Anti-Predatory Lending Database
Semi-Annual Summary Report
November 1, 2016

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

<u>ABOUT THE INFORMATION IN THIS REPORT</u>

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, 2016

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.

Very truly yours,

Bryan A Schneider

Bryan A Schneider

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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 0.88 *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 6,591 loans required borrower counseling. Of these, 3,784 (57%) loans were closed, and 2,807 (43%) were not closed. In comparison, for *all* loans registered with the APLD since inception the closing rate was 57% — approximately equal to the closing rate for the subset of loans requiring counseling.

- 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[1]

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

- Loans registered with the APLD: **889,303**
- Loans closed: **503,130**
- Borrowers requiring counseling: **9,699**
- Borrowers requiring counseling by county: Cook (**9,001**); Kane (**256**); Peoria (**45**); and Will (**397**)
- Loan types requiring counseling:[2]
    - Interest Only Loans: **2,357**
    - Negative Amortization Loans: **595**
    - Loans with Points and Fees Exceeding 5%: **764**
    - Loans with Prepayment Penalty: **2,695**
    - Adjustable Rate Loans: **962**
- Loans requiring counseling that had loan terms changed after counseling: **20,880**
- Actively licensed mortgage brokers/loan originators who have entered loans into the APLD: **7,429**

Investigations and Other Regulatory Actions Based on APLD Information

During the October 2016 reporting period (April 1, 2016 – September 30, 2016), 5 investigations and enforcement actions resulted from information obtained from the APLD. These actions involved:

- Mortgage banking licensees (2)
- Mortgage loan originators (2)
- Title agents (1)

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

2 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 pace of non-traditional mortgages being offered in the market has increased considerably this past reporting period. These include interest-only loans, negative amortization loans, pre-payment penalty loans, adjustable rate mortgages 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, 2016 – September 30, 2016), the APLD data reflected a 40% increase in the number of loans registered with the APLD. There were 83,445 loans registered indicating a considerable ramping up in lending activity. Refinancing activity increased by 32% while purchases and first time home buyers increased significantly. Purchases increased by 50% while first time homebuyers increased 41%. APLD data further reflected a 46% increase in the number of loans requiring counseling during the reporting period. A 46% increase in the number of loan that require counseling is consistent with a 50% increase in first time home buyers, confirming the industry is resuming the use of predatory loan programs where counseling is required.

Again as in the last period, there were no loans containing pre-payment penalties registered. This is a result of recent federal legal requirements applicable to mortgage lending. However, loans containing four of the other five counseling "triggers" continue to be registered at an increased pace. A listing of the number of loans that were offered in each "trigger" category may be found on pages 8-9 of this report. The largest types of lending requiring counseling was Negative Amortization Loans up significantly at 81% followed closely by Loans with Points and Fees exceeding 5% at 22%. Although a smaller number of interest only loans are closed, there was an increase at 68%.

As the mortgage and real-estate environment continues to improve, the number of loans requiring counseling will also increase. It is anticipated the introduction of new non-traditional loan programs will continue to also increase. Stated loan activity appears to still be on the increase and is not currently among the counseling standards that trigger the APLD's counseling requirement.

APLD data from the 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 also 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 are routinely found engaging in improper practices. Such practices included closing loans with certificates of exemption when a certificate of compliance was required, failing to recognize that counseling should have taken place and creating fraudulent certificates. 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 was also discovered that certain licensees were not aware of the improper closing procedures and failed to adequately audit their files post-closing.

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" and "Cannot Afford."

IDFPR requires licensees to submit a monthly report of loan repurchase demands. IDFPR routinely reviews these 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 compromised 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 new 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 continue to decline.

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

The APLD statute requires that a copy of any *lis pendens* relating to residential mortgage foreclosures be filed with IDFPR simultaneously with recording. The process of electronic filing has become law this past year (Public Act SB 2677) and has been implemented. Electronic filing is saving money and time for both IDFPR and the law firms required to file by greatly reducing the amount of paper copies being filed and delivery costs of the *lis pendens*.

IDFPR, along with its IT vendor Veritec Solutions, has completed data field changes to the database enabling licensees to upload the newly designed CFPB disclosures mandated for use that launched October 3, 2015.

Last October 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. 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 modernizing and updating the process of data entry into the database. Modernizing and streamlining the Predatory Lending Database Program is intended to make the APLD a better experience for all users without compromising its intended purpose. 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 2016 Reporting Period (4/1/16 - 9/30/16)	April 2016 Reporting Period (10/1/15 - 3/31/16)
Loans Registered with APLD[3]	**83,445**	**59,925**
Refinancing Primary Residence	32,599	24,731
Purchasing Primary Residence	36,085	23,997
First Time Homebuyers	29,051	20,606
Loans Closed in APLD	**45,886**	**29,404**
Borrowers Requiring Counseling	**356**	**244**
Loans Requiring Counseling[4]	**307**	**211**
Interest Only Loans	37	22
Negative Amortization Loans	129	71
Loans with Points and Fees Exceeding 5%	111	91
Loans with Prepayment Penalty	0	0
Adjustable Rate Loans	63	51
Loans Modified to Avoid Counseling	**1,503**	**1,167**
Loans Exempt from APLD	**84,061**	**67,823**

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

4 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:[5]	October 2016 Reporting Period (4/1/16 - 9/30/16) Cook County	Kane County	Peoria County	Will County
Loans Registered with APLD[6]	**62,896**	**8,174**	**882**	**11,493**
Refinancing Primary Residence	24,631	2,965	294	4,709
Purchasing Primary Residence	26,328	3,984	511	5,262
First Time Homebuyers	21,884	2,939	360	3,868
Loans Closed in APLD	**34,018**	**4,729**	**444**	**6,695**
Borrowers Requiring Counseling	**277**	**30**	**9**	**40**
Loans Requiring Counseling[7]	**237**	**28**	**8**	**34**
Interest Only Loans	33	1	0	3
Negative Amortization Loans	103	13	0	13
Loans with Points and Fees Exceeding 5%	86	8	8	9
Loans with Prepayment Penalty	0	0	0	0
Adjustable Rate Loans	44	7	0	12
Loans Modified to Avoid Counseling	**1,137**	**141**	**27**	**198**
Loans Exempt from APLD	**55,353**	**5,539**	**1,523**	**7,005**

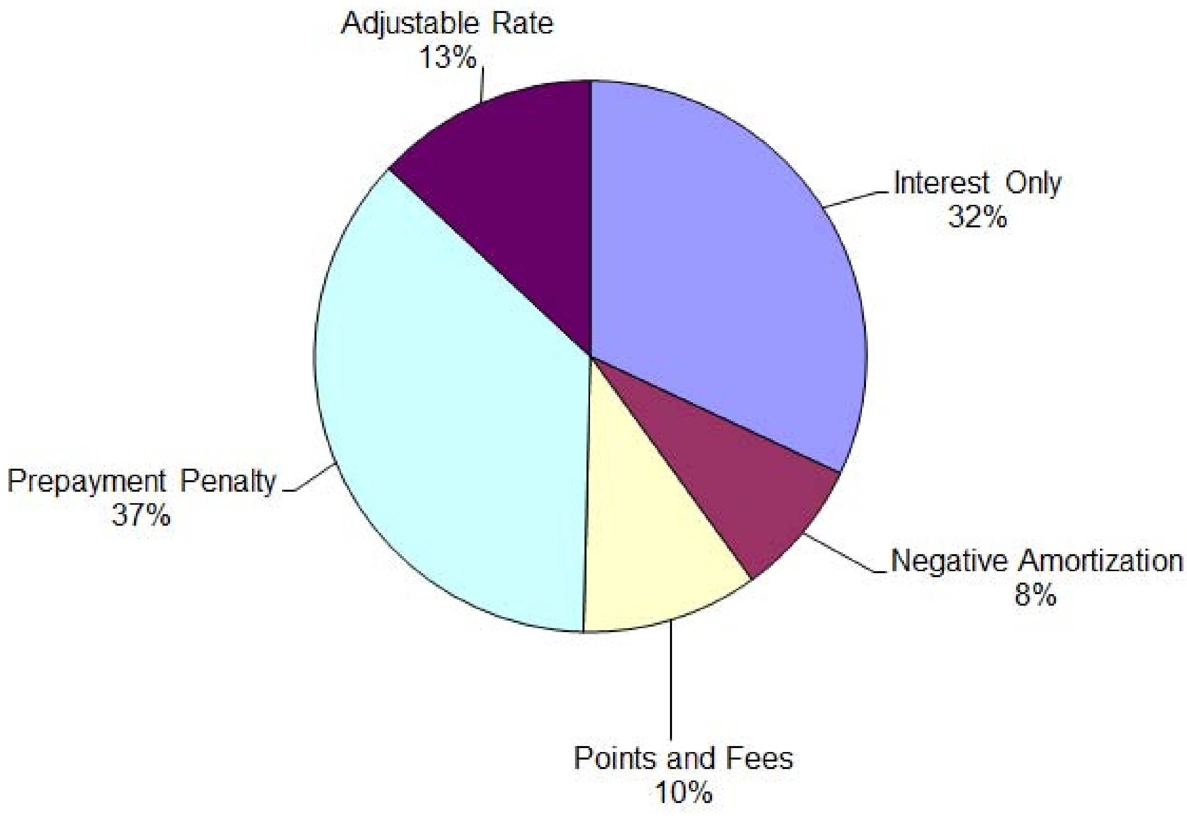
5 County totals may be lower than the overall totals because some loans do not have county information recorded in the database.

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

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

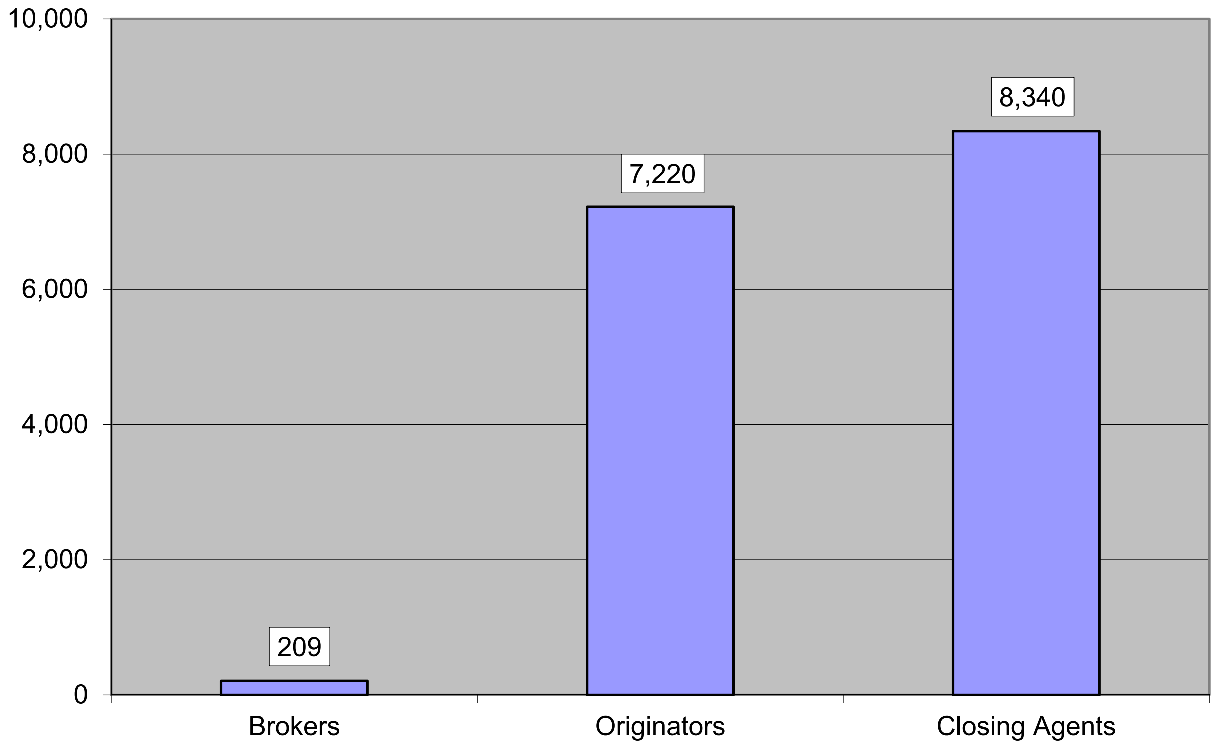
APLD Product Summary

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



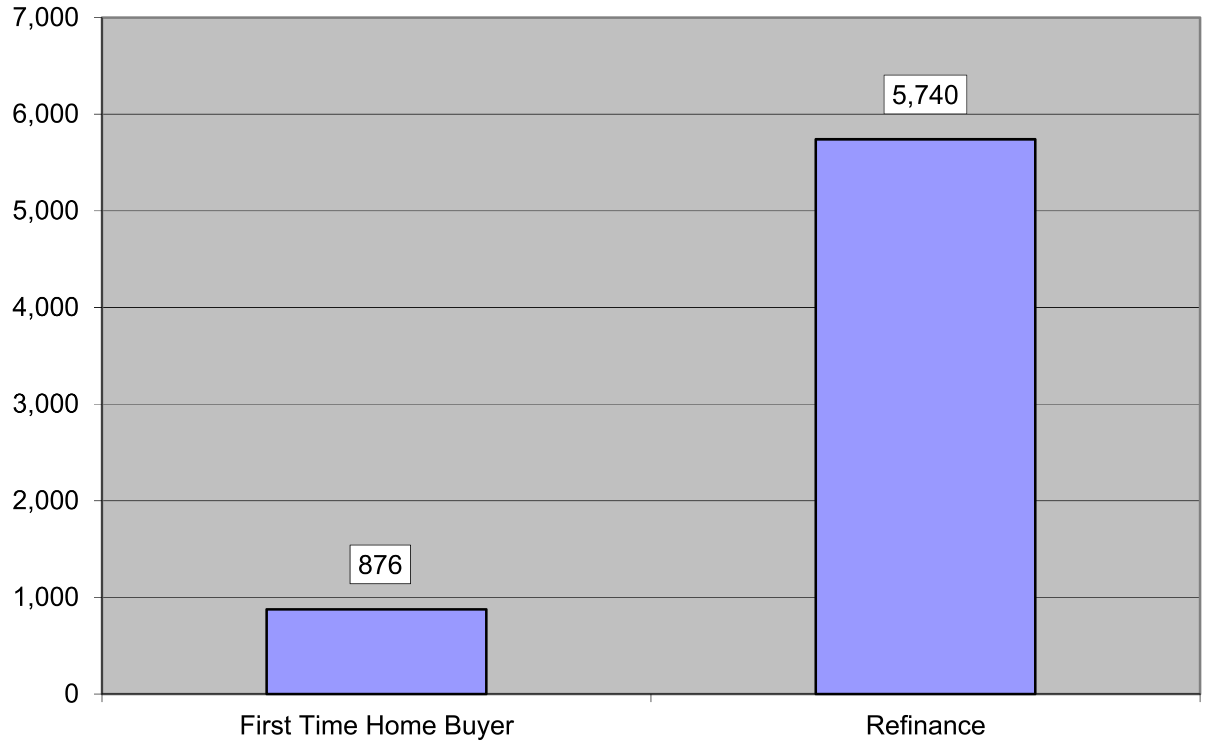
APLD User Summary

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 0.88 days on average.
(Since program inception)