumer deposits. On April 22, 2024, Synapse filed for Chapter 11 bankruptcy protection.

On August 21, 2025, the CFPB filed a complaint against Synapse along with a proposed stipulated final judgment and order. The court entered the order on September 12, 2025.

Legal Issues

The CFPB alleged that Synapse violated the Consumer Financial Protection Act of 2010 (CFPA) by failing to maintain accurate records of consumer funds and failing to ensure its records matched those of partner banks. These deficiencies led to discrepancies between reported and actual funds held.

Outcome

The discrepancy in records resulted in a shortfall estimated between \$60 million and \$90 million. Consumers experienced loss of access to their funds for extended periods, in some cases weeks or months, and some did not recover their full balances.

The stipulated final judgment imposed injunctive relief, including a prohibition on the sale of customer information, and required Synapse to pay a \$1 civil money penalty.

Significance

This case highlights the critical importance of accurate recordkeeping and reconciliation practices in fintech-bank partnerships. It underscores regulatory expectations for safeguarding consumer funds and demonstrates the risks posed when intermediary financial technology providers fail to maintain reliable financial records.

Questions For Discussion

- Have you ever worked for a company that had poor record keeping?
- How should MLO company owners audit service providers?

Time to Think 3.2

1. Notices must state ____ reasons for denial?
 - a. Specific
 - b. Generic
2. Adverse Action Regulations are covered in 12 CFR Section ____?
 - a. 1954
 - b. 1002.9

13. The PIW is charged by Fannie Mae when it buys a loan ___?	With No Appraisal
14. The Loan Estimate Final Rule was passed in?	2013
15. Which Regulation fleshed out ECOA?	Reg B
16. Loan Estimates disclosures are required by ___?	Reg Z
17. The creditor must send an incomplete notice within ___ days?	30
18. Original copies of business credit must be retained for ___time?	12 Months
19. USPAP stands for?	Uniform Standards of Professional Appraisal Practice
20. The maximum prison sentence for Identity Theft is?	15 Years
21. VA loans have Regs to forbid excessive refinancing, known as?	Churning
22. When is the consummation of a loan in California?	When docs are signed
23. The borrower on the East Coast is called?	The Mortgagor
24. No fees can be imposed until the consumer indicates an?	Intent to Proceed
25. The Loan Estimate regulations are in which act?	TILA: Truth and Lending Act
26. A pre-consent disclosure must be clear and?	Conspicuous

SECTION 6: TILA – 12 C.F.R.

§1026.19(a)

TIMELY DISCLOSURE

Citation Violation

The creditor shall provide the consumer with good faith estimates of the disclosures and shall deliver or place them in the mail not later than the third business day after the creditor receives the consumer's written application.

Examination Findings

The Licensee failed to deliver a Loan Estimate (LE) within three days of a completed application. The Licensee obtained the required six items of information (address, loan amount, income, estimate of value, name, and social security number) to satisfy TILA-RESPA Integrated Disclosure (TRID) requirements for a completed application but, failed to timely issue the required initial LE, and failed to timely enter the data into the loan origination software (LOS) to trigger required disclosures.

Additionally, this is a repeat violation of a previous Report of Examination. The Licensee failed to take corrective actions within their procedures, enact controls within the (LOS), or failed to audit its production to ensure MLOs timely enter triggering application data into its LOS, to prevent repeated violations.

Consequences

This timing requirement is one of TRID's most important consumer protections. Borrowers must receive early, accurate disclosures so they can understand loan terms, evaluate costs, and comparison shop before becoming committed to the transaction.

Understanding the Violation

A Loan Estimate must be delivered within three business days after receiving a completed application. The three-day clock starts immediately once the lender receives

the six application elements listed above. This is not three calendar days. It is three business days, which excludes Sundays and Federal holidays.

The violation is particularly serious because it is a repeat finding. Repeat violations show regulators that issues are systemic rather than isolated and may reflect failures in:

- Management oversight
- Compliance culture
- Procedures and controls
- Audits and training

Potential Consequences

Regulatory Actions/Monetary Penalties

- \$5,000 per violation (less serious)
- Up to \$25,000 per day (knowing violations)
- Up to \$1 million per day (patterns or practices)

Repeat violations often result in significantly higher penalties. Aggregate penalties can reach **\$500,000 to \$1 million** or more depending on loan volume and severity.

License Actions

MLO license suspension (30–90 days)

- MLO license revocation (in severe cases)
- Company license suspension or revocation
- Restrictive license conditions (enhanced supervision, loan restrictions, pre-closing compliance reviews)

Consent Orders / Supervisory Agreements

- Hiring an independent compliance consultant.
- Implementing specific LOS controls
- Conducting audits and reporting results to regulators
- Restricting business activity until compliance improves
- Paying restitution
- Management or compliance staffing changes

Operational & Financial Impact + Recommendations

Companies often must upgrade or replace LOS systems with automated timing controls. These projects can cost \$50,000 to \$500,000 plus.

Process Redesign

Workflow changes may be required across intake, disclosure, data entry, and Quality Control. Staff must be trained, causing slowdowns and reduced efficiency during implementation.

Staffing Requirements

Lenders may need additional compliance staff (analysts, Quality Control reviewers, administrative support) to monitor timing and prevent recurrence.

Production Impacts

During remediation, production may drop **20–30%**, reducing revenue and MLO compensation.

Financial Impact

Direct Costs

- Legal fees (\$25,000–\$200,000+)
- Compliance consultant fees (\$50,000–\$300,000+)
- LOS improvements (\$50,000–\$500,000+)
- Refunds of certain fees
- Reimbursements for rate-lock extension costs
- Administrative costs for corrected disclosures

Indirect Costs

- Reduced loan production
- E&O premium increases (50–200%)
- Warehouse line pressure or pricing impacts
- Investor/correspondent relationship losses
- Reputational damage and referral decline
- Employee turnover

Consumer Impact

Late disclosures harm consumers by limiting their ability to:

- Comparison shop
- Understand loan terms early
- Avoid closing delays
- Preserve rate locks
- Meet purchase deadlines

In severe cases, consumers may lose purchase opportunities.

Recommendations to Prevent Violations

- **Automated LOS Triggers**
Configure the LOS to automatically generate the LE when the 6th element is entered and create audit trails and deadline alerts.
- **Same-Day Data Entry Policy**
Require MLOs to enter complete application data into the LOS the same business day received. Track compliance and apply discipline if needed.
- **Daily Compliance Monitoring**
Run daily exception reports for:
 1. Applications received
 2. Deadlines approaching
 3. Missing or late LEsReview each morning and escalate exceptions immediately.
- **Enhanced MLO Training**
Provide new-hire training, quarterly refreshers, and scenario-based timing drills.
- **Dual-Check Verification System**
Compliance or supervisors verify every LE issuance and delivery timing before the deadline.
- **Business Day Calculation Tools**
Provide tools and calendars marking federal holidays and automate deadline calculations.
- **Escalation & Management Oversight**
Require immediate supervisor notification if timing risk exists and review metrics monthly.

- **Audit and Quality Control Program**
Conduct monthly audits, document results, and implement corrective action promptly.
- **Accountability System**
Establish progressive discipline and consider tying compensation incentives to compliance performance.
- **Documentation & Evidence Retention**
Keep proof of:
 - When the six elements were received
 - LE delivery evidence
 - Business day calculations
 - LOS timestamps and audit trails

SECTION 7: TILA – 12 C.F.R. §1026.19(e)(1)(i) & (e)(3)(i)

LOAN ESTIMATE TOLERANCE

Citation Violation

Closing costs disclosed in the Loan Estimate (LE) are in good faith if the charges paid by or imposed on the consumer do not exceed the amount originally disclosed in (e)(1)(i) of this section.

Examination Findings

The exam team identified loan files that reflect fees exceeding the amount originally disclosed on the LE. The Licensee:

- Received a completed application (all 6 required data elements were obtained).
- Did not issue the initial Loan Estimate within 3 business days.
- Did not timely input application data into the LOS, preventing disclosure triggers.
- Had prior history of the same violation (repeat violation).
- Failed to implement corrective action, including internal controls, LOS safeguards, and auditing to prevent recurrence.

Understanding the Violation

When fees exceed tolerance limits without valid justification, the disclosure is not in good faith, triggering violations and borrower cure requirements.

The LE is intended to allow the borrower to:

- Evaluate terms and fees early, and
- Compare offers between lenders.

TRID organizes fees into tolerance categories:

- 0% tolerance (cannot increase)
- 10% cumulative tolerance (can increase up to 10% in total)

- Unlimited tolerance (fees may change if consumer shops independently)

Potential Consequences

- Regulatory / Examination Consequences
- Administrative / Licensing Consequences
- Consumer Harm / Legal Exposure
- Operational / Reputational Consequences
- Repeat Violation Escalation Risk

Examples

- Tolerance cures and remediation: refund excess amounts (and document it) within 60 days of consummation, plus possible corrected disclosures and consumer communications.
- Regulatory criticism / expanded review: MRAs, targeted TRID audits, and increased transaction testing of LE/CD accuracy, change-of-circumstance documentation, and vendor fee controls.
- Civil money penalties (CMPs): CFPB maximum penalty tiers (inflation-adjusted; effective Jan. 15, 2025) can reach \$7,217 (Tier 1), \$36,083 (Tier 2), and \$1,443,275 (Tier 3) per violation/day depending on culpability.
- Consumer litigation exposure under TILA: actual damages plus statutory damages for certain closed-end, real-property-secured transactions generally \$400–\$4,000 (individual actions), and class caps up to the lesser of \$1,000,000 or 1% of net worth, plus attorneys’ fees if the consumer prevails.

Corrective Actions

- Root-cause and lookback: identify which fee categories exceeded tolerances, whether a valid tolerance reset existed, and issue refunds within 60 days where required.
- Controls for fee accuracy: tighter fee worksheets, locked vendor fee schedules, and LOS validations that flag “over tolerance” conditions before closing.
- Document tolerance resets: require evidence of changed circumstances and timely revised LEs when used to reset tolerances.
- Training + QC: train processors/closers on tolerance categories and implement pre-close and post-close TRID audits with escalation and corrective action for repeat errors.

This violation reflects a systemic breakdown (LOS workflow + procedural controls), not just a one-off error. The repeat nature makes the matter more serious and increases the likelihood of regulatory escalation unless immediate controls and monitoring are implemented.

Time to Think 3.3

1. The initial Loan Estimate must be issued within three _____ days?
 - a. Business
 - b. Calendar

2. Business days for delivery or Loan Estimate excludes Sundays and ____?
 - a. Saturday
 - b. Federal Holidays

SECTION 8: TILA – 12 C.F.R.

§1026.19(e)(3)(i)

0% TOLERANCE: GOOD FAITH COSTS EXCEEDED

Citation Violation

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(e)(3) and (4)

Examination Findings

Instances were identified where the company charged an appraisal fee on the Closing Disclosure (CD) that exceeded the amount disclosed on the initial Loan Estimate (LE) in section B: “Services You Cannot Shop For.” This section has a zero tolerance for variations or discrepancies from the LE to the CD.

Consequences

Zero-tolerance fees are the strictest category and are treated as the highest compliance risk because:

- The borrower cannot shop for the provider
- The lender bears full estimation risk
- Increases without proper revision must be cured

Common Section B fees include:

- Appraisal
- Credit report
- Flood certification
- Tax service fees

Potential Consequences

- Mandatory tolerance cures: The creditor must refund the amount exceeding the tolerance limit to the borrower within 60 days of consummation.
- Regulatory Findings or Matters Requiring Attention (MRAs) requiring expanded TRID reviews and reporting.
- Civil Money Penalties (CMPs): Depending on severity and whether violations are systemic, regulators such as the CFPB may impose penalties. Inflation-adjusted maximum penalty tiers (2025) reach \$7,217 (Tier 1 – any violation), \$36,083 (Tier 2 – reckless), and \$1,443,275 (Tier 3 – knowing violations) per day.
- Consumer litigation risk under TILA, including actual damages, statutory damages (generally \$400–\$4,000 for individual actions), and attorneys’ fees.
- Increased scrutiny of vendor management and fee controls during future examinations.

Recommendations

- Conduct a lookback review of all loans during the examination period to identify additional tolerance violations and issue prompt refunds where required.
- Implement LOS system controls that flag 0% tolerance categories and prevent closing if fees exceed the LE without documented tolerance resets.
- Strengthen vendor oversight for appraisal management companies to ensure fee accuracy before issuing the LE.
- Require documentation of any valid changed circumstance and timely revised LE issuance.
- Provide targeted TRID training to processors, closers, and compliance staff, and implement enhanced pre-closing quality control audits.

SECTION 9: TILA – 12 C.F.R.

§1026.19(e)(4)(i)

LOAN ESTIMATE-ALLOWABLE REASONS AND TIMING FOR REVISED DISCLOSURE

Citation Violation

If a creditor uses a revised estimate pursuant to paragraph (e)(3)(iv) of this section, for the purpose of determining good faith under paragraphs (e)(3)(i) and (ii) of this section, the creditor must provide a revised version of the disclosures within three business days of receiving information sufficient to establish that one of the reasons for revision applies.

Examination Findings

Loan files where the company did not issue a revised LE.

Consequences

Changed circumstances occur during processing (fee increases, borrower changes, property issues). Borrowers must be notified quickly through a revised LE so they can:

- Reassess costs
- Shop providers
- Decide whether to proceed

Failing to issue revised LEs often causes compounding violations:

- Tolerance violations
- Inaccurate APR or finance charge
- Borrower harm and potential legal exposure

Potential Consequences Examples

- **Tolerance cures/remediation:** where increases exceeded allowable tolerances and no valid, timely revised LE exists, the lender may need to refund excess charges and document corrective action.
- **Expanded audits and MRAs:** regulators commonly require a broader file review of LE/CD timing, changed-circumstance documentation, and vendor fee controls.
- **Civil Money Penalties (CMPs):** depending on severity/systemic impact, CFPB maximum penalty tiers (inflation-adjusted) can reach \$7,217 (Tier 1), \$36,083 (Tier 2), and \$1,443,275 (Tier 3) per day/violation (culpability-dependent).
- **Private litigation exposure under TILA:** potential actual damages plus statutory damages (for certain closed-end, real-property-secured loans generally \$400–\$4,000), and attorneys’ fees for prevailing consumers.

Recommendations

- Implement a “3-business-day” trigger control in the LOS: once a changed circumstance/borrower change is logged, the system should auto-generate a revised LE deadline and block closing workflows if missed.
- Standardize allowable revision reasons with required documentation (what changed, when known, how it impacts fees/terms, and proof the revised LE was delivered).
- Pre-close QC and post-close sampling focused on (1) whether a revised LE was issued, (2) whether it was timely, and (3) whether tolerances were correctly applied.
- Training + accountability for processors/closers on permissible triggers, “information sufficient” start date, and documentation quality; escalate repeat errors with corrective action plans and written policy updates.

SECTION 10: TILA – 12 C.F.R.

§1026.19(f)(3)(i)

0% TOLERANCE-COLLECTION OF EXCESSIVE FEES

Citation Violation

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

A loan had a \$720 charge for an appraisal fee on the final signed CD. The invoice for the appraisal provided in the loan file was \$680 for the appraisal's cost. The borrower was charged \$40 more than the actual cost of the appraisal.

This is not just a tolerance issue — it is a direct overcharge. Even if the LE and CD match, charging more than the invoice cost is prohibited. Regulators treat this as serious consumer harm and potential dishonesty.

Potential Consequences Examples

- **Immediate remediation:** refund the \$40 overcharge to the borrower (and, if applicable, any similar overcharges found in a lookback), plus written explanation and corrected accounting in the file.
- **Expanded audits / supervisory findings:** regulators may require broader transaction testing of appraisal fees, vendor invoices, CD line items, and controls preventing fee padding.
- **Civil money penalties:** CFPB maximum penalty tiers (inflation-adjusted) can reach \$7,217 (Tier 1), \$36,083 (Tier 2), and \$1,443,275 (Tier 3) per day, depending on severity and culpability.
- **Consumer litigation exposure under TILA:** potential actual damages, plus statutory damages for certain closed-end, real-property-secured transactions

generally \$400–\$4,000 (individual actions), and attorneys’ fees if the consumer prevails.

- UDAAP / state law risk (Unfair, Deceptive, or Abusive Acts or Practices): charging more than the invoiced amount can be viewed as unfair or deceptive if not clearly disclosed and earned.

Recommendations

- Cure + lookback: reimburse the \$40 and review a defined population of loans for similar invoice/CD mismatches; document root cause and remediation results.
- Invoice-to-CD controls: require the appraisal CD line to match the final invoice exactly (system validation + second-person QC signoff before closing).
- Vendor management: standardized fee schedules, documented change approvals, and invoice retention in the LOS.
- Training and accountability: train processors/closers on “no upcharge” rules; implement corrective action for repeated errors; provide written policy/procedure updates to prevent recurrence.

Case Study

Company Sited: Freedom Mortgage Corporation

Agency: Consumer Financial Protection Bureau (CFPB)

Overview

Freedom Mortgage was investigated for violating TILA-RESPA Integrated Disclosure (TRID) rules by charging borrowers fees at closing that exceeded amounts disclosed on the Loan Estimate.

Key Facts

Certain fees (e.g., lender and affiliate fees) are subject to **0% tolerance**, meaning they cannot increase at closing. The CFPB found that Freedom Mortgage overcharged consumers beyond these limits and failed to issue timely refunds within the required 60 days.

Legal Issues

Violations included:

- TILA, Regulation Z (12 C.F.R. §1026.19(f)(3)(i)) – 0% tolerance rule
- Inaccurate Loan Estimates and Closing Disclosures
- Failure to cure violations through timely reimbursement

Outcome

- \$1.75 million in consumer redress
- \$1 million civil penalty
- Required compliance system improvements and ongoing monitoring

Significance

This case shows that 0% tolerance rules are strictly enforced. Lenders must ensure disclosed fees do not increase at closing and must promptly refund any violations, as errors do not excuse noncompliance.

Questions For Discussion

- Do you know all 0% tolerance systems?
- Has the new TRID helped our industry?

SECTION 11: TILA – 12 C.F.R.

§1026.38(f)(2)

CLOSING DISCLOSURE NOT COMPLETED CORRECTLY

Citation Violation

Requires, in part, the name of the person ultimately receiving the payment for each service under the subheading “Services Borrower Did Not Shop For.”

Examination Findings

The CD provided to borrower disclosed the ultimate recipient for the mortgage insurance premium as “To Be Determined.” For another borrower, the ultimate recipient for 442 Completion (an appraisal fee) was listed as “TBD.”

Consequences

- Regulatory findings / Matters Requiring Attention (MRAs) requiring expanded CD accuracy testing and increased oversight of closing operations.
- Corrective disclosure requirements, including reissuing corrected CDs and documenting remedial steps.
- Civil money penalties (CMPs) if errors are systemic: CFPB inflation-adjusted maximum penalty tiers can reach \$7,217 (Tier 1), \$36,083 (Tier 2), and \$1,443,275 (Tier 3) per day depending on severity and intent. ([federalregister.gov](https://www.federalregister.gov))
- Consumer harm concerns / UDAAP risk, since “TBD” payees can appear deceptive or misleading and may prevent borrowers from catching improper charges before closing.
- Increased risk of post-closing cures and refunds if undisclosed payee changes result in fee discrepancies.

Recommendations

- Implement LOS controls that prevent CD issuance unless every fee line includes a valid, verified payee name.
- Require closers to match each CD fee to supporting documentation (invoice, MI certificate, vendor order confirmation).
- Conduct post-closing audits focused on payee accuracy and vendor fee reconciliation.
- Provide staff training on TRID completion standards and require corrective action for repeat violations.
- Update written policies to prohibit placeholder entries (“TBD”) and require management approval if a payee cannot be confirmed prior to disclosure.

Conclusion

Failing to list the correct recipient can mislead borrowers and reduce the CD’s effectiveness as a consumer protection tool. It also raises concerns about whether the lender has properly verified settlement charges and service providers prior to closing. From a compliance standpoint, such errors may lead to regulatory criticism, potential penalties, and required corrective actions. To prevent violations of §1026.38(f)(2), lenders should implement strong quality control procedures to ensure all third-party service providers are accurately identified on the Closing Disclosure before it is issued to the borrower.

Time to Think 3.4

1. Appraisal fees are in the ____ tolerance fee range?
 - a. 0%
 - b. 10%
2. What does UDAAP stand for?
 - a. Uniform Deceptive Advertising and Protection Act
 - b. Unfair, Deceptive, or Abusive Acts or Practices

SOCRATES TIME

QUESTION	ANSWER
----------	--------

1. The topics for MLO CE are determined by?

MMC: Multi-State Mortgage Committee

2. TILA stands for ____?

Truth in Lending Act

3. Could a trip to Las Vegas paid by an Escrow company be a thing of value?

Yes

4. How long must a lender hold inquiry information?

25 Months

5. If an interest rate is stated, it shall be stated as an?

APR

6. The ____ is responsible for providing the CD to a borrower?

Creditor

7. An example of a zero tolerance fee is ____ taxes?

Transfer

8. ECOA stands for?

Equal Credit Opportunity Act

9. Property taxes are considered?

Prepays

10. Which section of RESPA is known as the kickback Regs?

Section 8

11. The late charge on VA Loans is?

4%

12. Lenders must exhibit ____ diligence in their procedures?

Reasonable

13. Right of Rescission expires after midnight of the ____ business day?

Third

14. A Notice of Incompleteness must be sent within_____?	30 Days
15. TRID stands for?	TILA, RESPA, Integrated Disclosures
16. Loan Estimates disclosures are required by?	Reg Z
17. USPAP stands for?	Uniform Standards of Professional Appraisal Practice
18. The maximum prison sentence for Identity Theft is?	15 Years
19. The Ability to Repay rule was established in?	2014
20. The City in the United States with the highest % of Mortgage Fraud is?	Las Vegas

CHAPTER 3: REVIEW QUIZ

1. Creditors shall notify applicants of action taken within ____days of receiving a completed application?
 - a. 30
 - b. 10

2. When working in lending, you must exhibit ____diligence?
 - a. Reasonable
 - b. Due

3. The 10% tolerance is?
 - a. Generic
 - b. Accumulative

4. The 30 day notification for an Adverse Action is measured in ____days?
 - a. Calendar
 - b. Business

5. CFR stands for?
 - a. Consumer Free Research
 - b. Code of Federal Regulation

The best way to predict your future is to create it.
Peter Drucker

CHAPTER 4: *CA SPECIFIC*



State Capitol

SECTION 1: STATE-SPECIFIC LAW

Introduction

In California, mortgage loan originators (MLOs) are regulated through both federal law and state law, with licensing and registration handled through the Nationwide Multistate Licensing System (NMLS). While the NMLS provides a standardized platform for licensing across the United States, California imposes its own specific legal requirements, oversight agencies, and compliance standards for mortgage professionals operating within the state.

Lots of Acronyms and Lots of Regulatory Agencies

The primary state law governing mortgage loan originators in California is the California Residential Mortgage Lending Act (CRMLA), found in the California Financial Code, as well as the California Finance Lenders Law (CFLL) and the Real Estate Law administered under the California Department of Real Estate (DRE). These laws work alongside federal regulations under the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act), which requires all mortgage loan originators to be licensed and tracked through the NMLS.

California is unique in that mortgage licensing is overseen by multiple regulatory bodies depending on the type of mortgage activity. The California Department of Financial Protection and Innovation (DFPI) regulate lenders and brokers licensed under the CFL and CRMLA, while the California Department of Real Estate (DRE) regulates mortgage loan originators working under real estate broker licenses. Regardless of the agency, individuals must still maintain an NMLS identifier and comply with NMLS filing and renewal requirements.

California law requires mortgage loan originators to meet strict standards to qualify for licensure through the NMLS. Applicants must complete 20 hours of pre-licensing education as required federally, but California also mandates additional education focusing on state-specific mortgage laws. In addition, California requires applicants to pass the SAFE Mortgage Loan Originator Test, submit fingerprints for an FBI criminal background check, and authorize a credit report review. State law emphasizes financial responsibility, character, and general fitness, and the DFPI or DRE may deny licensing if an applicant has a history of fraud, dishonesty, or financial misconduct.

Continuing Education (CE)

Another major California requirement tied to NMLS compliance is annual continuing education. Mortgage loan originators must complete at least 8 hours of NMLS-approved continuing education each year, which includes training on ethics, federal law, California specific regulations, and nontraditional mortgage lending. California also enforces compliance with advertising and disclosure rules, particularly relating to the accurate representation of loan terms and licensing status.

California laws also reinforce consumer protection standards, including compliance with fair lending laws and prohibitions against predatory lending practices. Mortgage loan originators must comply with state and federal prohibitions against discriminatory lending under laws such as the California Fair Employment and Housing Act and related consumer financial protection regulations.

SECTION 2: DFPI UP CLOSE

Overview of DFPI

The Department of Financial Protection and Innovation (DFPI) created in 2021, is California's primary regulatory agency responsible for supervising and enforcing state financial laws, including oversight of mortgage lenders, brokers, and servicers operating under the California Residential Mortgage Lending Act (CRMLA) and other licensing statutes. The DFPI has broad authority to issue actions and orders when it identifies violations of state law or unsafe business practices.

These actions may include cease and desist orders, orders to suspend or revoke a license, and orders requiring a company or individual to take corrective action to come into compliance. The DFPI may also conduct investigations and examinations, demand records, and issue subpoenas as part of its enforcement process. These regulatory actions are designed to protect consumers, maintain ethical lending standards, and ensure licensed entities operate in a lawful and financially responsible manner.

In addition to formal orders, the DFPI has authority to impose sanctions and penalties against licensees who violate applicable laws or regulations. Sanctions may include administrative fines, consumer restitution, probationary licensing conditions, or permanent revocation of the ability to conduct mortgage-related business in California.

In serious cases involving fraud, misrepresentation, or consumer harm, DFPI enforcement actions may also be referred for civil litigation or criminal prosecution. For NMLS candidates, understanding DFPI enforcement authority is important because it highlights the consequences of noncompliance at the state level, reinforces the importance of maintaining accurate records and ethical conduct, and demonstrates how regulators protect consumers through disciplinary actions and licensing oversight.

Modern Mission

Today, the DFPI is California's chief financial regulator, tasked with:

- Licensing and supervising banks, credit unions, nonbank lenders, mortgage servicers, and many consumer finance providers.
- Protecting consumers against fraud, abuse, and unfair practices.

- Fostering innovation in financial markets through engagement and oversight of emerging financial products.

Sanctions by DFPI

The California Department of Financial Protection and Innovation (DFPI) has taken numerous enforcement actions and sanctions against companies under its regulatory authority. These actions don't always relate directly to the Homeowner Bill of Rights (HBOR) itself (HBOR violations are typically private civil matters), but they *do* reflect DFPI's broader enforcement powers that can impact mortgage servicers, lenders, and other financial services providers whose conduct affects homeowners.

Enforcement Actions & Orders Database

DFPI maintains a public list of actions and orders (e.g., consent orders, accusations, cease and desist directives) that span many industries overseen by the agency, including mortgage-related companies. These include enforcement against specific companies and individuals for violations of financial laws and consumer protections. You can search these actions on DFPI's Actions & Orders page by company name or date.

Examples:

- Consent orders against companies like *Fairway Independent Mortgage Corporation* and *ApplePie Capital Funding Solutions, LLC*.
- Accusations to revoke licenses (e.g., individual licensee actions).
- Desist and refrain orders against other entities.

Mortgage Related and Consumer Protection Enforcement

Penalties and Settlements

- **Caliber Home Loans settlement:** DFPI secured \$2.3 million in penalties and borrower refunds after finding overcharges for thousands of California borrowers — including issues that can involve mortgage servicing problems.
- **Nationwide mortgage servicing enforcement:** California (with other states) levied a \$20 million penalty against a large non-bank mortgage servicing company for supervisory compliance failures.

Consumer Protection Enforcement (Broad Scope)

While not specific to mortgage servicing, DFPI has also taken actions against companies engaging in unlawful financial practices that indirectly affect Californians' financial stability, such as:

- Student loan debt relief companies – ordered to stop unlawful practices, refund consumers, and pay penalties.
- Money transmitters and FinTech firms – including *Wise US, Inc.* in a \$4.2 million multistate action for anti-money-laundering violations.
- Digital asset enforcement – DFPI's first enforcement action under the Digital Financial Assets Law against a crypto service provider for consumer protection violations.

Expanded Enforcement Authority

As of January 1, 2026, Senate Bill 825 strengthened DFPI's ability to enforce against unfair, deceptive, or abusive financial practices — including by entities licensed by DFPI — by removing certain exemptions and clarifying enforcement scope. This broadens the Department's sanctioning power beyond traditional licensing violations.

How It Relates to the Homeowner Bill of Rights (HBOR)

- DFPI does not typically issue fines specifically labeled “HBOR sanctions” — because HBOR enforcement is generally pursued through private civil claims *or* U.S. Department of Justice/Attorney General actions.
- However, DFPI can and does sanction mortgage servicers or lenders whose unfair or deceptive practices violate broader consumer finance laws (e.g., California Consumer Financial Protection Law or CRMLA), which often overlap with servicing issues that affect homeowners under HBOR protections.

Time to Think 4.1

1. The change of the DBO to the DFPI _____ authority of the State.
 - a. Expanded
 - b. Decreased
2. When was the DFPI created?
 - a. 2013
 - b. 2021

SECTION 3: DFPI VS. CFPB

How They Compare

Where DFPI Goes Further

DFPI Advantage	Explanation
Broader nonbank coverage	DFPI can regulate companies not clearly covered by federal law (e.g., some fintechs, earned wage access, debt relief firms).
Lower size thresholds	CFPB supervision often depends on size (large banks, large servicers). DFPI can act against small and mid-size firms.
State licensing leverage	DFPI can suspend or revoke licenses, a powerful enforcement tool the CFPB does not have.
California-specific laws	DFPI enforces state laws like CRMLA, CFLL, and consumer protections beyond federal minimums.

In practice, DFPI is often more aggressive toward nonbank lenders and servicers operating in California. DFPI was designed to be more nimble and state-specific, particularly for new financial products.

Coordination Between DFPI & CFPB

The two agencies:

- Share complaint data
- Coordinate investigations
- Participate in joint enforcement actions
- Align on UDAAP standards
- DFPI can act independently, even if CFPB does not
- California often moves faster or more aggressively

SECTION 4: HOMEOWNERS BILL OF RIGHTS CHANGES

Introduction

The California Homeowner Bill of Rights (HBOR) is a set of consumer protection laws enacted to help prevent unfair foreclosure practices and provide homeowners with stronger rights when facing possible foreclosure. Effective in 2013, HBOR requires mortgage servicers to follow stricter rules such as providing borrowers with a fair opportunity to apply for loan modifications, assigning a single point of contact in many cases, and prohibiting “dual tracking,” which is when a lender moves forward with foreclosure while a complete loan modification application is still under review. Overall, the purpose of HBOR is to promote transparency, accountability, and fairness in the foreclosure process while giving homeowners additional legal remedies if lenders violate the law.

There have been recent and upcoming changes affecting California’s Homeowner Bill of Rights (HBOR) and related foreclosure protections and mortgage servicing rules. These changes update how HBOR is applied and who it covers. Key developments include both expanded protections and some exemptions:

Strengthened Foreclosure Protections (Effective 2025)

Assembly Bill 2424 (AB 2424) effective *January 1, 2025*, expands and strengthens parts of HBOR:

- Extended notice periods: Homeowners now get *more time* to respond to default and foreclosure notices.
- Mandatory mediation: Before a notice of default is recorded, lenders must engage in a formal mediation process to explore alternatives like loan modification, repayment plans, or loss mitigation.
- Stronger dual-tracking protections: Lenders are further prevented from advancing foreclosure *while* negotiating modifications, reinforcing an existing HBOR ban.

California Legislature Creates “Redemption Right” For Trustee Sales Of Residential Properties

FORECLOSURE UPDATE: SB 1079. On September 28, 2020, Senate Bill 1079 was signed into law. It granted a right of redemption or first refusal to purchase a foreclosed residential property to tenants, buyers intending to use the property as their residence, local governments, and other eligible buyers.

It caused all one-unit to four-unit family dwellings (including investment or rental properties) that if at a trustee’s sale following a foreclosure, a property is not sold to a Prospective Owner-Occupant, any one of the following individuals may submit a bid to purchase the property up to 45 days after the trustee’s sale.

- An Eligible Tenant Buyer;
- A Prospective Owner-Occupant;
- A nonprofit in which an Eligible Tenant Buyer or Prospective Owner- Occupant is a voting member or director;
- A California nonprofit corporation whose primary activity is the development or preservation of affordable rental housing;
- A limited partnership or limited liability company in which the managing partner or managing member is a California nonprofit corporation whose primary activity is the development or preservation of affordable rental housing;
- A community land trust;
- A limited-equity housing cooperative; or
- The state of California, the Regents of the University of California, or any county, city, or district local government, public authority or agency. Civ. Code §)-(I).

An Eligible Bidder must provide an affidavit to the trustee that they meet one of the conditions above and must send written notice of intent to place a bid no more than 15 days after the trustee’s sale. Civ. Code § bidders may submit a bid up to 5:00 p.m. on the 45th day after the trustee’s sale. Civ. Code §2924m(c)(4).

A Prospective Owner-Occupant means a natural person who certifies in an affidavit to the trustee that:

- They will occupy the property as their primary residence within 60 days of the trustee’s deed being recorded;
- They will maintain occupancy for at least one year;

- They are not the mortgagor or trustor, or the child/spouse/parent of
- the mortgagor or trustor; and
- They aren't acting as agent of any person purchasing the property. Civ. Code §2924m(a)(1).

An Eligible Tenant Buyer means a natural person who:

- Occupies the property as their primary residence;
- Was a party to an arm's length lease agreement with the borrower who was foreclosed upon; and
- Is not the borrower or a family member.

Vacant residential property purchased at a foreclosure sale must be maintained. A failure to maintain may include permitting excessive foliage growth, allowing trespassers or squatters to remain on the property or failing to prevent mosquito population growth in excess standing water. Civ. Code § 2929.3(b). Each day, a city or county may fine the new owner up to \$2,000 for the first 30 days and then \$5,000 for each day afterwards. Civ. Code §2929.3(a)(3)(A)-(B).

SB 1079 Loopholes

Since 2022, many individuals have used SB 1079 to purchase homes after a Foreclosure. However, many profit minded organizations lied and purchased foreclosures after a sale claiming to be eligible non-profits.

So, a new Assembly Bill 1837 was signed into law on September 28, 2022.

- Extends effect of the Homes for Homeowners, not for Corporations
- Revises requirements for nonprofit corporations and LLCs to be eligible bidders. To be eligible, the organization must be a nonprofit whose main activities must include development and preservation of affordable rental or homeownership housing in California
- LLC wholly owned by a nonprofit that meets the above requirement
- Community and trust plus LEHCX
- Expand affidavit and declaration requirements for eligible bidders to deter fraud.
- Authorize the Attorney General, a county counsel, or a city attorney to bring an action to enforce the law.

Case Study

Lagrisola v. North American Financial Corp., CA Court of Appeal

Agency/Law Involved

- California Finance Lenders Law (CFLL)
- Business & Professions Code §17200 (Unfair Competition)
- SAFE Act/NMLS licensing framework

Brief Facts

Borrowers sued North American Financial Corporation (NAFC) after discovering the company originated mortgage loans without holding the proper California finance lender license. The loan documents included an NMLS identifier, but borrowers alleged the company was not legally authorized to originate loans in California.

Legal Issues

- Whether borrowers could recover damages under California's Unfair Competition Law for loans issued by an unlicensed lender.
- Whether there is a private right of action under the CFLL licensing provisions.

Outcome

- NAFC agreed to a settlement including:
- \$75,000 administrative penalty
- Order to cease engaging in lending without proper licensing.

Significance

Demonstrates that operating without a state license can lead to administrative penalties and litigation, even if the company is registered in NMLS.

Reinforces the critical distinction between NMLS registration and state licensing authority.

Questions For Discussions

- Is the punishment too severe in this case?
- Should borrowers be allowed to sue North American Financial Corp. if they suffered losses?

SOCRATES TIME

Question	Answer
1. In CA are there more Judicial or Non Judicial foreclosure?	Non-Judicial Foreclosures
2. DBO is an acronym for?	Department of Business Oversight
3. How many hours of CE must a MLO complete for Wells Fargo?	Zero
4. The penalty for tearing down a Notice of Sale is?	\$100
5. Which Federal Act regulates Short Sale Agreements?	MARS/Mortgage Assistance Relief Services
6. CRMLA stands for?	CA Residential Mortgage Lending Act
7. California Privacy Laws are in?	CCPA
8. The CA Homeowners Bills of Rights became law on?	January 2013
9. The right of redemption on Trustees Sales was granted by?	SB 1079
10. HOBR stands for?	Homeowners Bill of Rights
11. The maximum charge for a Loan Modification by a lender is?	\$0
12. Term for purposely not paying a loan despite have the ability to pay is?	Strategic Default
13. Applicant fails the National exam 3 times must wait how long to test again?	6 months
14. In the State of CA, which company has the best MLO CE classes?	Duane Gomer, Inc.

Time to Think 4.2

1. An Eligible Bidder includes_____.
 - a. Tenant buyer
 - b. Flipper

2. The HBOR is a Federal Law or a State Law?
 - a. Federal
 - b. State

CHAPTER 4: REVIEW QUIZ

1. The right to a single point of contact is included in_____?
 - a. HOBR
 - b. SB 1079

2. What is the name of the test MLO's must pass?
 - a. SAFE ACT
 - b. DFPI

3. The two California State Departments that license MLO's are DFPI and_____?
 - a. DBO
 - b. DRE

4. MLO's licensing requirements are the same for all States?
 - a. False
 - b. True

5. One California law governing MLO's is
 - a. CRMLA
 - b. Dodd-Frank

*When you start your small business, be sure to keep your
overhead low and your ego lower.*

Duane Gomer

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.

1. Who chose the topics for the course?
 - a. MMC
 - b. CFPB

2. A major concern of using Digital Currency in our business is?
 - a. Minimum risk
 - b. Market risk

3. A Non-QM Mortgage might be more appropriate for _____?
 - a. Self-employed
 - b. A pensioner

4. A primary focus of Portfolio lending is?
 - a. Ability to Repay
 - b. Strict guidelines

5. Collateral Risk: The value in collateral may _____?
 - a. Drop
 - b. Increase

6. Everyone agrees that 50 Year Mortgages are outstanding.
 - a. True
 - b. False
7. The document used to document VA Eligibility is the?
 - a. COE
 - b. VAD
8. IRRRL in VA lending is?
 - a. Interest Rate Reduction Refinance Loan
 - b. Interim Reassignment Refinance Loan
9. Directing a prospect to a lender who pays higher commissions is?
 - a. Blockbusting
 - b. Steering
10. Normally what is the first comment from a prospect when told the APR?
 - a. Does this affect the closing date?
 - b. Why is it higher than what you said earlier?
11. What is a stronger violation; a mistake, or a misconduct?
 - a. Misconduct
 - b. Mistake
12. The acronym NMLS stands for?
 - a. National Mortgage Lending Services
 - b. Nationwide Multistate Licensing System
13. What software is a person using when they hack your system and demand money to reset.
 - a. Ransomware
 - b. Renovation

14. Kickbacks are discussed in which Federal Law Section?
 - a. 203K
 - b. 8
15. What do we call someone who buys a property for another person?
 - a. Straw buyer
 - b. Substitute buyer
16. Pushing an appraiser to hit the listing price is?
 - a. Good business
 - b. Appraisal Fraud
17. When was ECOA passed?
 - a. October 28, 1974
 - b. September 6, 2011
18. TILS stands for?
 - a. Tolerance, Information, Lending, Assessments
 - b. Truth in Lending Act
19. What is the sixth element of an application after name, income, property address, loan amount, value?
 - a. SSN
 - b. Age
20. The Loan Estimate must be delivered in 3 ____ days?
 - a. Calendar
 - b. Business
21. What does the term TRIP represent?
 - a. TILA, RESPA, Integrated Disclosure
 - b. Truth in Representation in Interim Disclosure

22. Some lenders are sanctioned for not realizing the difference between application and ___?
- a. Notification
 - b. Inquiries
23. Another name for Loan Denial is?
- a. Adverse Action
 - b. Forbearance
24. Types of Tolerance are 07, Unlimited and?
- a. 10% Cumulative
 - b. 20%
25. What does CFR stand for?
- a. CA Federal Regulation
 - b. Code of Federal Regulation
26. Appraisal fees are ___ Tolerance level?
- a. 0%
 - b. Unlimited
27. CRMLA means in California?
- a. CA Residential Mortgage Lending Act
 - b. CA Regulatory for Mortgage Lending Action
28. What was the Regulatory Authority before DFPI?
- a. DOC
 - b. DBO
29. When was DFPI created?
- a. 2021
 - b. 2013
30. Assembly Bill 2424 affected?
- a. Short Sales
 - b. Foreclosures

CONGRATULATIONS!

You Are Done.
Keep Smiling-Keep Shining
See You Next Year

Thank You For Your Support



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Duane Gomer Education
Family Owned and Operated
Since 1963

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.

OUR "PRODUCT LIST" includes Courses both online and live to:

- Qualify and Quickly Pass the California Real Estate Exams.
- Renew any California Real Estate License with no stress.
- Become an NMLS Approved MLO: 20 Hour Pre-License Course and National Exam Preparation Course.
- MLO CE Courses – Most Live Classes in California
- Obtain or Renew a Notary Public Commission – Test at Site
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