

PREPARE for the Next Evolution in Mortgage-Related Bonds

NMLS will soon be the primary
system for bond issuance and tracking

CHANGES ARE ON the horizon for surety bonds in the financial industry. The role of the Nationwide Multistate Licensing System (NMLS) is expanding, and the impacts on mortgage-related bonds and the agents and underwriters that provide them are already starting to take shape. Understanding where changes are happening, when each phase of the new process will roll out, and how the transition will affect producers' workflows will be the key to keeping pace with the switch to digital bond management.

Enhanced accuracy, improved productivity part of NMLS changes

Launched as part of the 2008 Secure and Fair Enforcement for Mortgage Licensing Act, more commonly

known as the SAFE Act, NMLS brings under one umbrella much of the recordkeeping necessary to oversee licensure across the country. "In NMLS, we manage nearly 600 license types on behalf of 61 state and territorial agencies that supervise a variety of non-depository financial services," said Tim Lange, Senior Director of Policy at the Washington, D.C.-based Conference of State Bank Supervisors (CSBS). Created by CSBS and the American Association of Residential Mortgage Regulators, NMLS is owned and operated by a CSBS subsidiary, the State Regulatory Registry, and has become the official system of record for a large majority of state agencies.

Nearly eight years of active operations have revealed opportunities to

improve the system, and NMLS has increased efficiency in several areas within the license application process. Examples include uniformity across multiple states' licensing application forms and the streamlining of the criminal background check process for licensees. Lange said the improvements don't stop there. "The system also allows participants to provide a single financial statement upload to all states," he explained, adding, "Overall, it has eliminated a lot of duplication."

The SAFE Act of 2008 mandates that anyone engaged as a mortgage loan originator (MLO) be licensed and registered. Corban Enns, owner of Surety Solutions, LLC, in Salem, Oregon, and chair of the NASBP Commercial Surety Committee, said

that, accordingly, the comprehensive data stored in NMLS functions as a crucial component in maintaining MLO records. "It provides a method to reduce fraud while also facilitating better information sharing and vetting between regulators." With many of the participating states having a requirement for the surety bond as part of the licensure process, NMLS gives regulators a way to confirm that licensees are who they say they are, and that anyone creating a surety bond is authorized to do so. Regulators are also provided better tools within NMLS to spot potentially fraudulent bonds, a task that can be extraordinarily difficult when relying on unverified data or information from multiple sources.

Lange is quick to point out that NMLS doesn't conduct the initial vetting of surety companies or producers. "We are not acting in a licensing role for the sureties," he said. "We're simply taking information that our fellow state regulators within the insurance side have already validated and vetted, and we're using what they've done to help ensure the information that comes to us is accurate."

Get on board with Phase I, prepare for Phase II

Phase I of the NMLS Electronic Surety Bond Tracking initiative began in January 2016. "It has entailed giving surety companies and surety bond producers an opportunity to create an account in the system," Lange explained. "They provide a basic application with information about their company and some supporting documentation, which we then review and validate against the NAIC [National Association of Insurance Commissioners] database." By verifying company names, employers' tax numbers, and other identifying information, NMLS is able to confirm a participant's authority to operate in the various states.

Not only will producers and surety companies each need an account in NMLS, but also producers must link their accounts to each carrier for

whom they are authorized to act. It's an important step, which Enns said producers should be taking now to prepare for the next step, which is scheduled to roll out in July 2016. "Agencies should connect with carriers to ensure that accounts can be properly associated in NMLS as they are created," he said.

Organizations that complete Phase I with the creation of their accounts and the designation of their authorized associations will then be ready to tackle Phase II, which will incorporate electronic issuing and tracking of surety bonds. "The surety bond initiative is meant to bring a lot of the data that is within NMLS into the surety bond process and use that data as bonds are being created," Lange said. "In order to create a bond in a state whose agency is requiring this, they will need to enter information on the bond into NMLS, whether it's through manual entry or via a feed from another system."

Changes aren't planned to the surety guarantee and state licensing processes, which will remain as they are today; but Enns said the procedures for issuing and servicing bonds will look much different after Phase II of the surety bond initiative is complete. "Name change riders, for example, will no longer be needed in order to resolve syntax errors," he said. "That's something that will be addressed with the use of standardized data attached to the unique NMLS account identifiers." A final close-out date for Phase II hasn't yet been determined, but surety bond producers should be prepared for other transitions that will also occur once the documentation becomes fully digital, such as the elimination of embossed seals and notary acknowledgements.

A work in progress

NMLS has a working group comprised of licensees, surety industry professionals, and regulators who contribute their expertise on how best to structure the system. Feedback will continue to be solicited

throughout Phase I and Phase II of the Electronic Surety Bond Tracking implementation to determine where the process may benefit from tweaking. "I would encourage people to reach out to NASBP or to us if they would like to participate in that working group," Lange said. "We're always looking for additional folks to provide input on the process."

Enns will spearhead much of the discussion between NASBP and CSBS as Phase I and Phase II changes are implemented. "The NMLS working group offers a great way for NASBP members to get more information on the transitions that are coming and to offer their insight on how the surety bond process can continue to be improved," he said. As paper bonding evolves into the all-digital realm, producers and others working in the surety bond industry have an obligation—and an opportunity—to help shape the process for tomorrow. ●

NMLS Resources

NMLS White Paper by Corban Enns

www.nasbp.org

This white paper offers insight and facts about NMLS from a bond producer's perspective.

The NMLS Resource Center

Go to <http://mortgage.nationwide-licensingsystem.org/about/Pages/default.aspx>.

The NMLS website offers information on setting up new accounts, creating associations between carriers and producers and tips to smooth the process of uploading different file types into the platform as part of the setup.

NMLS Surety Bond Working Group

Learn about and consider participating in the NMLS Surety Bond Working Group by contacting Corban Enns of Surety Solutions, LLC at corban@suretysolutionsllc.com and 866.722.9239 or Tim Lange of Conference of State Bank Supervisors and State Regulatory Registry at tlange@csbs.org and 202.728.5734.