Anti-Predatory Lending Database
Semi-Annual Summary Report
November 1, 2020

Governor JB Pritzker
Secretary Deborah Hagan
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

JB Pritzker **Governor**	**Deborah Hagan** **Secretary**

November 1, 2020

Governor JB Pritzker
207 State House
Springfield, IL 62706

Illinois General Assembly
State House
Springfield, IL 62706

Dear Governor Pritzker & 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 (217) 785-2165 or Deborah.Hagan@Illinois.gov.

Very truly yours,

Deborah Hagan

Deborah Hagan

Summary of Anti-Predatory Lending Database (APLD) Program

- As a result of the financial crises in 2008, in part due to predatory mortgage loans, the APLD was conceived. The APLD's purpose is to combat predatory lending practices by increasing the borrowers' understanding of the loans they are considering and thereby reduce the number of foreclosures resulting from inappropriate loans. The act does not prohibit any type of loan. It is solely the borrowers' decision whether to proceed.

- 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 non-traditional characteristics. Since the program's inception, a total of 10,706 loans required borrower counseling. Of these, 3,943 (37%) loans were closed, and 6,763 (63%) were not closed. In comparison, for *all* loans registered with the APLD since inception the closing rate was 55%.

- On average, it takes 2.68 *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 changing from a high point of 8 days *longer* in 2010.

- The number of loans entered into the APLD for this reporting period, 151,465, was the highest in the twelve-year history of the APLD program.

- 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, which 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 of Cook, Will, Kane and Peoria counties.

APLD FACTS AT A GLANCE[1]

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

- Loans registered with the APLD: **1,502,017**
- Loans closed: **831,939**
- Borrowers requiring counseling: **14,458**
- Borrowers receiving counseling: **7,153**
- Borrowers requiring counseling by county: Cook (**12,026**); Kane (**560**); Peoria (**151**); Will (**1,055**); n/a (**666**)[2]
- Borrowers receiving counseling by county: Cook (**6,387**); Kane (**148**); Peoria (**15**); Will (**201**); n/a (**402**)[3]
- Loan types requiring counseling:[4]
    - Interest-Only Loans: **2,743**
    - Negative Amortization Loans: **1,913**
    - Loans with Points and Fees Exceeding 5%: **3,126**
    - Loans with Prepayment Penalty: **2,701**
    - Adjustable Rate Loans: **1,404**
- **33,058** 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: **9,776**[5]

Investigations and Other Regulatory Actions Based on APLD Information

During the reporting period, April 1, 2020 – September 30, 2020, IDFPR investigated a total of sixteen mortgage banks and twenty title companies. Five mortgage banks and twenty title companies and/or underwriters were investigated for generating and recording loans with exemption certificates where the loans were not exempt from the APLD. On June 24, 2020, cease and desist orders were served on three of these title companies. Two of the mortgage banks were investigated for occurrences where housing counseling was triggered by the APLD but did not take place prior to the loan being recorded with an improper certificate of exemption.

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1 Statistics for each county can be found in the table on page 9.

2 Loans with invalid zip codes.

3 Loans with invalid zip codes.

4 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.

5 Number reduced from previous reports to exclude brokers and originators who have not entered a loan into the APLD.

While no other enforcement actions were taken during the reporting period, several investigations remain pending.

Investigations of two mortgage banks for failing to enter loans in APLD remain pending.

Eight mortgage banks were investigated for inputting amounts for gross monthly income into the APLD which did not appear sufficient to afford the loan offered.

One mortgage lender was investigated for failing to update material loan terms after entry in the APLD and prior to closing.

Two mortgage lenders were investigated for failing to pay for required housing counseling.

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

The number of loan applications input into the APLD for this reporting period, 151,465, was the highest in the twelve-year history of the APLD. The loan activity increased by 73% from the number of loan applications entered during the past reporting period (87,374), even though the loan activity during that period was at that time the highest volume in the history of the APLD. Refinancing activity for the six-month reporting period increased by 84% while purchase activity increased by 58% and first-time home buyer activity increased by 57%. With this increase, the number of applications for non-traditional loans also increased by 17% and was the highest that it has been since 2011. This includes interest-only loans, negative amortization loans, adjustable rate loans with initial terms of three years or less, and loans with points and fees exceeding 5%.

These increases come in the six months immediately following March 2020, when Governor Pritzker issued a disaster proclamation and shelter-in-place order for the State of Illinois in response to the COVID-19 pandemic. The pandemic's effects on the economy have resulted mortgage rates hitting all-time lows. Freddie Mac first reported that mortgage rates had hit an all-time low on April 30, 2020 with average rates at 3.23%.[6] In September 2020, however, Freddie Mac reported that rates had fallen yet again to a new all-time low of 2.86%.[7]

The effects of the COVID-19 pandemic are felt in the mortgage industry on another level with 11 million households falling behind on their rent or mortgage payments during the first three months of the pandemic.[8] At the onset of the COVID-19 pandemic and beginning of this reporting period, the number of loans in forbearance had increased from 0.25% to 2.66% from March 2 to April 1, 2020.[9] In the months that followed, however, the loans in forbearance

[6] "Mortgage Rates Reach All-Time Low," available at *https://freddiemac.gcs-web.com/news-releases/news-release-details/mortgage-rates-reach-all-time-low* (April 30, 2020).
[7] "Mortgage Rates Hit Another All-Time Low" available at *https://freddiemac.gcs-web.com/news-releases/news-release-details/mortgage-rates-hit-another-all-time-low-0* (Sept. 10, 2020).
[8] "RIHA Study: New Data Highlights Early COVID-19 Impact," available at *https://www.mba.org/2020-press-releases/september/riha-study-new-data-highlights-early-covid-19-impact-on-jobs-and-individuals-ability-to-make-housing-and-student-debt-payments* (Sept. 17, 2020).
[9] "MBA Survey Shows Spike in Loans in Forbearance, Servicer Call Volume" available at *https://www.mba.org/2020-press-releases/april/mba-survey-shows-spike-in-loans-in-forbearance-servicer-call-volume* (April 7, 2020).

surged further until peaking at 8.55% on June 7, 2020, before declining marginally to 6.87% on September 20, 2020.[10]

The APLD allows IDFPR to track lending trends. 913 borrowers, or 786 loan applications, were referred to required housing counseling prior to closing due to the potentially predatory features on the mortgages offered to them. The last time that there were more than 700 loan applications requiring housing counseling was nine years ago in 2011.

While mortgages with points and fees exceeding 5% were the dominant non-traditional mortgage product offered during each the past five reporting periods, applications for negative amortization loans are now most prevalent. Negative amortization loan applications nearly doubled from the past reporting period, increasing from 212 to 409. The number of applications for interest-only loans more than doubled, increasing from 45 to 96 loan applications. Adjustable rate loan applications also nearly doubled, increasing from 48 to 99 loan applications.

APLD data from this unprecedented time continues to contradict the common assertion that mortgage loans containing unfavorable or non-traditional terms are no longer being offered. With record numbers of mortgage loan applications as well as a dramatic increase of borrowers in forbearance come unparalleled numbers of borrowers vulnerable to predatory lending practices. The APLD program is an effective tool to track non-traditional loans potentially damaging to the borrower and provides helpful counseling for borrowers to better understand the terms of the loan product. It is as important as ever to screen for predatory loans and make sure borrowers understand the terms of the loans they are signing.

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

During this reporting period IDFPR launched an audit of certificates of exemption generated by closing agents and title companies with the reason selected "Application taken by exempt entity or person." IDFPR found substantial noncompliance but has seen an improvement after reviewing and discussing compliance plans with several title companies. As IDFPR continues to further engrain APLD data into its investigations of fraudulent and improper lending practices, the ongoing audit provides support for these investigations. The audit has provided important leads on potentially unlicensed lending activity and these investigations continue. The audit has assisted IDFPR to identify noncompliance by originators including closing loans without any entry in the APLD, closing loans with terms that do not match what was input in the APLD, and closing loans without housing counseling after housing counseling was triggered.

In addition to the audit of improper exemption certificates, IDFPR investigated fraudulent exemption certificates which were fabricated and recorded. IDFPR is working with Recorder of Deeds offices to combat this practice.

[10] "Share of Mortgage Loans in Forbearance Increases to 8.55%" available at *https://www.mba.org/2020-press-releases/june/share-of-mortgage-loans-in-forbearance-increases-to-855* (June 15, 2020). "Share of Mortgage Loans in Forbearance Declines to 6.87%" available at *https://www.mba.org/2020-press-releases/september/share-of-mortgage-loans-in-forbearance-declines-to-687* (Sept. 28, 2020).

The APLD director spoke with several housing counselors and as a result investigated allegations of mortgage originators failing to pay for housing counseling, not allowing adequate time for housing counseling prior to closing the loan, and closing loans prior to housing counseling taking place. IDFPR secured reimbursement for borrowers where the originator failed to pay for the counseling where required. APLD staff continue to monitor comments from housing counselors and interview the counselor, loan originator, seller, and/or borrower where concerns arise.

The Division of Banking's examination group are also regular users of the APLD for examination audits of our licensees, keeping a watchful eye for failure to adhere to the APLD Program.

IDFPR continues to track the APLD for loans in which payment-to-income ratios are greater than 40%. 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.

Other Initiatives

The APLD director spoke with several housing counselors to hear feedback on the APLD process. As a result, IDFPR is making important adjustments to ensure borrowers are promptly notified of required housing counseling and that payment for counseling is the responsibility of the broker or originator. The APLD director also continues to work with the Record of Deeds offices to increase awareness of and screening for fabricated or improper certificates of exemption or compliance with the APLD.

Modernizing and streamlining the APLD program is an ongoing project, intended to make the APLD a better experience for all. The points and fees calculator was removed from the database to avoid confusion, as the calculator was not mandatory. To determine points and fees, licensees are encouraged to refer to the definition in Section 10 of the Illinois High Risk Home Loan Act (815 ILCS 137/10).

Licensees are encouraged to use the interface option to input data in order to increase efficiency. 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 2020 Reporting Period (4/1/20 - 9/30/20)	April 2020 Reporting Period (10/1/19 - 3/31/20)
Loans Registered with APLD[11]	**151,465**	**87,374**
Refinancing Primary Residence	95,977	52,081
Purchasing Primary Residence	46,862	29,510
First Time Home Buyers	39,555	25,098
Loans Closed in APLD	**81,094**	**43,917**
Borrowers Requiring Counseling	**913**	**789**
Borrowers Receiving Counseling	**7**	**22**
Loans Requiring Counseling[12]	**786**	**671**
Interest Only Loans	96	45
Negative Amortization Loans	403	212
Loans with Points and Fees Exceeding 5%	291	419
Loans with Prepayment Penalty	2	1
Adjustable Rate Loans	99	48
Loans Modified to No Longer Require Counseling	**2,190**	**1,835**
Loans Exempt from APLD	**82,930**	**69,425**

11 The totals may include loans that are in process or have been abandoned.

12 The number of loans requiring counseling is often less than the number of borrowers requiring counseling because there may be multiple borrowers per loan.

Required Data Pursuant to Act:[13]	October 2020 Reporting Period (4/1/20 - 9/30/20) Cook County	Kane County	Peoria County	Will County
Loans Registered with APLD[14]	**110,963**	**14,926**	**1,531**	**23,198**
Refinancing Primary Residence	70,746	9,422	663	14,692
Purchasing Primary Residence	33,434	4,892	810	7,465
First Time Home Buyers	29,170	3,793	646	5,688
Loans Closed in APLD	**59,022**	**8,322**	**830**	**12,854**
Borrowers Requiring Counseling	**659**	**74**	**12**	**154**
Borrowers Receiving Counseling	**5**	**0**	**0**	**2**
Loans Requiring Counseling[15]	**569**	**60**	**10**	**135**
Interest Only Loans	71	6	1	17
Negative Amortization Loans	262	46	4	80
Loans with Points and Fees Exceeding 5%	228	12	6	45
Loans with Prepayment Penalty	1	0	0	1
Adjustable Rate Loans	74	6	1	17
Loans Modified to No Longer Require Counseling	**1,576**	**225**	**36**	**320**
Loans Exempt from APLD	**54,088**	**5,996**	**1,368**	**7,710**

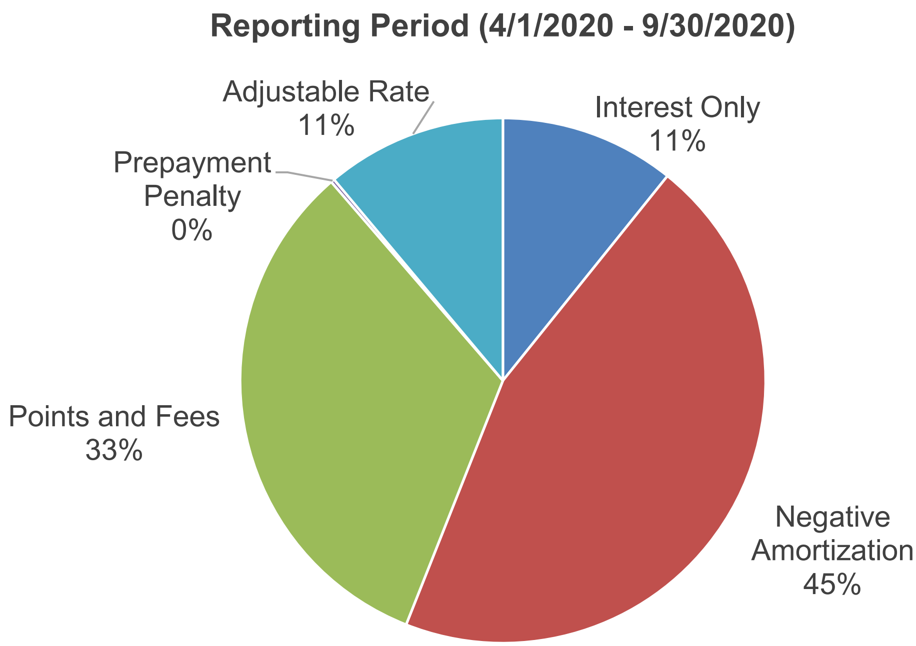
13 County totals may be lower than the overall totals because some loans do not have county information recorded in the database.

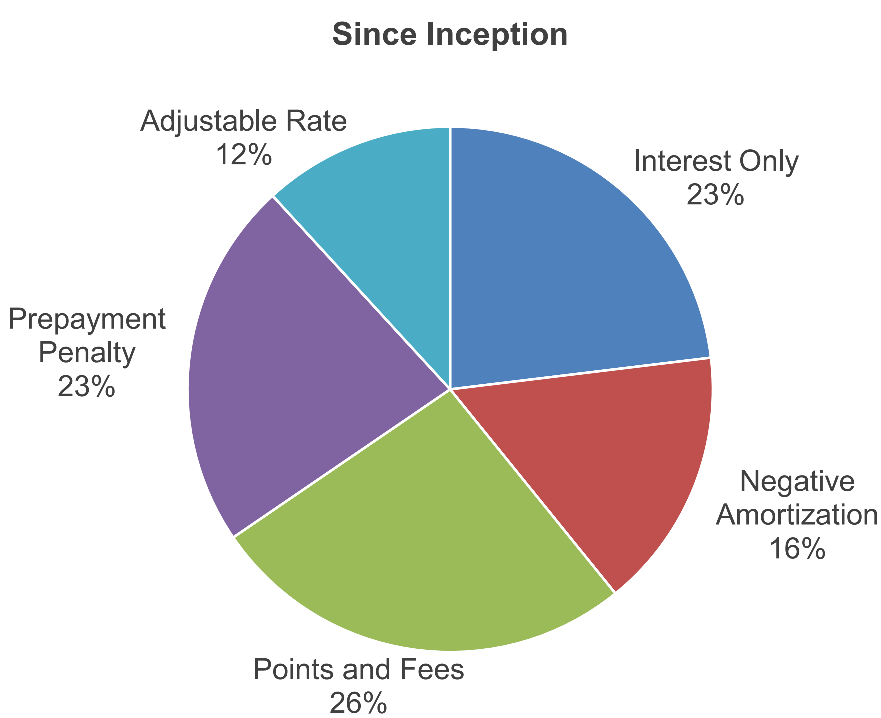
14 The totals may include loans that are in process or have been abandoned.

15 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

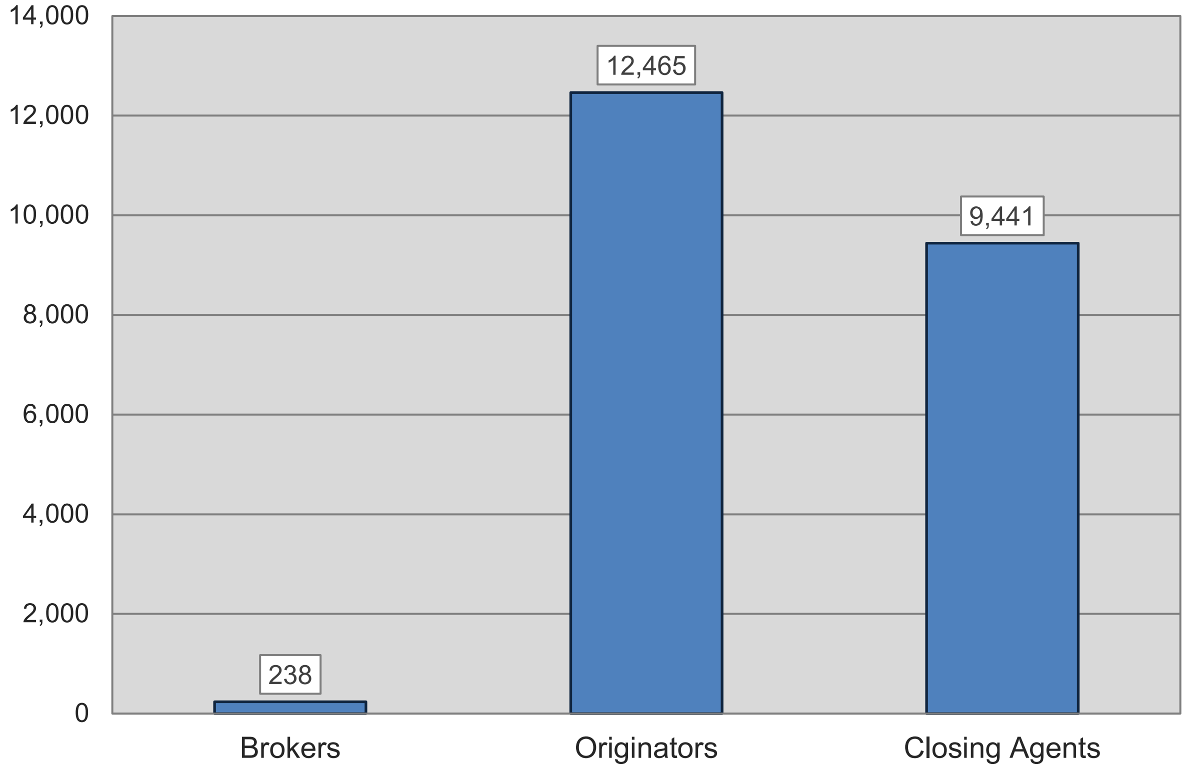
Types of Loans Triggering the Counseling Requirement





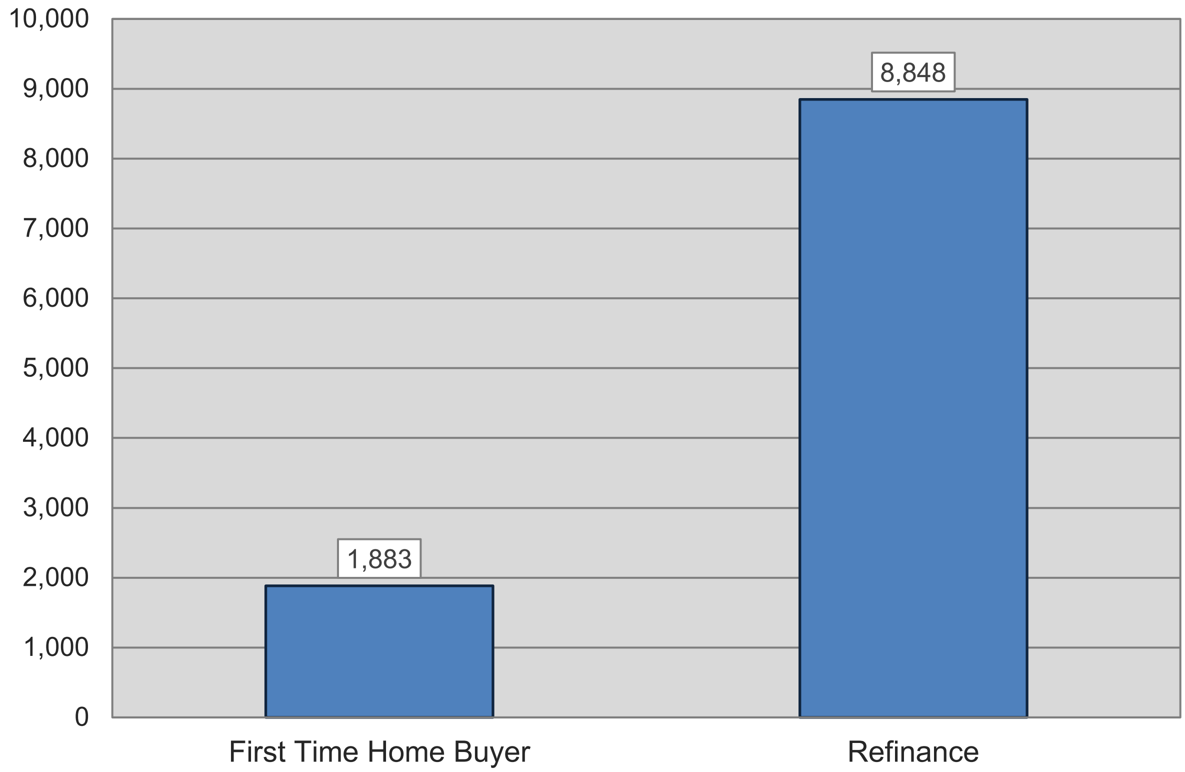
APLD User Summary

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)



<u>**Summary of Average Time to Closing**</u>

Counseling requirement decreased time to close by 2.68 days on average.
(Since program inception)