

U.S. Structured Finance Newsletter

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SEAL OF APPROVAL FOR MORTGAGE BROKERS

On November 7, 2007, the National Association of Mortgage Brokers (NAMB) introduced the Lending Integrity Seal of Approval (LISA). The seal is designed to help consumers identify individual mortgage brokers and loan officers who meet the industry's highest standards for knowledge, professionalism, ethics and integrity.¹ Brokers that obtain the seal are expected to adhere to NAMB's Code of Ethics and Standards of Best Business Practices, which states that they are to act professionally and not circumvent mortgage industry ethics and professional standards. The seal cannot be purchased or grandfathered into and must be earned by meeting the criteria outlined below:

- Attaining membership in NAMB.
- Possessing a current state-issued mortgage license or registration.
- Submitting three business references.
- Passing a national criminal background check.
- Attending professional education training, including ethics training.
- Adhering to NAMB's Code of Ethics and Standards of Best Business Practices.
- Abiding by NAMB's formal ethics grievance review process.

The validation process takes about six weeks. Once a broker is approved, they are able to obtain a host of materials, including business cards, that display the seal of approval, which they can then use to promote their business. The seal is the first of its kind and was instituted to counteract the market perception of the broker industry after the subprime lending crisis. During the fallout, the reputation of mortgage brokers became tainted and they were often viewed as one of several causative factors that contributed to borrowers' lack of understanding with respect to the risks of their mortgage product. The LISA may help more competent brokers distinguish themselves as reputable mortgage professionals and distance themselves from unethical players.

The seal is also intended to help homebuyers assess mortgage brokers and be able to differentiate the "good from the bad," akin to a better business bureau for brokers. With the process of obtaining a mortgage being so overwhelming for borrowers, many believe this seal will help to restore consumer confidence and establish a "code of ethics" for the industry. Others, however, are concerned that there may be a breakdown in the monitoring process given the sheer volume of brokers that will be seeking to gain approval. Consequently, brokers who have lost their license, committed a crime or have been negligent about completing continuing education courses could inadvertently continue to maintain the seal.

The LISA program will be made available to mortgage brokers and loan officers through state mortgage associations affiliated with NAMB. The public will be able to see the seal of approval displayed in advertisements and by brokers who meet the criteria some time in early 2008.² NAMB has stated that in 2009, it intends to make the seal mandatory for all mortgage originators that want to join the organization. For more information on the criteria or process, please visit www.lendingintegrity.org.

DBRS views the LISA program and the NAMB requirements as an initial step in addressing some of the issues that have surfaced with respect to mortgage brokers and the profession overall. This initiative by NAMB should encourage greater integrity in the origination process and also help consumers identify mortgage professionals who have been "pre-approved" or filtered by the profession. DBRS expects that if this process is well managed and there are no instances of fraud or misconduct (e.g., someone gaining access to a seal that was not approved by NAMB), it may carry over to other parts of the mortgage industry. DBRS will continue to monitor the results of this endeavor as well as the impact it has on the mortgage industry.

For questions or comments, please contact Kathleen Tillwitz at ktillwitz@dbrs.com.

¹ RISMEDIA and the National Association of Mortgage Brokers.

² Ibid.