

**Anti-Predatory Lending Database
Semi-Annual Summary Report
May 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

May 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

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 9,986 loans required borrower counseling. Of these, 3,939 (39%) loans were closed, and 6,047 (61%) were not closed. In comparison, for *all* loans registered with the APLD since inception the closing rate was 56%.
- On average, it takes 1.88 *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 changing from a high point of 8 days *longer* in 2010.
- 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 GLANCE¹

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

- Loans registered with the APLD: **1,350,481**
- Loans closed: **750,832**
- Borrowers requiring counseling: **13,627**
- Borrowers requiring counseling by county: Cook (**11,432**); Kane (**487**); Peoria (**140**); Will (**915**); n/a (**653**)²
- Loan types requiring counseling:³
 - Interest-Only Loans: **2,651**
 - Negative Amortization Loans: **1,523**
 - Loans with Points and Fees Exceeding 5%: **2,882**
 - Loans with Prepayment Penalty: **2,699**
 - Adjustable Rate Loans: **1,312**
- **30,931** 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: **8,512**⁴

Investigations and Other Regulatory Actions Based on APLD Information

During the reporting period, October 1, 2019 – March 31, 2020, IDFPR investigated fraudulent exemption certificates that were recorded (or brought to be recorded). Section 70(g) of the Residential Real Property Disclosure Act (“RRPDA”) provides that certificates of exemption must be generated by the database, and that a mortgage is not recordable without a certificate of exemption or compliance. Violations of the RRPDA are actionable under the Consumer Fraud and Deceptive Business Practices Act, Residential Mortgage License Act, and Title Insurance Act. IDFPR will be working with the Recorder of Deeds offices to protect against this practice and will consider disciplinary action if the problem persists. There have been no other investigations or regulatory actions during this reporting period.

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

² Loans with invalid zip codes.

³ 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.

⁴ Number reduced from previous reports to exclude brokers and originators who have not entered a loan into the APLD.

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

The regularity of non-traditional mortgages being offered in the marketplace has increased by 19% since the last report, from 564 to 671 loan applications. This increase is substantial as it is greater than the increase in the number of loans registered this period. The number of loans registered increased by 12%, from 77,464 to 87,374. Types of non-traditional 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%. These loan terms trigger mandatory counseling before a loan can close.

The APLD allows IDFPR to track lending trends. Refinancing activity for the six-month reporting period increased by 48% while purchase activity decreased by 22% and first-time home buyer activity decreased approximately 20%. With this kind of increase in refinancing also came an increase in the origination of predatory loans tracked by the APLD.

The highest numbers of non-traditional mortgage applications were loans with points and fees exceeding 5% (419 loans), and negative amortization loans (212 loans). A listing of the number of loans that were offered in each “trigger” category may be found on pages 8-9 of this report. This was the fifth straight reporting period, loans with points and fees exceeding 5% required the most counseling.

The most substantial increase both in overall loans reported and non-traditional mortgages took place in the month of March 2020, the same month that Governor Pritzker issued a disaster proclamation and shelter-in-place order for the State of Illinois. There were 144 loan applications that triggered mandatory counseling in March 2020 alone, as opposed to an average of 105 per month for the preceding five months. The vast majority of the non-traditional mortgages offered were negative amortization loans or loans with points and fees exceeding 5%.

The effects that the COVID-19 pandemic will have on the economy and mortgage market remain to be seen. As millions of Americans file for unemployment benefits, the Mortgage Bankers Association reported that forbearance requests rose by 1,270% the week of March 2 and another 1,896% between March 16 and March 30. “MBA Survey Shows Spike in Loans in Forbearance, Servicer Call Volume” (April 7, 2020) available at <https://www.mba.org/2020-press-releases/april/mba-survey-shows-spike-in-loans-in-forbearance-servicer-call-volume> (last checked April 23, 2020). The Mortgage Credit Availability Index dropped to a five-year low, decreasing by 16% in March 2020, while the Mortgage Bankers Association predicted that “Lenders are making credit criteria changes to account for the increased likelihood of forbearance and defaults, as well as higher costs.” “Mortgage Credit Availability Index Decreased in March” (April 9, 2020) available at <https://www.mba.org/news-research-and-resources/research-and-economics/single-family-research/mortgage-credit-availability-index> (last checked April 23, 2020).

While there will be less home-buying activity in Spring 2020 due to COVID-19 and social distancing, a survey by the National Association of Realtors indicates that many realtors believe activity may increase later in the year. Mortgage rates dropped in March 2020. Freddie Mac reported that the average 30-year fixed mortgage rate in March 2020 ranged from 3.29-3.65% in

March 2020, as compared to 3.65-3.75% in October 2020 and more than 4% in March 2019. <http://www.freddiemac.com/pmms/>. The Chief Economist for Freddie Mac predicts that rates will continue to drop, stating, “This year the 10-year Treasury market has declined by over a full percentage point, yet mortgage rates have only declined by one-third of a point. As financial markets continue to heal, we expect mortgage rates will drift lower in the second half of 2020.” “Mortgage Rates Remain Flat,” (April 9, 2020), available at https://www.marketwatch.com/press-release/mortgage-rates-remain-flat-2020-04-09-10197012?mod=mw_quote_news (last checked April 23, 2020).

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 non-traditional loans potentially damaging to the borrower and provides helpful counseling for borrowers to better understand the terms of the loan product. In March 2020 alone there were 25,292 loan application entries in the APLD, more than 2.5 times the number of entries from March 2019. With the current uncertainty in the face of the COVID-19 pandemic and resulting economic turmoil, unprecedented numbers of borrowers are vulnerable to predatory lending. It is more important than 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

IDFPR regularly uses APLD data to generate leads and verify and investigate potential lending-related violations. IDFPR is investigating instances of fraudulent exemption certificates being fabricated and recorded. In these cases, loans are closed with no data entry by either the originator or closing agent, depriving the borrower of the protection afforded by the APLD Program. IDFPR is working with recorder of deeds offices to combat this practice.

Other past improper practices include 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.

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.

Going forward IDFPR will look to further engrain APLD data into its investigations of fraudulent and improper practices. All APLD entries in which housing counselors have indicated “Indicia of Fraud” will be investigated. IDFPR personnel may interview the counselor, loan originator, seller, and/or borrower. 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 is working to collaborate with HUD-approved housing counselors regarding the training being offered to borrowers in triggered loans.

IDFPR requires licensees to submit a monthly report of loan repurchase demands. IDFPR routinely reviews selected files based on demand reasons 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. The reports of repurchase demands have become an expanding source for revealing fraudulent trends with our database users.

IDFPR has also tracked 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

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).

IDFPR will also be working with the Recorder of Deeds offices in the four counties covered by the APLD to screen for fraudulent exemption certificates.

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:	April 2020 Reporting Period (10/1/19 - 3/31/20)	October 2019 Reporting Period (4/1/19 - 9/30/19)
Loans Registered with APLD⁵	87,374	77,464
Refinancing Primary Residence	52,081	34,983
Purchasing Primary Residence	29,510	37,519
First Time Home Buyers	25,098	30,781
Loans Closed in APLD	43,917	43,594
Borrowers Requiring Counseling	789	656
Loans Requiring Counseling⁶	671	564
Interest Only Loans	45	69
Negative Amortization Loans	212	166
Loans with Points and Fees Exceeding 5%	419	341
Loans with Prepayment Penalty	1	0
Adjustable Rate Loans	48	55
Loans Modified to No Longer Require Counseling	1,835	1,542
Loans Exempt from APLD	69,425	67,629

⁵ The totals may include loans that are in process or have been abandoned.

⁶ 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: ⁷	April 2020 Reporting Period (10/1/19 - 3/31/20)			
	Cook County	Kane County	Peoria County	Will County
Loans Registered with APLD⁸	64,412	8,304	950	13,234
Refinancing Primary Residence	38,398	4,903	402	8,184
Purchasing Primary Residence	21,420	2,968	501	4,419
First Time Home Buyers	18,699	2,337	423	3,450
Loans Closed in APLD	32,417	4,223	439	6,798
Borrowers Requiring Counseling	598	56	13	112
Loans Requiring Counseling⁹	511	46	11	94
Interest Only Loans	33	7	0	4
Negative Amortization Loans	150	19	1	36
Loans with Points and Fees Exceeding 5%	328	23	10	55
Loans with Prepayment Penalty	0	0	0	1
Adjustable Rate Loans	35	7	0	6
Loans Modified to No Longer Require Counseling	1,283	192	33	302
Loans Exempt from APLD	46,398	4,738	990	6,118

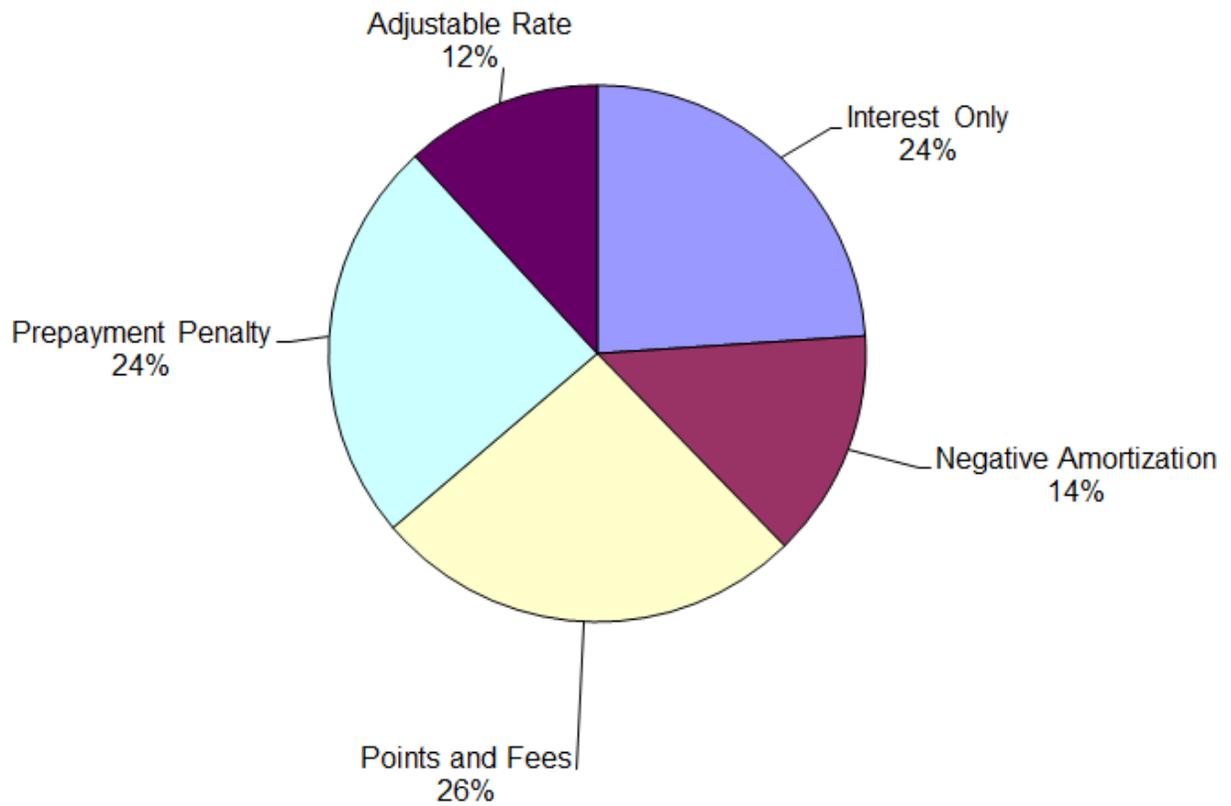
⁷ County totals may be lower than the overall totals because some loans do not have county information recorded in the database.

⁸ The totals may include loans that are in process or have been abandoned.

⁹ The number of loans requiring counseling is often less than the number of borrowers requiring counseling because there may be multiple borrowers per loan.

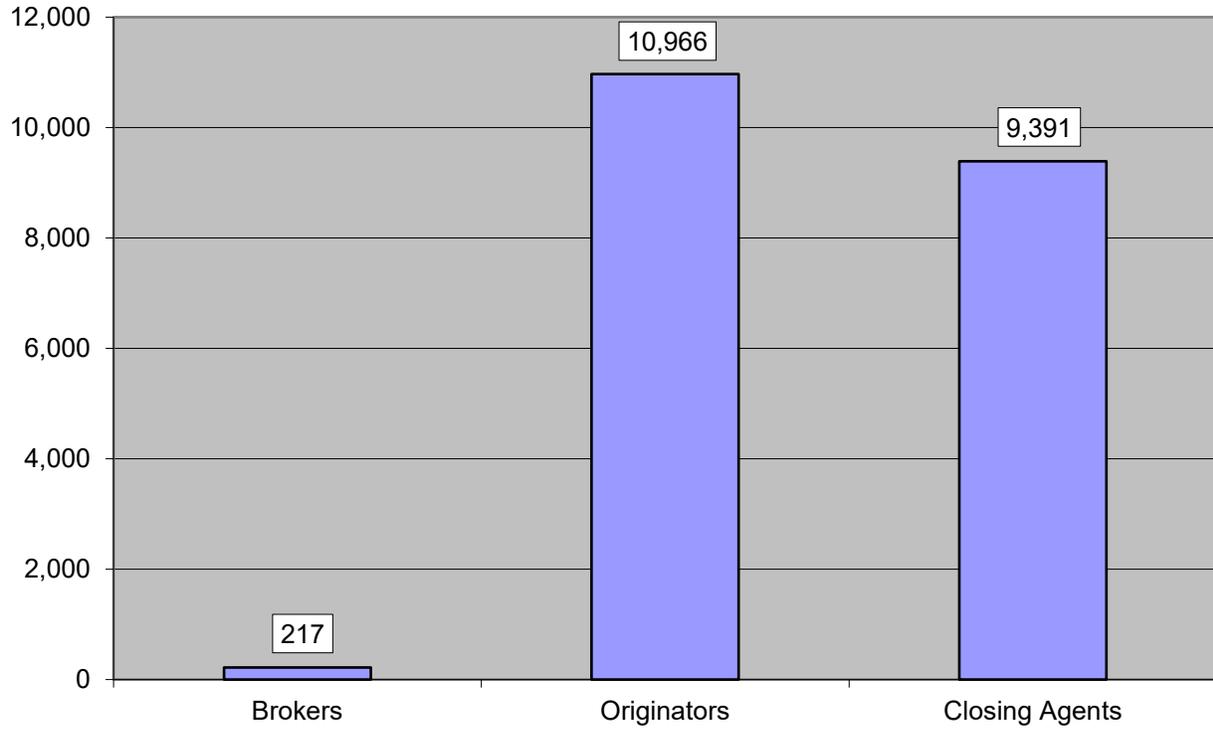
APLD Product Summary

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



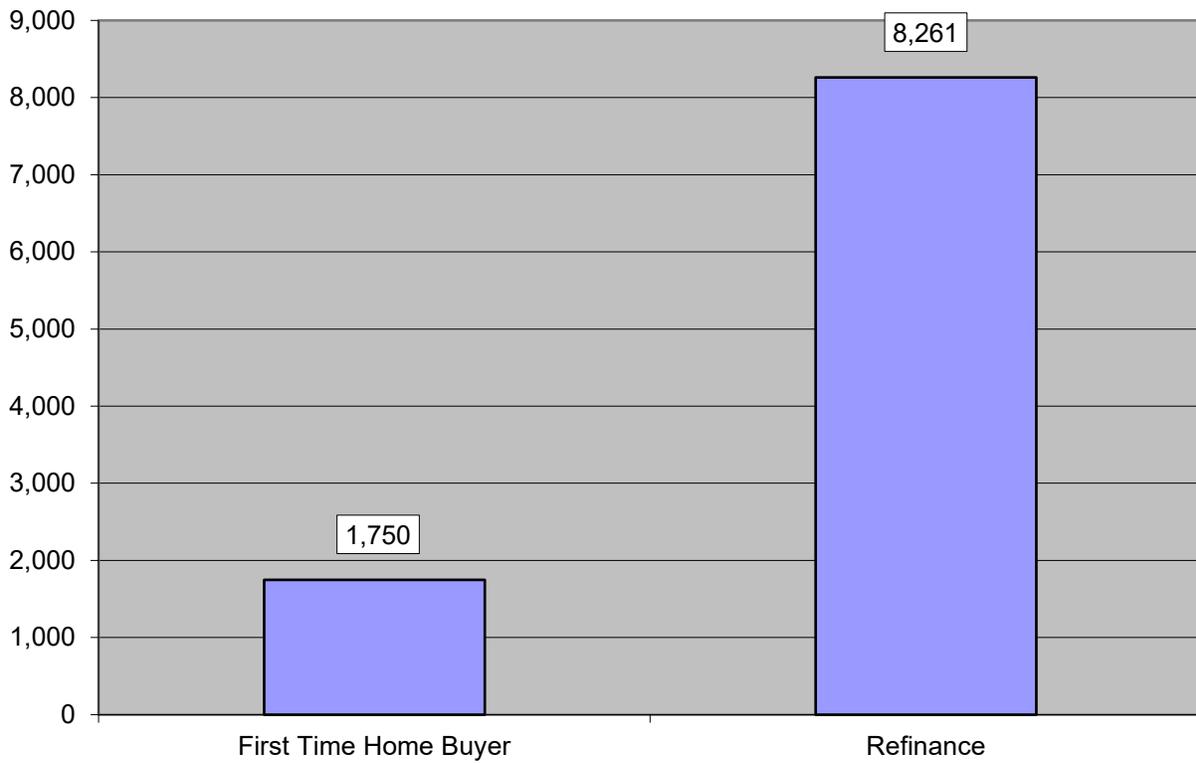
APLD User Summary

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 1.88 days on average.
(Since program inception)

