

**UNITED STATES OF AMERICA
BUREAU OF CONSUMER FINANCIAL PROTECTION**

ADMINISTRATIVE PROCEEDING
File No. 2020-BCFP-0012

In the Matter of:

Hypotec, Inc.

CONSENT ORDER

The Bureau of Consumer Financial Protection (Bureau) has reviewed certain direct-mail mortgage advertising activities of Hypotec, Inc. (Hypotec or Respondent, as defined below) and identified violations of § 1026.24 of Regulation Z, 12 C.F.R. § 1026.24, the implementing regulation of the Truth in Lending Act (TILA), 15 U.S.C. §§ 1601–1667f; § 1014.3 of the Mortgage Acts and Practices—Advertising Rule (MAP Rule or Regulation N), 12 C.F.R. § 1014.3; and §§ 1031 and 1036 of the Consumer Financial Protection Act of 2010 (CFPA), 12 U.S.C. §§ 5531, 5536. Under §§ 1053 and 1055 of the CFPA, 12 U.S.C. §§ 5563, 5565, the Bureau issues this Consent Order.

I.

Overview

1. Hypotec is a mortgage broker that offers and provides mortgages guaranteed by the United States Department of Veterans Affairs (VA). As a broker, it arranges for another creditor to provide loans.
2. Hypotec advertises these mortgage products to consumers through direct-mail advertising campaigns.
3. Hypotec has sent consumers millions of advertisements that violate federal law because they contain misleading and deceptive statements and inadequate disclosures.
4. The Bureau brings this action to stop Hypotec from distributing advertisements with misleading and deceptive statements and inadequate disclosures to servicemembers, veterans, and other consumers.

II.

Jurisdiction

5. The Bureau has jurisdiction over this matter under §§ 1053 and 1055 of the CFPA, 12 U.S.C. §§ 5563, 5565; § 108 of the Truth in Lending Act, 12 U.S.C. § 1607; and § 626 of the Omnibus Appropriations Act of 2009, as amended by § 1097 of the CFPA, 12 U.S.C. § 5538.

III.

Stipulation

6. Respondent has executed a “Stipulation and Consent to the Issuance of a Consent Order,” dated August 19, 2020 (Stipulation), which is incorporated by reference and is accepted by the Bureau. By this Stipulation, Respondent has consented to the issuance of this Consent Order by the Bureau under §§ 1053 and 1055 of the CFPA, 12 U.S.C. §§ 5563, 5565, without admitting or denying any of the findings of fact or conclusions of law, except that Respondent admits the facts necessary to establish the Bureau’s jurisdiction over Respondent and the subject matter of this action.

IV.

Definitions

7. The following definitions apply to this Consent Order:
 - a. “Advertising Compliance Official” means an individual designated by Respondent as the person responsible for performing the tasks and duties required under Paragraph 106. The Advertising Compliance Official must be a director or senior-level executive (e.g., president, chief executive officer, chief financial officer, chief operating officer, chief information officer, senior vice president, or managing member)

of Respondent, or an individual who reports directly to the president, chief executive officer, managing member, or board of directors of Respondent.

- b. “Clearly and Prominently” means the disclosure must be in a font size of at least 10 points; on the same side of the page as the term, if any, that triggers the disclosure; in print that contrasts with the background on which it appears; presented before the consumer incurs any financial obligation; in an understandable language and syntax; and with nothing contrary to, inconsistent with, or in mitigation of the disclosures used in any communication with the consumer.
- c. “Effective Date” means the date on which the Consent Order is issued.
- d. “Enforcement Director” means the Assistant Director of the Office of Enforcement for the Bureau of Consumer Financial Protection, or his or her delegate.
- e. “Exemplar” means an example of an advertisement fully populated with the terms contained in the advertisement as sent, posted, published, or disseminated to a consumer.
- f. “Related Consumer Action” means a private action by or on behalf of one or more consumers or an enforcement action by another

governmental agency brought against Respondent based on substantially the same facts as described in Section V of this Consent Order.

- g. “Relevant Period” includes from January 1, 2016, to the Effective Date.
- h. “Respondent” means Hypotec, Inc., and its successors and assigns.

V.

Bureau Findings and Conclusions

The Bureau finds the following:

- 8. Hypotec is a Delaware corporation with its principal place of business in Miami, Florida.
- 9. Hypotec is licensed as a mortgage broker in 8 states.
- 10. Hypotec is a “person,” as defined in the CFPA, 12 U.S.C. § 5481(19), Regulation Z, 12 C.F.R. § 1026.2(a)(22), and the MAP Rule, 12 C.F.R. § 1014.2, because it is a corporation.
- 11. During the Relevant Period, Hypotec has been a “covered person” under the CFPA, 12 U.S.C. § 5481(6)(A), because it is a person that engages in offering and providing residential-mortgage loans, which are “consumer financial product[s] or service[s]” under the CFPA. 12 U.S.C. § 5481(5), (6), (15)(A)(i).

12. During the Relevant Period, Hypotec has been subject to the MAP Rule because it is a person over which the Federal Trade Commission has jurisdiction under the Federal Trade Commission Act, 15 U.S.C. §§ 41–58. 12 C.F.R. § 1014.1. The MAP Rule is a Federal consumer financial law. 12 U.S.C. § 5481(14).
13. Hypotec provides “mortgage credit product[s],” as that term is defined in the MAP Rule. 12 C.F.R. § 1014.2.
14. Hypotec’s mortgage advertisements are “commercial communications” regarding a term of a “mortgage credit product,” as those terms are defined in 12 C.F.R. § 1014.2.
15. During the Relevant Period, Hypotec has offered “closed-end credit” in the form of mortgage loans to “consumers,” as those terms are defined in Regulation Z. 12 C.F.R. § 1026.2(a)(10) & (11).
16. Hypotec’s mortgage advertisements are advertisements for “closed-end credit,” as that term is defined in Regulation Z. 12 C.F.R. § 1026.2(a)(10).
17. Hypotec offers consumer mortgages, including mortgages guaranteed by the VA.
18. Hypotec’s principal means of advertising VA-guaranteed mortgages is through direct-mail advertisements sent to consumers, including veterans and servicemembers.

19. Since January 2016, Hypotec has mailed millions of mortgage advertisements to consumers in about 10 states.
20. Hundreds of thousands of consumers have received at least one of Hypotec's direct-mail advertisements, and thousands of consumers have obtained mortgages through Hypotec.

False, Misleading, and Inaccurate Representations

21. Federal consumer financial law contains numerous provisions banning the use of misleading and deceptive statements in mortgage advertisements.
22. Despite those prohibitions, Hypotec was responsible for both the content of, and the dissemination of, numerous mortgage advertisements during the Relevant Period that contained false, misleading, and inaccurate statements, as described below.

False, Misleading, and Inaccurate Representations About Cost

23. Most of Hypotec's mortgage advertisements stated specific credit terms, such as an interest rate, annual percentage rate (APR), and payment amount.
24. By stating specific credit terms in its advertisements, Hypotec represented, expressly or by implication, that it arranged or offered a mortgage with those credit terms.
25. In fact, Hypotec did not arrange or offer mortgages with the specific credit terms stated in many of those advertisements.

26. In numerous instances, Hypotec misrepresented the actual credit terms applicable to the mortgages that it would arrange or offer.
27. Millions of Hypotec mortgage advertisements described mortgages with a simple interest rate and APR combination that, on the date of the advertisement and in the 60 days preceding, Hypotec was not actually prepared to arrange or offer.
28. For example, Hypotec sent about 850,000 advertisements to consumers between June 2018 and January 2019 that advertised a mortgage with a 2.75% introductory interest rate and an APR of 2.788%.
29. But Hypotec did not offer such a loan, as reflected in the rate sheets of its lenders.
30. Hypotec also sent about 2 million advertisements to consumers between December 2016 and May 2018 offering an adjustable-rate mortgage with a three-year introductory interest rate of 2.25% and an APR of 2.461%.
31. But Hypotec also did not offer such a loan, as reflected in the rate sheets of its lenders.
32. Accordingly, Hypotec misrepresented the actual APR for loans offered in these advertisements.
33. Hypotec sent about 2.9 million of these advertisements to servicemembers and veterans.

34. Consumers who received the advertisements described in Paragraphs 27–33 were likely to be misled by them.
35. The advertisements were also likely to affect consumers’ conduct or decisions with regard to obtaining a loan.

***False and Misleading Representations About an
Affiliation with the Government***

36. Numerous Hypotec mortgage advertisements falsely represented, directly or by implication, using formats and phrases, that Hypotec was affiliated with the United States government, including the VA, that the advertised product was endorsed, sponsored by, or affiliated with the United States government, or that the United States government was the source of the advertisements.
37. For example, each of about 3.2 million Hypotec advertisements sent to servicemembers and veterans contained the following statements:
 - a. “VA-1211 Benefit Allotment Notice” positioned in the upper corner of the letter;
 - b. “Understanding your VA Benefit Statement” centered prominently in bold letters across the top of the letter;
 - c. That the recipient has been “tagged for inclusion in our VA IRRRL program” in the body of the letter;

- d. “This program is limited to the beneficiary above and is nontransferable”;
 - e. “To accept your benefits and reductions . . . call Home Assistance Department”; and
 - f. “Our records indicate that you are not currently utilizing your VA Loan Eligibility that is allotted by the Federal Government.”
38. These statements and other characteristics relating to the mailing strongly implied that the solicitations were being sent by or on behalf of the United States government, including the VA.
39. In fact, those representations were false because Hypotec was not affiliated with the United States government, nor were the products offered in these advertisements endorsed by, sponsored by, or affiliated with the government, including the VA.
40. Consumers who received the advertisements described in Paragraphs 36–39 were likely to be misled by them.
41. The advertisements were also likely to affect consumers’ conduct or decisions with regard to obtaining a loan.

***False and Misleading Representations About an
Escrow Refund Amount***

42. About 3.2 million of the advertisements Hypotec sent between June 2016 and January 2019 stated that a recipient will receive an “EST. ESCROW REFUND AMOUNT” of a specific amount if that consumer refinances his or her mortgage.
43. The escrow refund amounts that Hypotec advertised were calculated using a methodology that had no bearing on the actual escrow refund amount.
44. Moreover, Hypotec frequently required a consumer to fund a new escrow account upon generating a new loan.
45. Consumers who received the advertisements described in Paragraphs 42–44 were likely to be misled by them.
46. The advertisements were also likely to affect consumers’ conduct or decisions with regard to obtaining a loan.

***False Representations About the
Time-Limited Availability of the VA-Loan Program***

47. About 450,000 of the advertisements Hypotec sent stated: “the Economic Stimulus Program will end soon. There is currently no plan to extend the Stimulus Program.”

48. This statement regarding the purported time-limited availability of the VA loan program was untrue.
49. Consumers who received the advertisements described in Paragraphs 47 and 48 were likely to be misled by them.
50. The advertisements were also likely to affect consumers' conduct or decisions with regard to obtaining a loan.

Inadequate Disclosures

51. Many of Hypotec's mortgage advertisements stated the amount of a new loan payment and an introductory interest rate for adjustable mortgages. Under certain sections of Regulation Z, including § 1026.24(c), (d), and (f), the use of these terms triggers specific disclosure requirements. About 3.2 million of Hypotec's advertisements included these trigger terms, but did not include the other disclosures that are required, or did not include them in the manner required.
52. In addition, about 1.8 million of Hypotec's mortgage advertisements stated the name of the consumer's current lender, but did not include the additional disclosures required by Regulation Z in § 1026.24(i)(4).

Disclosures Triggered by Payment Amount

53. Numerous Hypotec mortgage advertisements stated the amount of a new loan payment, but failed to state the terms of repayment reflecting the

recipient's repayment obligations over the full term of the loan, as required by section 1026.24(d).

54. For example, 3.2 million Hypotec advertisements sent to consumers stated a “new principal and interest payment” reflecting a new monthly payment amount, a simple interest rate, an APR, and the phrase “3 year ARM” in smaller font at the bottom of the page.
55. But these advertisements did not state the period of the loan or the number of required payments. Moreover, the payment amount advertised was applicable for only the first three years of the loan, but the advertisements did not disclose the subsequent payments required over the full term of the loan, as required by § 1026.24(d)(2)(ii).
56. Of these advertisements, 2.9 million also failed to disclose in a clear and conspicuous manner the amount of each payment that would apply over the term of the loan, the period during which each payment would apply, and the fact, applicable to these loans, that the payments did not include amounts for taxes and insurance premiums and that the actual payment obligation would be greater, as required by § 1026.24(f)(3).
57. For example, the advertisements provided the amount of the recipient's new monthly payment, but included neither the amount of each payment that would apply over the term of the loan (despite stating in small print that the

loan was for a “3 year ARM”), nor the period during which each payment would apply. Furthermore, the advertisements failed to disclose that the advertised payment amounts excluded taxes and insurance and that the actual payment obligation would be greater.

Disclosures Triggered by Introductory Interest Rate

58. Numerous Hypotec mortgage advertisements offering a loan for which more than one interest rate would apply included a simple annual rate of interest, but failed to clearly and conspicuously state each simple annual interest rate that would apply, the time period during which each simple annual interest rate would apply, and, for variable rate loans, an APR for the loan that complied with the accuracy standards in 12 C.F.R. §§ 1026.17(c) and 1026.22, as required by Regulation Z, 12 C.F.R. § 1026.24(f).
59. For example, Hypotec sent about 2.9 million advertisements for a variable-rate mortgage to consumers offering an introductory annual rate of interest that would apply for the first three years of the loan, but that did not disclose each simple interest rate that would apply over the remaining term of the loan, whether by including the loan’s fully indexed interest rate on the date of the advertisement or by including the loan’s index and margin. These advertisements also stated the period for the introductory rate—three years—but not the twenty-seven-year term for the fully-indexed rate.

60. In addition, about 850,000 of these advertisements sent to consumers between June 7, 2018 and January 17, 2019 offered a mortgage with a 2.75% introductory interest rate that applied to the first three years of the loan and a 2.788% APR. In fact, the lowest APR that would have been available from Hypotec's lenders within 60 days before June 7, 2018 for the loans promoted in those advertisements was at least 3.766%, which was not within the accuracy standards in §§ 1026.17(c) and 1026.22. And the lowest APR that would have been available from Hypotec's lenders within 60 days before January 17, 2019 for the loans promoted in those advertisements was at least 4.282%, also not within the accuracy standards in §§ 1026.17(c) and 1026.22.
61. The remaining 2 million of these advertisements sent to consumers between December 9, 2016 and May 3, 2018 offered a mortgage with a 2.25% introductory interest rate that applied to the first three years of the loan and a 2.461% APR. In fact, the lowest APR that would have been available from Hypotec's lenders within 60 days before December 9, 2016 for the loans promoted in those advertisements was at least 2.726%, which was not within the accuracy standards in §§ 1026.17(c) and 1026.22. The lowest APR that would have been available from Hypotec's lenders within 60 days before May 3, 2018 for the loans promoted in those advertisements was at least

3.766%, which was also not within the accuracy standards in §§ 1026.17(c) and 1026.22.

Disclosures Triggered by Current Lender Name

62. Numerous Hypotec mortgage advertisements used the name of the consumer's current lender, but failed to disclose Hypotec's name with equal prominence, or to include a clear and conspicuous statement that Hypotec was not associated with, or acting on behalf of, the consumer's current lender, as required by section 1026.24(i).
63. For example, Hypotec sent about 1.8 million advertisements that featured the name of the consumer's current lender on the top of the advertisement and on the envelope in large, bold type.
64. The advertisements contained a disclosure in small type at the bottom of the advertisement stating that the "offer is made by Hypotec, Inc." and that the company was not affiliated with the consumer's current lender, but this disclosure was not "with equal prominence" to the use of the current lender's name.
65. The advertisements also did not contain a clear and conspicuous disclosure that Hypotec was not associated with, or acting on behalf of, the consumer's current lender.

VIOLATIONS OF REGULATION Z

Unavailable Credit Terms, 12 C.F.R. § 1026.24(a)

66. Under 12 C.F.R. § 1026.24(a), “[i]f an advertisement for credit states specific credit terms, it shall state only those terms that actually are or will be arranged or offered by the creditor.”
67. Hypotec violated § 1026.24(a) because, as described in Paragraphs 27–33, numerous Hypotec advertisements for credit stated specific credit terms other than those terms that actually were or would be arranged or offered by the creditor.

Terms of Repayment, 12 C.F.R. § 1026.24(d)

68. Under 12 C.F.R. § 1026.24(d)(1), if an advertisement sets forth any of the four specified triggering terms (the amount or percentage of any downpayment, the number of payments or period of repayment, the amount of any payment, or the amount of any finance charge), the advertisement must also state, among other things, “[t]he terms of repayment, which reflect the repayment obligations over the full term of the loan, including any balloon payment.” 12 C.F.R. § 1026.24(d)(1), (2)(ii).
69. Hypotec violated § 1026.24(d) because, as described in Paragraphs 53–57, numerous Hypotec mortgage advertisements set forth the period of

repayment or the amount of any payment, which are triggering terms under § 1026.24(d)(1)(ii) and (iii), but failed to state the repayment obligations over the full term of the loan, pursuant to § 1026.24(d)(2)(ii).

Inadequate Disclosure of Rates, 12 C.F.R. § 1026.24(f)(2)(i)

70. Under 12 C.F.R. § 1026.24(f)(2)(i), if a direct-mail mortgage advertisement:

states a simple annual rate of interest and more than one simple annual rate of interest will apply over the term of the advertised loan, the advertisement shall disclose in a clear and conspicuous manner:

(A) Each simple annual rate of interest that will apply. In variable-rate transactions, a rate determined by adding an index and margin shall be disclosed based on a reasonably current index and margin;

(B) The period of time during which each simple annual rate of interest will apply; and

(C) The [APR] for the loan. If such rate is variable, the [APR] shall comply with the accuracy standards in §§ 1026.17(c) and 1026.22.

71. Hypotec violated § 1026.24(f)(2)(i) because, as described in Paragraphs 58-61, numerous Hypotec direct-mail mortgage advertisements for a loan for which more than one interest rate would apply stated a simple annual rate of interest, but did not include one or more of the disclosures required pursuant to § 1026.24(f)(2)(i)(A) through (C), or did not disclose them clearly and conspicuously, as defined in § 1026.24(f)(2)(ii).

Inadequate Disclosure of Payment Terms, 12 C.F.R. § 1026.24(f)(3)(i)

72. Under 12 C.F.R. § 1026.24(f)(3)(i), a direct-mail mortgage advertisement that “states the amount of any payment” must disclose, in a clear and conspicuous manner:

(A) The amount of each payment that will apply over the term of the loan, including any balloon payment. In variable-rate transactions, payments that will be determined based on the application of the sum of an index and margin shall be disclosed based on a reasonably current index and margin;

(B) The period of time during which each payment will apply; and

(C) In an advertisement for credit secured by a first lien on a dwelling, the fact that the payments do not include amounts for taxes and insurance premiums, if applicable, and that the actual payment obligation will be greater.

73. Hypotec violated § 1026.24(f)(3)(i) because, as described in Paragraphs 56-57, numerous Hypotec direct-mail mortgage advertisements stated the amount of a payment but did not include one or more of the disclosures required pursuant to § 1026.24(f)(3)(i)(A) through (C), or did not disclose them clearly and conspicuously, as defined in § 1026.24(f)(3)(ii).

Misleading Use of the Current Lender’s Name, 12 C.F.R. § 1026.24(i)(4)

74. Under 12 C.F.R. § 1026.24(i)(4), mortgage advertisements may not:

Us[e] the name of the consumer’s current lender in an advertisement that is not sent by or on behalf of the

consumer's current lender, unless the advertisement:

(i) Discloses with equal prominence the name of the person or creditor making the advertisement; and

(ii) Includes a clear and conspicuous statement that the person making the advertisement is not associated with, or acting on behalf of, the consumer's current lender.

75. Hypotec violated § 1026.24(i)(4) because, as described in Paragraphs 62-65, numerous Hypotec mortgage advertisements, which were not sent by or on behalf of the consumer's current lender, used the name of the consumer's current lender and did not (1) disclose with equal prominence the name of the person or creditor making the advertisement, as required by § 1026.24(i)(4)(i); or (2) include a clear and conspicuous statement that the person making the advertisement was not associated with, or acting on behalf of, the consumer's current lender, as required by § 1026.24(i)(4)(ii).

VIOLATIONS OF THE MAP RULE (REGULATION N)

Misrepresentations About Rates, 12 C.F.R. § 1014.3(b)

76. Under 12 C.F.R. § 1014.3(b), it is a violation for any person subject to the MAP Rule to make any misrepresentation, directly or indirectly, expressly or by implication, in any commercial communication, about "[t]he annual percentage rate, simple annual rate, periodic rate, or any other rate"

applicable to a mortgage credit product. Under 12 C.F.R. § 1014.3, such a misrepresentation is specifically prohibited and is therefore material.

77. Hypotec violated § 1014.3(b) because, as described in Paragraphs 27–33 and 58-61, numerous Hypotec mortgage advertisements contained misrepresentations about the APR applicable to a mortgage credit product.

**Misrepresentations About Cash Available,
12 C.F.R. § 1014.3(j)**

78. Under 12 C.F.R. § 1014.3(j), it is a violation for any person subject to the MAP Rule to make any misrepresentation, directly or indirectly, expressly or by implication, in any commercial communication, about “[t]he existence, nature, or amount of cash or credit available to the consumer in connection with the mortgage credit product, including but not limited to misrepresentations that the consumer will receive a certain amount of cash or credit as part of a mortgage credit transaction.” Under 12 C.F.R. § 1014.3, such a misrepresentation is specifically prohibited and is therefore material.
79. Hypotec violated § 1014.3(j) because, as described in Paragraphs 42–44, numerous Hypotec mortgage advertisements contained misrepresentations about the existence, nature, or amount of cash available to the consumer in connection with the mortgage credit product, including misrepresentations

that the consumer would receive a certain amount of cash as part of a mortgage credit transaction.

Misrepresentations About Government Affiliation, 12 C.F.R. § 1014.3(n)

80. Under 12 C.F.R. § 1014.3(n), it is a violation for any person subject to the MAP Rule to make any misrepresentation, directly or indirectly, expressly or by implication, in any commercial communication, about:

the association of the mortgage credit product or any provider of such product with any other person or program, including but not limited to misrepresentations that:

(1) The provider is, or is affiliated with, any governmental entity or other organization; or

(2) The product is or relates to a government benefit, or is endorsed, sponsored by, or affiliated with any government or other program, including but not limited to through the use of formats, symbols, or logos that resemble those of such entity, organization, or program.

Under 12 C.F.R. § 1014.3, such a misrepresentation is specifically prohibited and is therefore material.

81. Hypotec violated § 1014.3(n) because, as described in Paragraphs 36-39, numerous Hypotec mortgage advertisements contained misrepresentations that the provider of the advertised mortgage credit product was affiliated with the United States government.

Misrepresentations About Source of Advertisements, 12 C.F.R. § 1014.3(o)

82. Under 12 C.F.R. § 1014.3(o), it is a violation for any person subject to the MAP Rule to make any misrepresentation, directly or indirectly, expressly or by implication, about the source of any commercial communication. Under 12 C.F.R. § 1014.3, such a misrepresentation is specifically prohibited and is therefore material.
83. Hypotec violated § 1014.3(o) because, as described in Paragraphs 36-39, numerous Hypotec mortgage advertisements contained misrepresentations that the provider of the advertised mortgage credit product was the United States government.

VIOLATIONS OF THE CFPA

84. Under the CFPA, it is unlawful for any covered person or service provider to engage in a deceptive act or practice in connection with any transaction with a consumer for a consumer-financial product or service, or the offering of a consumer-financial product or service. 12 U.S.C. §§ 5531(a), 5536(a)(1)(B).
85. An act or practice is deceptive if it involves a material misrepresentation or omission that is likely to mislead consumers acting reasonably under the circumstances.
86. Information that is likely to affect a consumer's choice of, or conduct regarding, a product or service is material to consumers.

Deceptive Representations About Credit Terms

87. In numerous instances, as described in Paragraphs 27–33 and 42-44, Hypotec’s mortgage advertisements represented, expressly or by implication that specific credit terms were available or would be arranged or offered by the creditor, including representations about (1) interest rate and APR combinations, and (2) the cash a consumer would receive upon closing through a specific “escrow refund” amount, when in fact those specific credit terms were not available or were not terms that Hypotec was actually prepared to arrange or offer.
88. Hypotec’s misrepresentations about the availability of the advertised credit terms of the advertised mortgage were likely to mislead consumers acting reasonably under the circumstances.
89. Hypotec’s misrepresentations about the credit terms of the advertised mortgage were material because they were likely to affect the conduct or decisions of consumers.
90. Therefore, Hypotec engaged in deceptive acts and practices in violation of the CFPA. 12 U.S.C. §§ 5531(a), 5536(a)(1)(B).

Deceptive Representations About Government Affiliation

91. In numerous instances, as described in Paragraphs 36-39, Hypotec's mortgage advertisements represented, expressly or by implication, that the solicitations were being sent by or on behalf of the United States government, including the VA.
92. In fact, the solicitations were not being sent by or on behalf of the United States government.
93. Hypotec's misrepresentations described in paragraphs 91-92 were likely to mislead consumers acting reasonably under the circumstances.
94. Hypotec's misrepresentations described in paragraphs 91-92 were material because they were likely to affect the conduct or decisions of consumers.
95. Therefore, Hypotec engaged in deceptive acts and practices in violation of the CFPA. 12 U.S.C. §§ 5531(a), 5536(a)(1)(B).

Deceptive Representations About the Time-Limited Availability of the VA Loan Program

96. In numerous instances, as described in Paragraphs 47 and 48, Hypotec's mortgage advertisements represented, expressly or by implication, that the VA loan program that Hypotec generated its loans under would be ending soon.

97. In fact, there was no deadline for applying for a VA-guaranteed loan, and the VA-guaranteed loan program had no end date.
98. Hypotec's misrepresentations about the time-limited availability of the VA loan program were likely to mislead consumers acting reasonably under the circumstances.
99. Hypotec's misrepresentations about the time-limited availability of the VA loan program were material because they were likely to influence the conduct or decisions of consumers.
100. Therefore, Hypotec engaged in deceptive acts and practices in violation of the CFPA. 12 U.S.C. §§ 5531(a), 5536(a)(1)(B).

**Violations of the CFPA Based on Violations of
Regulation Z and the MAP Rule**

101. Under the CFPA, a covered person's violation of a Federal consumer financial law, which includes enumerated consumer laws and rules thereunder, violates the CFPA. 12 U.S.C. §§ 5536(a)(1)(A), 5481(14).
102. Regulation Z and the MAP Rule are Federal consumer financial laws.
103. Hypotec's violations of Regulation Z and the MAP Rule, described in Paragraphs 66–83, constitute violations of § 1036(a)(1)(A) of the CFPA. 12 U.S.C. § 5536(a)(1)(A).

CONDUCT PROVISIONS

VI.

Mortgage Advertising Prohibitions and Disclosure Requirements

IT IS ORDERED, under §§ 1053 and 1055 of the CFPA, 12 U.S.C. §§ 5563, 5565, that:

104. Respondent and its officers, agents, servants, employees, and attorneys who have actual notice of this Consent Order, whether acting directly or indirectly, may not violate 12 C.F.R. § 1014.3 and 12 C.F.R. § 1026.24, and in connection with the advertising, marketing, promotion, or offering for sale of any mortgage credit product, are restrained from:
- a. Misrepresenting, or assisting others in misrepresenting, expressly or by implication:
 1. Any fact material to consumers regarding a mortgage credit product, including but not limited to the following: the total costs; any material restrictions, limitations, or conditions; or any material aspect of its performance, efficacy, nature, or central characteristics;
 2. The availability of an advertised or offered mortgage to any consumer or the benefits of refinancing; or

3. The existence of any deadline, expiration date, or timeframe for a consumer to obtain or exercise his or her VA benefits;
- b. Including or using any words, phrases, images, or design characteristics that falsely state or imply that:
1. The source of the advertisement is the government or the consumer's current lender or is affiliated with the government or the consumer's current lender; or
 2. The advertisement is anything other than an advertisement for a mortgage;
- c. Including or using any of the following words, phrases, images, or design characteristics:
1. "Benefit announcement;"
 2. "Eligibility advisory;"
 3. "Eligibility notice;"
 4. "Eligibility status;"
 5. "Expiration notice;"
 6. "Pending authorization;"
 7. "VA loan department;"
 8. "VA loan representative;"
 9. "VA loan specialist;"

10. “VA program customer support;”
 11. “VA specialist;”
 12. “Waiting period;”
 13. The IRS signature year style (two digits in white or outlined text and the other two digits in black text);
 14. The format of an IRS form, including Form W-2, or a substantially similar format; or
 15. Any VA or United States Department of Defense (DOD) logo, or a logo, emblem, or other representation that resembles—or that a consumer could reasonably interpret as—a VA or DOD logo; and
- d. Stating the name of the consumer’s current or prior lender, unless the current or prior lender is Hypotec, or unless stating the name of the current or prior lender is otherwise required by law.
105. Respondent and its officers, agents, servants, employees, and attorneys who have actual notice of this Consent Order, whether acting directly or indirectly, in connection with the advertising, marketing, promotion, or offering for sale of any mortgage credit product, must take the following affirmative actions:

- a. Respondent must have prior substantiation for all express and implied claims made in Respondent's mortgage advertisements.
- b. If a mortgage advertisement includes the amount or percentage of any downpayment, the number of payments or period of repayment, the amount of any payment, or the amount of any finance charge, the advertisement must also include, at a minimum:
 1. The amount or percentage of the downpayment;
 2. The term of the loan in either months, years, or number of monthly payments;
 3. The amount of each payment that will apply over the term of the loan, including any balloon payment. In variable-rate transactions, payments that will be determined based on the application of the sum of an index and margin shall be disclosed based on a reasonably current index and margin;
 4. The period during which each payment will apply;
 5. The fact that the payments do not include amounts for taxes and insurance premiums, if applicable, and that the actual payment obligation will be greater;
 6. The loan amount upon which the disclosures are based; and

7. The “annual percentage rate,” using that term, and, if the rate may be increased after consummation, that fact.
- c. In any direct-mail advertisement for an adjustable rate mortgage, Respondent must:
1. State, Clearly and Prominently, that the product is an “adjustable rate mortgage,” using those words. The advertisement may not use the term “hybrid” before the first use of the phrase “adjustable rate mortgage”;
 2. For each simple annual rate of interest disclosed that is based on an index and margin, base the rate on an index value in effect on the date of the advertisement or within 60 days prior, and disclose the index and margin; and
 3. State that more information about adjustable rate mortgages is available at https://files.consumerfinance.gov/f/201401_cfpb_booklet_charm.pdf.
- d. Any disclosure in a direct-mail mortgage advertisement that must be made with “equal prominence and in close proximity” under Regulation Z, 12 C.F.R. § 1026.24, must be:
1. In the same type size as the advertised rates or payments triggering the required disclosures;

2. Located immediately next to or directly above or below the advertised rates or payments triggering the required disclosures, without any intervening text or graphical displays; and
3. Otherwise compliant with Regulation Z, as applicable.

VII.

Advertising Review

IT IS FURTHER ORDERED that:

106. Respondent, whether acting directly or indirectly, must take the following affirmative actions:
 - a. Respondent's Advertising Compliance Official must review each mortgage advertisement template before any advertisement based on that template is disseminated to a consumer to ensure that it is compliant with TILA, Regulation Z, the MAP Rule, the CFPA, and this Consent Order. This review must encompass any envelope or mailer and all enclosures. This review includes reviewing all claims made in the advertisement, expressly or by implication, to ensure that they are accurate and substantiated.
 - b. Before any set of direct-mail advertisements based on a template is mailed to consumers, the Advertising Compliance Official must review an Exemplar of those advertisements—including any

envelope, mailer, and enclosures—to ensure that it is compliant with TILA, Regulation Z, the MAP Rule, the CFPB, and this Consent Order. This includes reviewing all claims made in the advertisement, expressly or by implication, to ensure that they are accurate and substantiated. All specific credit terms stated in the Exemplar must be available and based on a reasonably current index rate, if applicable, at the time the advertisement is disseminated. This requirement applies whether the set is mailed as a single batch or in multiple batches. It also applies whether the set is mailed out at a single time or over a period.

- c. The Advertising Compliance Official must document in writing his or her review of each advertisement template or Exemplar. That documentation must include a copy of the advertisement, the date of the review, and documents sufficient to substantiate all claims made in the advertisement, expressly or by implication. If the advertisement includes specific rates, that documentation must also include a rate sheet showing the availability of the advertised rate(s). If the advertisement states an APR, that documentation must include a copy of a worksheet showing the calculation of the APR, including all inputs assumed when calculating that number. If the advertisement

states an amount of cash that a borrower might receive, the documentation must state the method of arriving at that number and include any materials used to determine the availability of that amount.

- d. The Advertising Compliance Official and any employees with responsibilities related to designing, developing, or approving the content of Respondent's mortgage advertisements must participate in annual training on TILA, Regulation Z, the MAP Rule, and the CFPB, as those laws apply to mortgage advertising.

VIII.

Compliance Plan

IT IS FURTHER ORDERED that:

107. Within 45 days of the Effective Date, Respondent must submit to the Enforcement Director for review and determination of non-objection a comprehensive compliance plan designed to ensure that Respondent's mortgage advertising complies with all applicable Federal consumer financial laws and the terms of this Consent Order (Compliance Plan). The Compliance Plan must include, at a minimum:
 - a. Detailed steps for addressing each action required by this Consent Order; and

- b. Specific timeframes and deadlines for implementation of the steps described above.
108. The Enforcement Director will have the discretion to make a determination of non-objection to the Compliance Plan or direct Respondent to revise it. If the Enforcement Director directs Respondent to revise the Compliance Plan, Respondent must make the revisions and resubmit the Compliance Plan to the Enforcement Director within 15 days.
109. After receiving notification that the Enforcement Director has made a determination of non-objection to the Compliance Plan, Respondent must implement and adhere to the steps, recommendations, deadlines, and timeframes outlined in the Compliance Plan.

MONETARY PROVISIONS

IX.

Order to Pay Civil Money Penalty

IT IS FURTHER ORDERED that:

110. Under § 1055(c) of the CFPA, 12 U.S.C. § 5565(c), by reason of the violations of law described in Section V of this Consent Order, and taking into account the factors in 12 U.S.C. § 5565(c)(3), Respondent must pay a civil money penalty of \$50,000 to the Bureau.

111. Respondent must pay the civil money penalty by wire transfer to the Bureau or to the Bureau's agent in compliance with the Bureau's wiring instructions according to the following schedule:
 - a. \$10,000 on or before October 1, 2020;
 - b. \$10,000 on or before November 1, 2020; and
 - c. \$30,000 on or before December 31, 2020.
112. The civil money penalty paid under this Consent Order will be deposited in the Civil Penalty Fund of the Bureau as required by § 1017(d) of the CFPA, 12 U.S.C. § 5497(d).
113. Respondent, for all purposes, must treat the civil money penalty paid under this Consent Order as a penalty paid to the government. Regardless of how the Bureau ultimately uses those funds, Respondent may not:
 - a. Claim, assert, or apply for a tax deduction, tax credit, or any other tax benefit for any civil money penalty paid under this Consent Order; or
 - b. Seek or accept, directly or indirectly, reimbursement or indemnification from any source, including but not limited to payment made under any insurance policy, with regard to any civil money penalty paid under this Consent Order.
114. To preserve the deterrent effect of the civil money penalty in any Related Consumer Action, Respondent may not argue that Respondent is entitled to,

nor may Respondent benefit by, any offset or reduction of any compensatory monetary remedies imposed in the Related Consumer Action because of the civil money penalty paid in this action or because of any payment that the Bureau makes from the Civil Penalty Fund. If the court in any Related Consumer Action offsets or otherwise reduces the amount of compensatory monetary remedies imposed against Respondent based on the civil money penalty paid in this action or based on any payment that the Bureau makes from the Civil Penalty Fund, Respondent must, within 30 days after entry of a final order granting such offset or reduction, notify the Bureau, and pay the amount of the offset or reduction to the U.S. Treasury. Such a payment will not be considered an additional civil money penalty and will not change the amount of the civil money penalty imposed in this action.

X.

Additional Monetary Provisions

IT IS FURTHER ORDERED that:

115. In the event of any default on Respondent's obligations to make payment under this Consent Order, interest, computed under 28 U.S.C. § 1961, as amended, will accrue on any outstanding amounts not paid from the date of default to the date of payment, and will immediately become due and payable.

116. Respondent must relinquish all dominion, control, and title to the funds paid to the fullest extent permitted by law and no part of the funds may be returned to Respondent.
117. Under 31 U.S.C. § 7701, Respondent, unless it already has done so, must furnish to the Bureau its taxpayer-identification numbers, which may be used for purposes of collecting and reporting on any delinquent amount arising out of this Consent Order.
118. Within 30 days of the entry of a final judgment, consent order, or settlement in a Related Consumer Action, Respondent must notify the Enforcement Director of the final judgment, consent order, or settlement in writing. That notification must indicate the amount of redress, if any, that Respondent paid or is required to pay to consumers and describe the consumers or classes of consumers to whom that redress has been or will be paid.

COMPLIANCE PROVISIONS

XI.

Reporting Requirements

IT IS FURTHER ORDERED that:

119. Respondent must notify the Bureau of any development that may affect compliance obligations arising under this Consent Order, including but not limited to a dissolution, assignment, sale, merger, or other action that would

result in the emergence of a successor company; the creation or dissolution of a subsidiary, parent, or affiliate that engages in any acts or practices subject to this Consent Order; the filing of any bankruptcy or insolvency proceeding by or against Respondent; or a change in Respondent's name or address. Respondent must provide this notice, if practicable, at least 30 days before the development, but in any case no later than 14 days after the development.

120. Within 7 days of the Effective Date, Respondent must:
 - a. Designate at least one telephone number and email, physical, and postal addresses as points of contact, that the Bureau may use to communicate with Respondent;
 - b. Identify any businesses for which Respondent is the majority owner, or that Respondent directly or indirectly controls, by all of their names, telephone numbers, and physical, postal, email, and Internet addresses; and
 - c. Describe the activities of any such business, including the products and services offered, and the means of advertising, marketing, and sales.

121. Respondent must report any change in the information required to be submitted under Paragraph 120 at least 30 days before the change or as soon as practicable after the learning about the change, whichever is sooner.
122. Within 90 days of the Effective Date, and again one year after receiving notice of non-objection to the Compliance Plan, Respondent must submit to the Enforcement Director an accurate written compliance progress report (Compliance Report) that has been approved by Respondent's executive officers, sworn to under penalty of perjury, which, at a minimum:
 - a. Lists each applicable paragraph and subparagraph of the Consent Order and describes in detail the manner and form in which Respondent has complied with each such paragraph and subparagraph of the Consent Order;
 - b. Describes in detail the manner and form in which Respondent has complied with the Compliance Plan;
 - c. Describes in detail any instances in which Respondent has not complied with the Consent Order or Compliance Plan, with an explanation of why any such instances occurred; and
 - d. Attaches a copy of each Order Acknowledgment obtained under Section XII, unless previously submitted to the Bureau.

XII.

Order Distribution and Acknowledgment

IT IS FURTHER ORDERED that:

123. Within 7 days of the Effective Date, Respondent must submit to the Enforcement Director an acknowledgment of receipt of this Consent Order, sworn under penalty of perjury.
124. Within 30 days of the Effective Date, Respondent must deliver a copy of this Consent Order to each of its board members (if any) and executive officers, as well as to any managers, employees, service providers, or other agents and representatives who have responsibilities related to the subject matter of the Consent Order.
125. For 5 years from the Effective Date, Respondent must deliver a copy of this Consent Order to any business entity resulting from any change in structure referred to in Section XI, any future board members and executive officers, as well as to any managers, employees, service providers, or other agents and representatives who will have responsibilities related to the subject matter of the Consent Order before they assume their responsibilities.
126. Respondent must secure a signed and dated statement acknowledging receipt of a copy of this Consent Order, ensuring that any electronic signatures comply with the requirements of the E-Sign Act, 15 U.S.C. § 7001 *et seq.*,

within 30 days of delivery, from all persons receiving a copy of this Consent Order under this Section.

127. Within 90 days of the Effective Date, Respondent must provide the Bureau with a list of all persons and their titles to whom this Consent Order was delivered through that date under Paragraphs 124-25 and a copy of all signed and dated statements acknowledging receipt of this Consent Order under Paragraph 126.

XIII.

Recordkeeping

IT IS FURTHER ORDERED that:

128. Respondent must comply with the recordkeeping requirements of 12 C.F.R. § 1014.5, including but not limited to keeping, for a period of twenty-four months from the last date Respondent made or disseminated the applicable commercial communication regarding any term of any mortgage credit product, the following evidence of compliance with the MAP Rule:
- a. Copies of all materially different commercial communications as well as sales scripts, training materials, and marketing materials, regarding any term of any mortgage credit product, that Respondent made or disseminated during the relevant time period;

- b. Documents describing or evidencing all mortgage credit products available to consumers during the time period in which Respondent made or disseminated each commercial communication regarding any term of any mortgage credit product, including but not limited to the names and terms of each such mortgage credit product available to consumers; and
 - c. Documents describing or evidencing all additional products or services (such as credit insurance or credit disability insurance) that are or may be offered or provided with the mortgage credit products available to consumers during the time period in which Respondent made or disseminated each commercial communication regarding any term of any mortgage credit product, including but not limited to the names and terms of each such additional product or service available to consumers.
129. Respondent must retain its mailing lists for direct-mail mortgage advertisements disseminated within 5 years of the Effective Date for at least 5 years after dissemination of the advertisement.
130. Respondent must retain the documentation required by Paragraph 106(c) for at least 5 years after dissemination of the advertisement.

131. Respondent must create or, if already created, must retain the following business records:
- a. All documents and records necessary to demonstrate full compliance with each provision of this Consent Order, including all submissions to the Bureau;
 - b. Copies of all advertisements, websites, and other marketing materials, including any such materials used by a third party on Respondent's behalf; and
 - c. All consumer complaints and refund requests (whether received directly or indirectly, such as through a third party), and any responses to those complaints or requests.
132. Respondent must retain the documents identified in Paragraph 131 for at least 5 years after creation of the record.
133. Respondent must make the documents identified in Paragraphs 128–32 available to the Bureau upon the Bureau's request.

XIV.

Notices

IT IS FURTHER ORDERED that:

134. Unless otherwise directed in writing by the Bureau, Respondent must provide all submissions, requests, communications, or other documents

relating to this Consent Order in writing, with the subject line, “*In re Hypotec, Inc.*, File No. 2020-BCFP-0012,” and send them by overnight courier or first-class mail to the below address and contemporaneously by email to Enforcement_Compliance@cfpb.gov:

Assistant Director for Enforcement
Bureau of Consumer Financial Protection
ATTENTION: Office of Enforcement
1700 G Street, N.W.
Washington D.C. 20552

XV.

Compliance Monitoring

IT IS FURTHER ORDERED that:

135. Within 21 days of receipt of a written request from the Bureau, Respondent must submit additional Compliance Reports or other requested non-privileged information, related to requirements of this Consent Order, which must be made under penalty of perjury; provide sworn testimony related to requirements of this Consent Order and Respondents’ compliance with those requirements; or produce non-privileged documents related to requirements of this Consent Order and Respondents’ compliance with those requirements.

136. For purposes of this Section, the Bureau may communicate directly with Respondent, unless Respondent retains counsel related to these communications.
137. Respondent must permit Bureau representatives to interview about the requirements of this Consent Order and Respondent's compliance with those requirements any employee or other person affiliated with Respondent who has agreed to such an interview. The person interviewed may have counsel present.
138. Nothing in this Consent Order will limit the Bureau's lawful use of civil investigative demands under 12 C.F.R. § 1080.6 or other compulsory process.

XVI.

Modifications to Non-Material Requirements

IT IS FURTHER ORDERED that:

139. Respondent may seek a modification to non-material requirements of this Consent Order (*e.g.*, reasonable extensions of time and changes to reporting requirements) by submitting a written request to the Enforcement Director.
140. The Enforcement Director may, in his or her discretion, modify any non-material requirements of this Consent Order (*e.g.*, reasonable extensions of time and changes to reporting requirements) if he or she determines good

cause justifies the modification. Any such modification by the Enforcement Director must be in writing.

XVII.

Administrative Provisions

IT IS FURTHER ORDERED that:

141. The provisions of this Consent Order do not bar, estop, or otherwise prevent the Bureau from taking any other action against Respondent, except as described in Paragraph 142. Further, for the avoidance of doubt, the provisions of this Consent Order do not bar, estop, or otherwise prevent any other person or governmental agency from taking any action against Respondent.
142. The Bureau releases and discharges Respondent from all potential liability for law violations that the Bureau has or might have asserted based on the practices described in Section V of this Consent Order, to the extent such practices occurred before the Effective Date and the Bureau knows about them as of the Effective Date. The Bureau may use the practices described in this Consent Order in future enforcement actions against Respondent and its affiliates, including, without limitation, to establish a pattern or practice of violations or the continuation of a pattern or practice of violations or to calculate the amount of any penalty. This release does not preclude or affect

any right of the Bureau to determine and ensure compliance with the Consent Order, or to seek penalties for any violations of the Consent Order.

143. This Consent Order is intended to be, and will be construed as, a final Consent Order issued under § 1053 of the CFPA, 12 U.S.C. § 5563, and expressly does not form, and may not be construed to form, a contract binding the Bureau or the United States.
144. The requirements under Paragraphs 129–130 and 132–33 of this Consent Order will terminate when the specified recordkeeping periods have expired. All other requirements under this Consent Order will terminate 5 years from the Effective Date. The Consent Order will remain effective and enforceable until such times, except to the extent that any provisions of this Consent Order have been amended, suspended, waived, or terminated in writing by the Bureau or its designated agent.
145. Calculation of time limitations will run from the Effective Date and be based on calendar days, unless otherwise noted.
146. Should Respondent seek to transfer or assign all or part of its operations that are subject to this Consent Order, Respondent must, as a condition of sale, obtain the written agreement of the transferee or assignee to comply with all applicable provisions of this Consent Order.

147. The provisions of this Consent Order will be enforceable by the Bureau. For any violation of this Consent Order, the Bureau may impose the maximum amount of civil money penalties allowed under § 1055(c) of the CFPA, 12 U.S.C. § 5565(c). In connection with any attempt by the Bureau to enforce this Consent Order in federal district court, the Bureau may serve Respondent wherever Respondent may be found and Respondent may not contest that court's personal jurisdiction over Respondent.
148. This Consent Order and the accompanying Stipulation contain the complete agreement between the parties. The parties have made no promises, representations, or warranties other than what is contained in this Consent Order and the accompanying Stipulation. This Consent Order and the accompanying Stipulation supersede any prior oral or written communications, discussions, or understandings.
149. Nothing in this Consent Order or the accompanying Stipulation may be construed as allowing Respondent, its officers, or its employees to violate any law, rule, or regulation.

IT IS SO ORDERED, this 27th day of August, 2020.


Kathleen L. Kraninger
Director
Bureau of Consumer Financial Protection