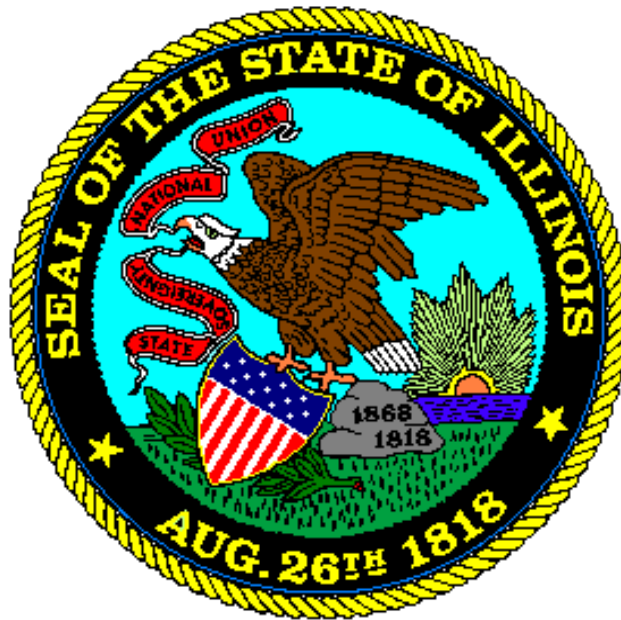


**Anti-Predatory Lending Database  
Semi-Annual Summary Report  
November 1, 2018**



**Governor Bruce Rauner  
Secretary Bryan Schneider  
Department of Financial and Professional Regulation**

**ABOUT THE INFORMATION IN THIS REPORT**

THIS REPORT IS BASED ON STATISTICAL INFORMATION FROM THE ANTI-PREDATORY LENDING DATABASE ("APLD") PURSUANT TO 765 ILCS 77/70. THE APLD WENT INTO EFFECT ON JULY 1, 2008.

# Illinois Department of Financial and Professional Regulation

## Office of the Secretary

**BRUCE RAUNER**  
Governor

**Bryan Schneider**  
Secretary

November 1, 2018

Governor Bruce Rauner  
207 State House  
Springfield, IL 62706

Illinois General Assembly  
State House  
Springfield, IL 62706

Dear Governor Rauner & Members of the General Assembly:

As required by Section 70(k) of the Residential Real Property Act, enclosed is the Department's semi-annual report detailing certain findings regarding the Anti-Predatory Lending Database Program. We are grateful for the opportunity to provide you this report. If you have any questions, please do not hesitate to contact me at (312) 814-2837 or [Bryan.Schneider@Illinois.Gov](mailto:Bryan.Schneider@Illinois.Gov).

Very truly yours,



Bryan A Schneider

## Summary of Anti-Predatory Lending Database (APLD) Program

- Loans that trigger the APLD's counseling requirement continue to be offered in the program area and represent approximately 0.7% of all loans entered into the APLD. Loans that trigger the counseling requirement include adjustable rate, interest-only and negative amortization loans, as well as loans with points and fees exceeding 5% of principal, and loans with prepayment penalties.
- Product offering trend data suggests the APLD's counseling requirement has deterred loan originators from offering loans with predatory or exotic characteristics.
- On average, it takes 1.38 *fewer* days to close a loan *with* counseling than to close a loan *without* counseling (calculated since program inception on July 1, 2008). This differential has been steadily decreasing from a high point of 8 days *longer* in 2010.
- Since the program's inception, a total of 8,322 loans required borrower counseling. Of these, 3,901 (47%) loans were closed, and 4,421 (53%) were not closed. In comparison, for *all* loans registered with the APLD since inception the closing rate was 56%.
- The APLD has facilitated timelier licensing renewals, enhanced data accuracy, and enforcement actions by the Illinois Department of Financial and Professional Regulation (IDFPR).
- APLD data has supported investigations and disciplinary actions by enabling IDFPR to uncover fraudulent lending activity, unlicensed activity, unregistered loan originators, unreported branch offices and unreported changes of a licensee location.
- IDFPR examiners routinely access the database's reporting capabilities to analyze data in real time. This has enhanced examination capabilities. Reports from the APLD are required for all examinations and have been used to support findings and ratings.
- IDFPR has found no evidence that the APLD restricts responsible mortgage lending in the four-county program area.

## **APLD FACTS AT A GLANCE**<sup>1</sup>

(Cumulative to date since program inception on July 1, 2008)

- Loans registered with the APLD: **1,140,293**
- Loans closed: **639,639**
- Borrowers requiring counseling: **11,696**
- Borrowers requiring counseling by county: Cook (**9,819**); Kane (**331**); Peoria (**94**); and Will (**631**)
- Loan types requiring counseling:<sup>2</sup>
  - Interest-Only Loans: **2,511**
  - Negative Amortization Loans: **1,054**
  - Loans with Points and Fees Exceeding 5%: **1,803**
  - Loans with Prepayment Penalty: **2,698**
  - Adjustable Rate Loans: **1,184**
- **26,528** loans triggered the counseling requirement as originally entered but were thereafter modified to no longer require counseling.
- Actively licensed mortgage brokers/loan originators who have entered loans into the APLD: **9,839**

### **Investigations and Other Regulatory Actions Based on APLD Information**

During the reporting period, April 1, 2018 – September 30, 2018, 7 investigations and enforcement actions resulted from information obtained from the APLD. These actions involved:

- Mortgage banking licensees (2)
- Mortgage loan originators (3)
- Title agents (2)

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<sup>1</sup> Statistics for each county can be found in the table on page 9.

<sup>2</sup> The total number of loans reflected in this section does not match the total number of borrowers requiring counseling because individual mortgage loans often have more than one borrower, borrowers may have chosen not to attend counseling (and thus not proceeded with the loan), or the loan may have contained multiple counseling triggers.

## **Types of Non-Traditional Mortgage Products Being Offered and Lending Trends**

The regularity of non-traditional mortgages being offered in the market place continues to trend up this past reporting period, even though there was a slight decrease in registered mortgage transactions. These types of mortgages include: interest-only loans, negative amortization loans, pre-payment penalty loans, adjustable rate loans with initial terms of three years or less and loans with points and fees exceeding 5%. Loan terms such as these constitute “triggers,” such that counseling is mandatory.

The APLD allows IDFPR to track lending trends. During the reporting period, April 1, 2018 – September 30, 2018, the APLD data reflected a decrease of 2% in the number of loans registered with the APLD. 55,137 loans were registered this period, versus 56,750 loans registered in the last reporting period. Refinancing activity for the period dropped significantly, by 28% or 5,418 loans, while purchase activity increased by almost 30% to 36,600 loans. First-time home buyer activity increased 26% to 30,333 loans from 24,065. Purchases for primary residences and first-time homebuyers increased significantly, by 30% and 26%, versus the last reporting period’s activity. Current data from Zillow shows the housing market is cooling. Trending up of recent home purchase activity appears to be a reaction to rising interest rates (highest level since 2011) and increasing home values, buyers getting off the fence and making purchases before rates and prices get out of reach for some. Data further shows a 12% increase in the number of loans closed in the APLD this period and borrowers requiring counseling rose 5% showing the origination of predacious loans continuing to trend up.

Registration of Interest-Only Loans decreased 49% to 34, while Loans with Points and Fees Exceeding 5% continue to be registered at an ever-increasing pace. Loans with Points and Fees Exceeding 5% showed another significant increase of 23%. A listing of the number of loans that were offered in each “trigger” category may be found on pages 8-9 of this report. For the second straight reporting period, points and fees exceeding 5% required the most counseling. Negative Amortization Loans followed by interest-only loans and Adjustable Rate Loans completing the list.

The mortgage and real-estate markets continue to demonstrate volatility. Mortgage interest rates still remain comparatively low, though they have been moving up at a steady rate, capping out around 5% for a 30-year conventional. According to Zillow, real-estate values continue to rise, on an average of about 7.5% nationwide, but appreciation is slowing. The increase in mortgage rates is probably responsible for the decreasing loan activity. It was reported by American Banker on September 13, 2018 that mortgage fraud was at its highest level in 7 years. The overall fraud risk in home mortgages is up 16.9% in the last 12-month period as tracked by data analytics firm CoreLogic. Mortgage application fraud where borrowers misrepresent their income rose by 22.1% between the second quarter of 2017 and the same period a year later. Stated loan activity is reported to still be on the upswing for 2018 and is not currently among the counseling standards that trigger the APLD’s counseling requirement.

APLD data from this reporting period continues to contradict the common assertion that mortgage loans containing unfavorable or non-traditional terms are no longer being originated. The APLD program is an effective tool to track exotic loans and provides helpful counseling for

borrowers to better understand the terms of the loan product. The APLD enables borrowers to make informed decisions on whether to utilize exotic loan products.

## **IDFPR Utilization of APLD Data to Combat Mortgage Fraud, Predatory Lending, and Other Questionable Practices**

IDFPR regularly uses APLD data to generate leads and verify and investigate potential lending-related violations. For example, during the reporting periods, title escrow servicers continue to engage in improper practices. Such practices included closing loans with certificates of exemption when a certificate of compliance was required, failing to enter loans into the database within 10 business days, not recognizing that counseling should have taken place, creating fraudulent certificates, and closing loans without ever being entered into the APLD. As a result, in each case the closing agent failed to enter the required data at the closing, depriving the borrower of the protection afforded by the closing agent's scrutiny of the final loan terms. Some loans are closed with no data entry by either the originator or closing agent by utilizing a certificate of exemption. It still being learned that licensees are not aware of the improper closing procedures and failed to adequately audit their files post-closing. The Division of Banking's examination group regularly uses the APLD for examination audits of our licensees, keeping a watchful eye for failure to adhere to the Predatory Lending Database Program.

All APLD entries in which housing counselors have indicated "Indicia of Fraud" are investigated. IDFPR personnel often interview the counselor, loan originator, seller, and/or borrower. Subject files are requested from loan originators for review. Files are also reviewed for counselor comments such as "Close to Cannot Afford" or "Cannot Afford" and "borrower does not understand loan terms". The Unit Director recently participated on a webinar given by Housing Action Illinois on the subject of APLD counseling and the role HUD Housing Counselors play in that counseling.

IDFPR requires licensees to submit a monthly report of loan repurchase demands. IDFPR routinely reviews selected files and compares them to data that was entered into the APLD to ensure full compliance with lending laws and regulations. The files are reviewed for practices such as fraudulent documentation, misrepresented income and fraud as to occupancy.

IDFPR analyzes data regarding properties resold for a higher price within 10 days to search for illegal "flipping."

IDFPR routinely tracks the APLD for loans in which payment-to-income ratios are greater than 40%. Debt-to-income ratios are also tracked. Loans found to contain excessive ratios will result in an IDFPR audit to determine whether the lender failed to verify the borrower's ability to repay the loan, as required by law.

Inaccurate data entry by loan originators had been a recurring problem. This compromises the integrity of the data available to IDFPR and diminished the usefulness of the database. Enforcement actions have resulted in the increased accuracy of the data being entered. A report has been created which allows administrators of mortgage licensees to monitor the data input of their loan originators. As a result of IDFPR scrutiny, the incidences of inaccurate data have declined significantly.

Custom reports are generated on a regular basis at the request of IDFPR, examiners, investigators, and the APLD team when specific information is required.

### **Other Initiatives**

In October 2015 IDFPR successfully implemented an APLD electronic interface that can be integrated into substantially all commercially available mortgage loan origination software. The interface, when integrated, allows Illinois mortgage licensees, both in and out of state, to electronically transfer loan files from their proprietary loan origination systems directly into the APLD database. Previously licensees were required to manually input much of the same loan data into both systems, which resulted in duplicative effort that was time consuming and expensive. The interface was developed at no cost to the state and there is no cost to the industry for its connection. It is the licensees' option and responsibility to integrate the interface into their operating systems. Recently an additional File Upload option was developed and introduced which makes it easier for licensees to enter loans into the database. This option was created with our smaller licensees in mind, where its implementation requires minimal resources. Specifications for the interface were initially distributed to 880 licensees. Several of these licensees have developed, are developing or in the process of developing the interface. Currently the APLD Program is in the process of further modernizing and updating the process of data entry into the database. On September 15, 2017 Governor Rauner signed Senate Bill 776 into law as Public Act 100-0509 which modernizes and streamlines several of the processes under the current Anti-Predatory Lending Database (APLD) Program. These changes to the APLD will make it more user friendly for both industry and borrowers while still providing borrowers with the knowledge necessary to make sound financial decisions about home ownership. Modernizing and streamlining the Predatory Lending Database Program is an ongoing project, intended to make the APLD a better experience for all. It is estimated that if all licensees implemented the interface, as many as 55,000 hours of wasted time could be eliminated. In addition to saving time and costs, we anticipate that implementation of the interface will enable our licensees to be more compliant.



## STATISTICAL INFORMATION

Required Data Pursuant to Act:	October 2018 Reporting Period (4/1/18 - 9/30/18)	April 2018 Reporting Period (10/1/17 - 3/31/18)
<b>Loans Registered with APLD<sup>3</sup></b>	<b>55,137</b>	<b>56,750</b>
Refinancing Primary Residence	13,814	19,232
Purchasing Primary Residence	36,600	28,356
First Time Homebuyers	30,333	24,065
<b>Loans Closed in APLD</b>	<b>33,545</b>	<b>29,832</b>
<b>Borrowers Requiring Counseling</b>	<b>633</b>	<b>606</b>
<b>Loans Requiring Counseling<sup>4</sup></b>	<b>548</b>	<b>517</b>
Interest Only Loans	34	50
Negative Amortization Loans	113	124
Loans with Points and Fees Exceeding 5%	410	334
Loans with Prepayment Penalty	1	1
Adjustable Rate Loans	26	60
<b>Loans Modified to No Longer Require Counseling</b>	<b>1,386</b>	<b>1,493</b>
<b>Loans Exempt from APLD</b>	<b>64,623</b>	<b>62,317</b>

<sup>3</sup> The totals may include loans that are in process or have been abandoned.

<sup>4</sup> The number of loans requiring counseling is often less than the number of borrowers requiring counseling because there may be multiple borrowers per loan.

<b>Required Data Pursuant to Act:<sup>5</sup></b>	<b>October 2018 Reporting Period (4/1/18 - 9/30/18)</b>			
	<b>Cook County</b>	<b>Kane County</b>	<b>Peoria County</b>	<b>Will County</b>
<b>Loans Registered with APLD<sup>6</sup></b>	<b>39,456</b>	<b>4,861</b>	<b>761</b>	<b>7,600</b>
Refinancing Primary Residence	10,006	1,065	176	1,989
Purchasing Primary Residence	25,804	3,515	553	5,157
First Time Homebuyers	22,046	2,687	393	3,937
<b>Loans Closed in APLD</b>	<b>24,170</b>	<b>3,230</b>	<b>458</b>	<b>4,721</b>
<b>Borrowers Requiring Counseling</b>	<b>487</b>	<b>26</b>	<b>18</b>	<b>76</b>
<b>Loans Requiring Counseling<sup>7</sup></b>	<b>424</b>	<b>23</b>	<b>14</b>	<b>65</b>
Interest Only Loans	23	1	1	6
Negative Amortization Loans	74	7	2	19
Loans with Points and Fees Exceeding 5%	329	15	12	42
Loans with Prepayment Penalty	1	0	0	0
Adjustable Rate Loans	16	1	1	5
<b>Loans Modified to No Longer Require Counseling</b>	<b>1,008</b>	<b>107</b>	<b>22</b>	<b>174</b>
<b>Loans Exempt from APLD</b>	<b>43,249</b>	<b>4,212</b>	<b>1,152</b>	<b>5,455</b>

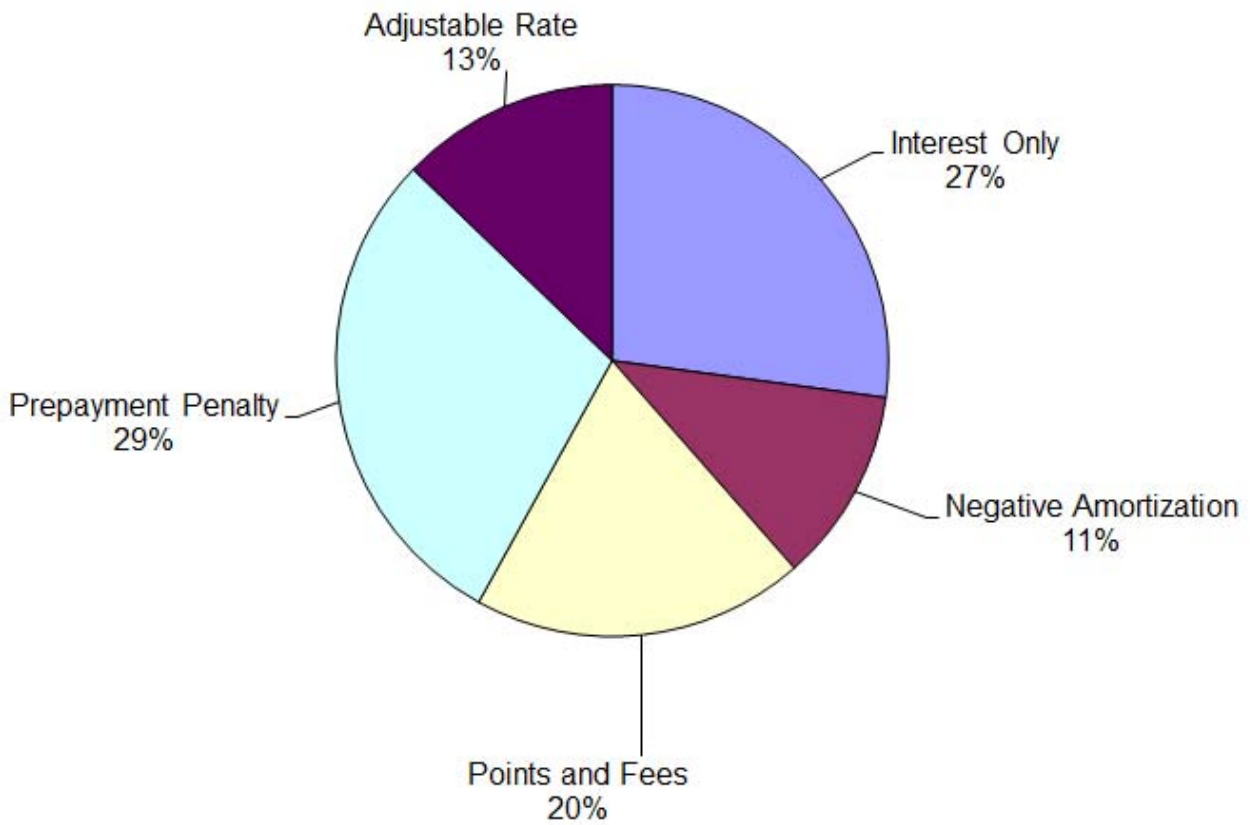
<sup>5</sup> County totals may be lower than the overall totals because some loans do not have county information recorded in the database.

<sup>6</sup> The totals may include loans that are in process or have been abandoned.

<sup>7</sup> The number of loans requiring counseling is often less than the number of borrowers requiring counseling because there may be multiple borrowers per loan.

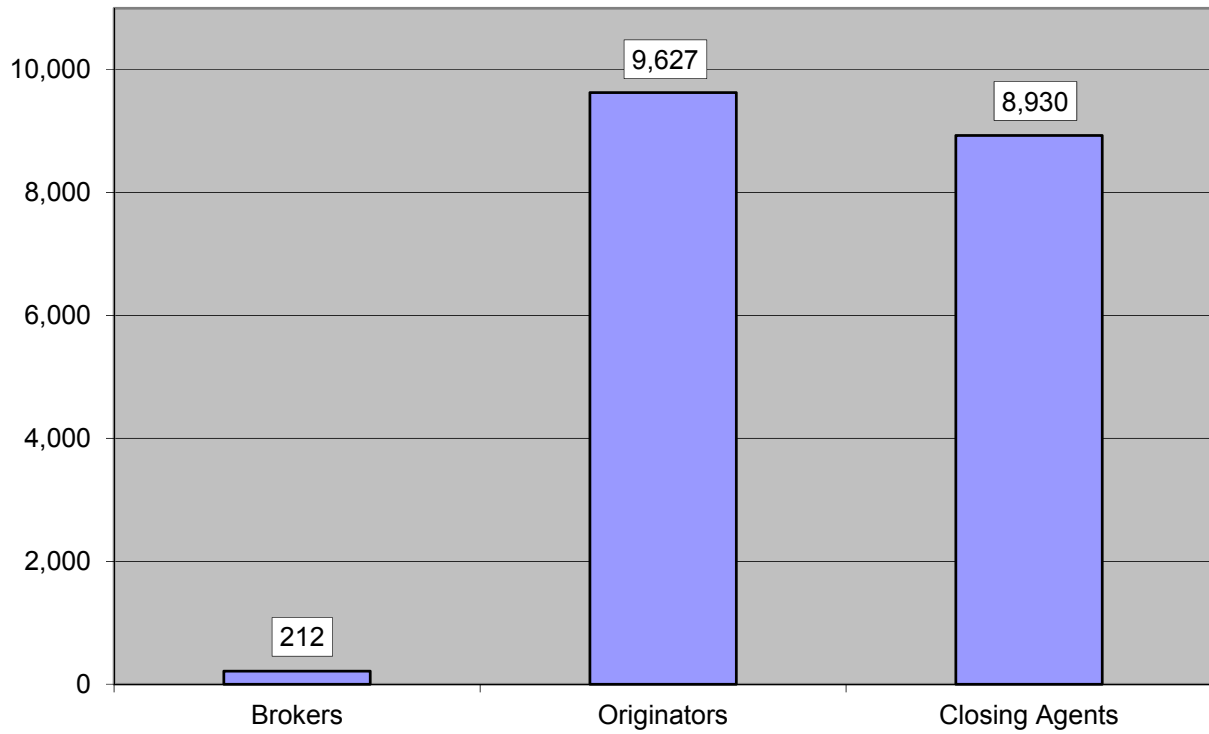
**APLD Product Summary**

**Types of Loans Triggering the Counseling Requirement**  
(Since program inception)



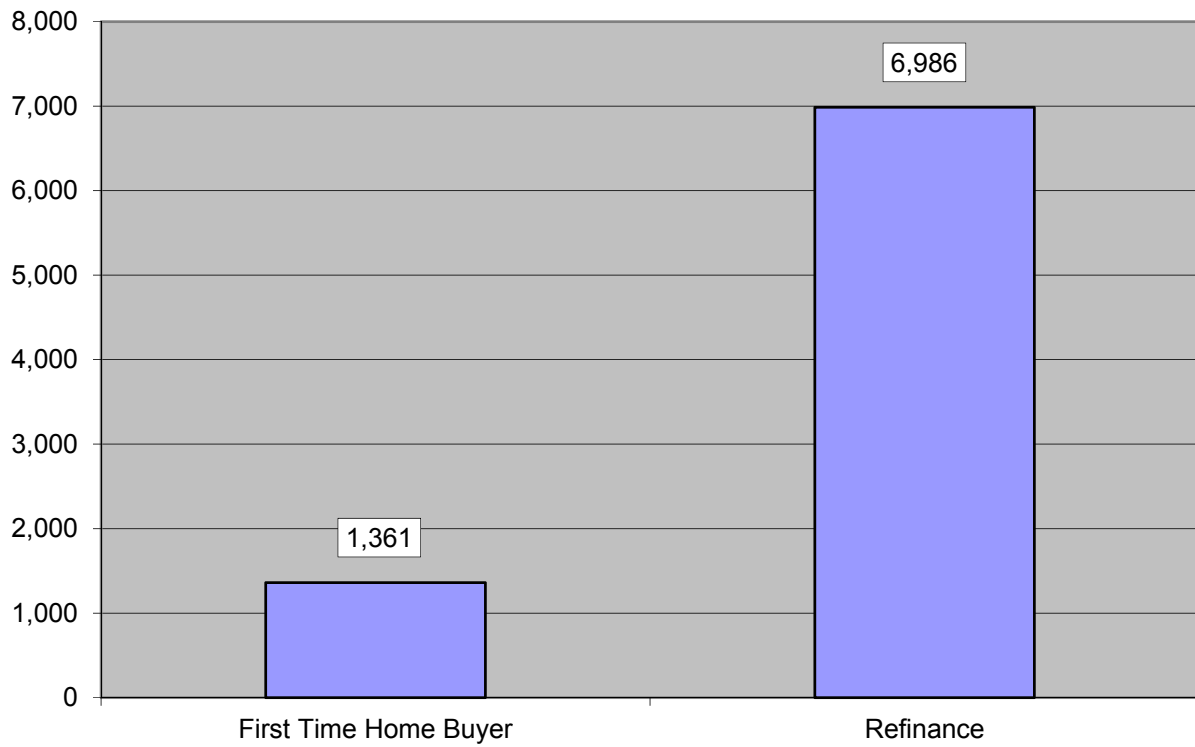
**APLD User Summary**

**Number of Individual Brokers, Loan Originators, and Closing Agents with Access to the APLD in the Four County Program Area**  
(Since program inception)



## APLD Loan Profile

**The majority of loans requiring counseling are refinances of existing properties.**  
(Since program inception)



## Summary of Average Time to Closing

**Counseling requirement decreased time to close by 1.38 days on average.**  
(Since program inception)

