

**Anti-Predatory Lending Database  
Semi-Annual Summary Report  
November 1, 2014**



**Governor Pat Quinn  
Acting Secretary Manuel Flores  
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

PAT QUINN  
Governor

Manuel Flores  
Acting Secretary

November 1, 2014

Governor Pat Quinn  
207 State House  
Springfield, IL 62706

Illinois General Assembly  
State House  
Springfield, IL 62706

Dear Governor Quinn & 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) 814-1524 or Manny.Flores@Illinois.gov.

Very truly yours,



Manuel Flores

## **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 0.9% 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 only 1.54 days longer 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 in 2010.
- Since program inception, a total of 5,738 loans required borrower counseling. Of these, 3,649 (64%) loans were closed, and 2,089 (36%) were not closed. In comparison, for *all* loans registered with the APLD since inception the closing rate was 58%— lower than the 64% 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 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 the APLD impedes 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: **617,699**
- Loans closed: **360,334**
- Borrowers requiring counseling: **8,688<sup>2</sup>**
- Borrowers requiring counseling, by county: Cook (**8,200**); Kane (**192**); Peoria (**15**); and Will (**281**)
- Loan types requiring counseling:<sup>3</sup>
  - Interest Only Loans: **2,248**
  - Negative Amortization Loans: **309**
  - Loans with Points and Fees Exceeding 5%: **430**
  - Loans with Prepayment Penalty: **2,694**
  - Adjustable Rate Loans: **746**
- Loans requiring counseling that had loan terms changed after counseling: **15,956**
- Active licensed mortgage brokers/loan originators who have entered loans into the APLD: **6,075**

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

During the October 2014 reporting period (4/1/14 – 9/30/14), 16 investigations and enforcement actions have resulted from information obtained from the APLD. These actions involved:

- Mortgage banking licensees (8)
- Mortgage loan originator
- Title agents (4)
- Title company fees
- Potential fraud (misrepresentation of investor properties as owner-occupied)
- Potential foreclosure rescue scheme

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

<sup>2</sup> Verbiage in this section has been changed from “borrowers receiving counseling” to “borrowers requiring counseling” for consistency and to more accurately reflect the information provided.

<sup>3</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 APLD allows the Department to track lending trends. During the reporting period (April 1, 2014 – September 30, 2014), APLD data reflected a 29% increase in the number of loans registered with the APLD, indicating a general increase in lending activity. APLD data further reflected a 32% increase in the number of loans requiring counseling during the reporting period.

Based on APLD data, non-traditional mortgage products continue to be offered. These include interest-only loans, loans with prepayment penalties, adjustable rate mortgages with initial terms of three years or less, and loans with points and fees exceeding 5%. These loan terms constitute the counseling standards, also known as “triggers,” that trigger the counseling requirement.

For the first time since inception of the program, no loans containing prepayment penalties were registered, most likely as a result of new legal requirements applicable to mortgage lending. However, loans containing the other four counseling standards continue to be registered. A listing of the number of loans that were offered in each trigger category may be found on pages 7-8 of this report. The largest number of loans requiring counseling were, once again, those with points and fees exceeding 5%.

In addition, as the mortgage environment improves, more non-traditional loan programs are being re-introduced into the market. For example, an out-of-state lender licensed and operating in Illinois recently rolled out a variety of “stated loan” programs that permit borrowers to have credit scores as low as 620. Stated loans are 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 close on 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, verify and investigate potential lending-related violations. For example, during the reporting period, four title escrow services were found to have engaged in improper practices. Such practices included closing loans with certificates of exemption when a certificate of compliance was required and failing to recognize that counseling should have taken place. 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 were 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 investigators 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. Currently, the agency is investigating a repurchase demand that has revealed misrepresentations and fraud.

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 the Department 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 Department scrutiny, the incidents of inaccurate data entry have been steadily declining.

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 the Department simultaneously with recording. A process of electronic filing has been implemented which is expected to save money and time for both the Department and the law firms required to file by greatly reducing the amount of paper copies being filed and delivery costs of the *lis pendens*.

The Department is currently in the process of developing an interface which would allow the APLD data to be auto-populated directly through the licensee’s software, thus eliminating the requirement for loan originators to enter loan data twice. The Department’s IT vendor has indicated it is likely there will be no cost to the State for this new development. The licensee’s software vendor may impose a charge to connect to the interface, but experience with similar plans has indicated that the cost is likely to be minimal. The industry has supported the concept of such an interface, which would save the licensee time and money with no decline in the value and usefulness of the APLD.

The APLD program director and senior counsel presented a program about the APLD at the Veritec Users Conference in St. Augustine, Florida, in October. The program was well received by the various state regulators present. One state showed significant interest in the APLD and appears to be moving toward implementing a similar program in the near future.

## STATISTICAL INFORMATION

| Required Data Pursuant to Act:                | October 2014<br>Reporting Period<br>(4/1/14 - 9/30/14) | April 2014<br>Reporting Period<br>(10/1/13 - 3/31/14) |
|---|--|---|
| <b>Loans Registered with APLD<sup>4</sup></b> | <b>51,551</b>  | <b>39,887</b>   |
| Refinancing Primary Residence                 | 14,458   | 13,793  |
| Purchasing Primary Residence                  | 25,745   | 16,951  |
| First Time Homebuyers                         | 21,250   | 13,896  |
| <b>Loans Closed in APLD</b>                   | <b>26,571</b>  | <b>20,100</b>   |
| <b>Borrowers Requiring Counseling</b>         | <b>202</b>   | <b>191</b>  |
| <b>Loans Requiring Counseling<sup>5</sup></b> | <b>155</b>   | <b>156</b>  |
| Interest Only Loans                           | 26   | 29  |
| Negative Amortization Loans                   | 30   | 42  |
| Loans with Points and Fees Exceeding 5%       | 57   | 66  |
| Loans with Prepayment Penalty                 | 0  | 2   |
| Adjustable Rate Loans                         | 53   | 30  |
| <b>Loans Modified to Avoid Counseling</b>     | <b>907</b>   | <b>855</b>  |
| <b>Loans Exempt from APLD</b>                 | <b>74,412</b>  | <b>64,650</b>   |

<sup>4</sup> The totals may include loans that are in process or have been abandoned.

<sup>5</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.

| Required Data Pursuant to Act: <sup>6</sup>   | October 2014<br>Reporting Period<br>(10/1/13 - 3/31/14) |                |                  |                |
|---|---|----------------|------------------|----------------|
|   | Cook<br>County  | Kane<br>County | Peoria<br>County | Will<br>County |
| <b>Loans Registered with APLD<sup>7</sup></b> | <b>39,203</b>   | <b>5,005</b>   | <b>518</b>       | <b>6,824</b>   |
| Refinancing Primary Residence                 | 10,898  | 1,246          | 188              | 2,126          |
| Purchasing Primary Residence                  | 19,079  | 2,835          | 280              | 3,551          |
| First Time Homebuyers                         | 16,202  | 2,181          | 171              | 2,696          |
| <b>Loans Closed in APLD</b>                   | <b>19,928</b>   | <b>2,726</b>   | <b>258</b>       | <b>3,659</b>   |
| <b>Borrowers Requiring Counseling</b>         | <b>163</b>  | <b>8</b>       | <b>2</b>         | <b>29</b>      |
| <b>Loans Requiring Counseling<sup>8</sup></b> | <b>124</b>  | <b>6</b>       | <b>2</b>         | <b>23</b>      |
| Interest Only Loans                           | 23  | 0              | 0                | 3              |
| Negative Amortization Loans                   | 26  | 0              | 0                | 4              |
| Loans with Points and Fees<br>Exceeding 5%    | 41  | 5              | 1                | 10             |
| Loans with Prepayment Penalty                 | 0   | 0              | 0                | 0              |
| Adjustable Rate Loans                         | 43  | 1              | 1                | 8              |
| <b>Loans Modified to Avoid Counseling</b>     | <b>665</b>  | <b>97</b>      | <b>13</b>        | <b>132</b>     |
| <b>Loans Exempt from APLD</b>                 | <b>49,823</b>   | <b>4,705</b>   | <b>1,784</b>     | <b>5,992</b>   |

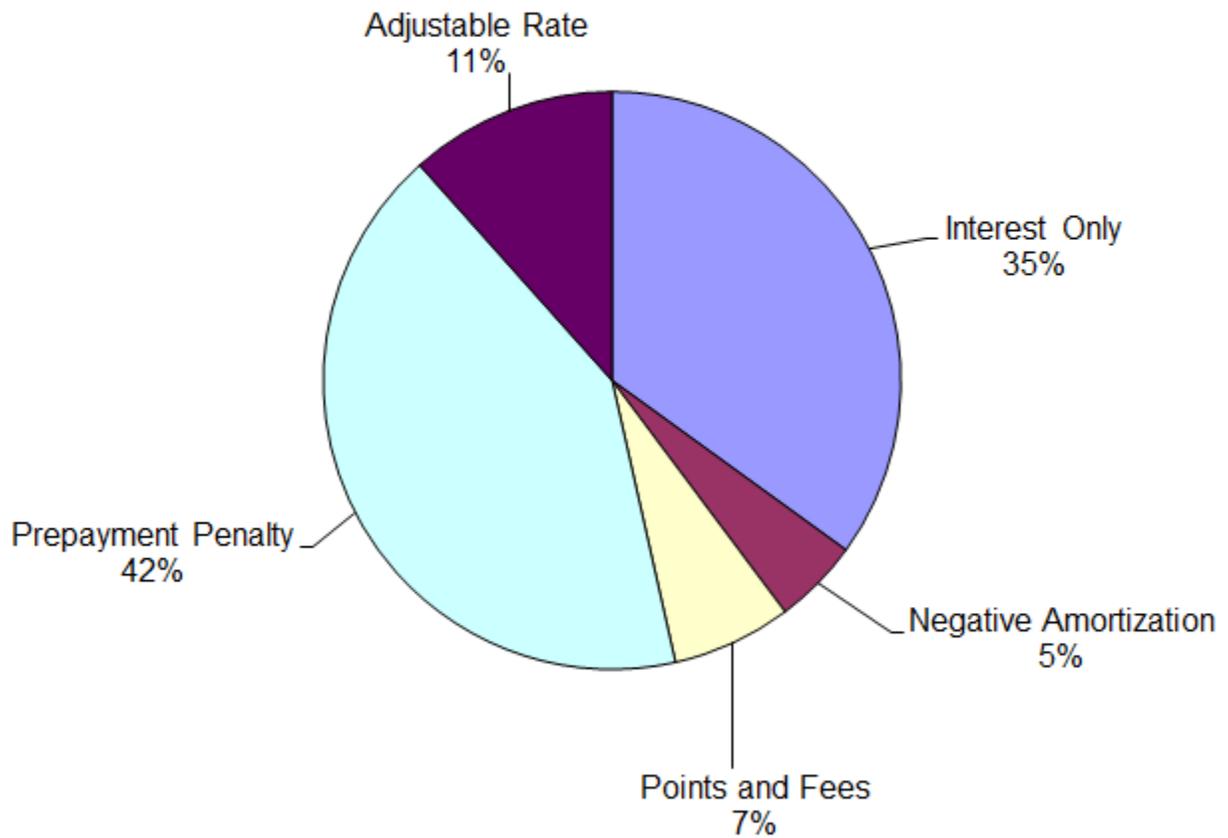
<sup>6</sup> County totals may be lower than the overall totals because some loans do not have county information recorded in the database.

<sup>7</sup> The totals may include loans that are in process or have been abandoned.

<sup>8</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.

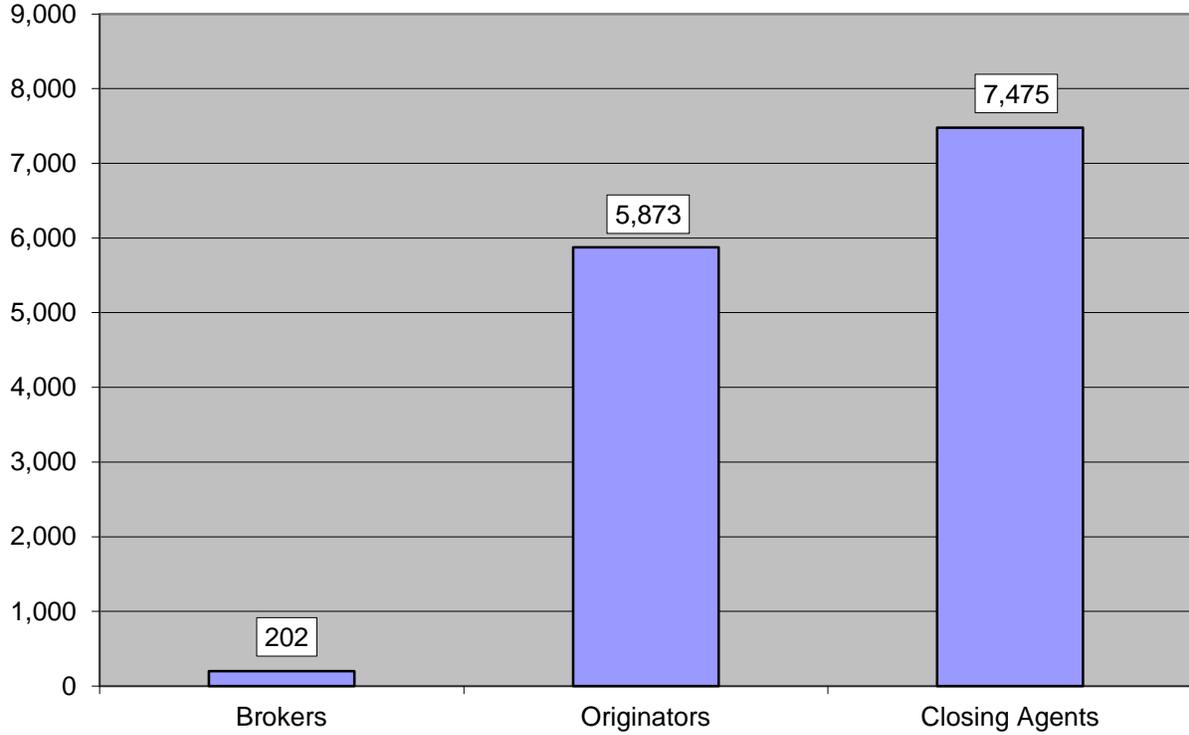
## APLD Product Summary

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



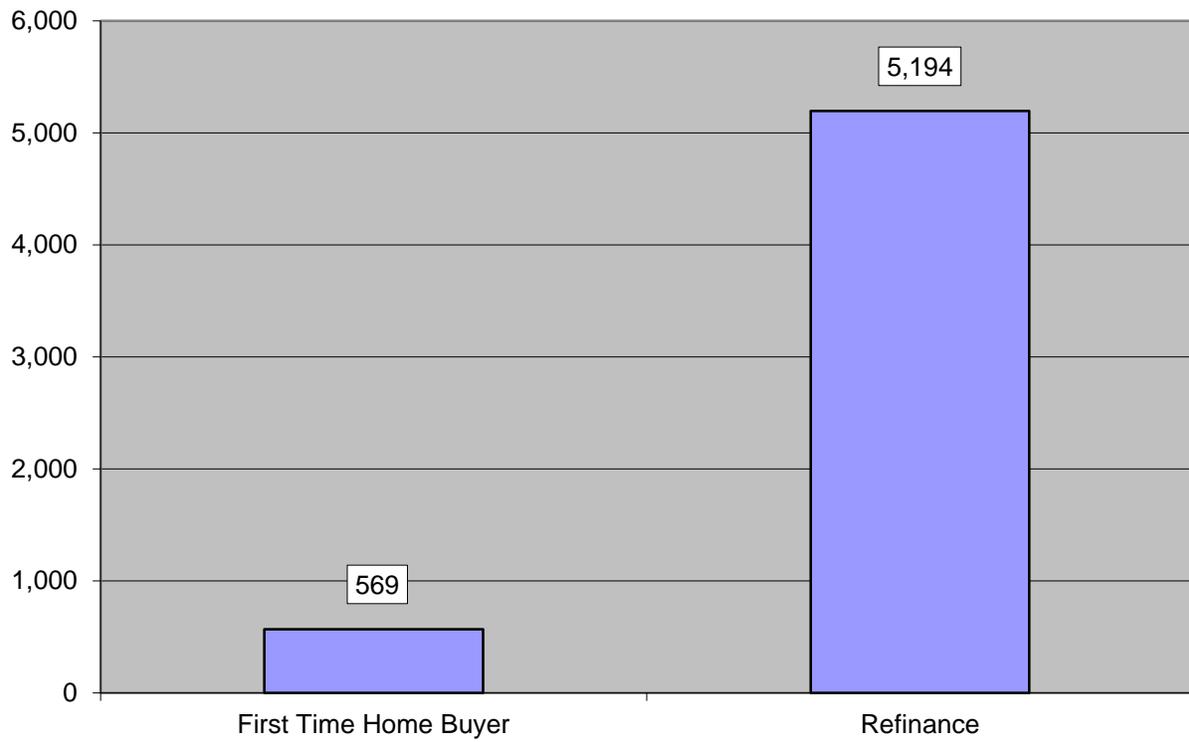
**APLD User Summary**

**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 Postpones Closing by 1.54 Days on Average**  
(Since program inception)

