



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #342

Mortgage Banking and Licensed Financial Services Entities -- On-Line Applications (Financial Institutions)

[LFB 2003-05 Budget Summary: Page 172, #3]

CURRENT LAW

The Department of Financial Institutions (DFI) regulates and licenses mortgage bankers, mortgage brokers, and loan originators. The licenses for such companies must be renewed every two years. DFI also issues licenses to licensed financial service entities, including loan companies, collection agencies, currency exchange companies, and similar entities. These licenses are generally renewed annually. [The exception is motor vehicle dealers, which are co-licensed with the Department of Transportation and are renewed every two years.] Currently, while license application and renewal forms and change of address and other information forms may be downloaded from DFI's website, the forms and associated fees must be submitted through the mail.

GOVERNOR

Provide \$242,000 PR in 2004-05 to develop and maintain an internet-based system through which mortgage bankers, mortgage brokers, and loan originators could apply for, renew, and pay for an operating license. With the new system, these institutions also would be able to perform routine file maintenance functions, such as processing changes of address, electronically. In addition, licensed financial service entities would be able to file annual reports, renew their licenses, and process routine information updates on-line. The Department indicates these electronic capabilities would be developed to mirror similar capabilities being added in the Division of Securities.

DISCUSSION POINTS

1. According to DFI, mortgage-banking professionals are requesting the convenience of being able to submit documents and pay fees on-line. The Department believes that making on-line filing available to mortgage-banking professionals and licensed financial services is an essential component of improving government services for such companies.

2. The enhanced service capacity would parallel a system currently being implemented in the Division of Securities for securities firms. Under the proposal, specific modules would be developed for mortgage bankers, mortgage brokers, loan originators, and licensed financial service providers that would complement the system in the Division of Securities.

3. In addition to improved service delivery, DFI believes that on-line filing would lead to improved government cost effectiveness. The Department anticipates that adding the on-line filing capability would free up professional staff time that is currently spent doing data entry and routing checking. As a result, professional staff would be able to perform additional examinations, which would increase examination revenue and provide better regulatory oversight of the growing numbers of mortgage banking and licensed financial service entities. [The Department estimates that there are approximately 9,700 active licensees regulated under mortgage banking regulations (mortgage bankers, mortgage brokers, and loan originators), and 15,500 licensed financial service entities. These figures have grown from 8,600 mortgage banking businesses and 14,400 licensed financial service entities in 2001.]

4. The Department has estimated the one-time cost of developing the system at \$237,000 in 2004-05, including the following: (a) \$140,000 for the modules for the mortgage banking industries and licensed financial service providers; (b) \$45,000 for customizing the modules, training, and data conversion; and (c) \$52,000 for project support in the first four months of the project. However, the bill would provide only \$221,000 in one-time expenditure authority for the proposal. DFI has indicated that it would absorb the additional cost of \$16,000 through savings in postage and efficiencies achieved in related areas.

5. The ongoing cost of maintaining the system would be \$21,000 per year, starting in the year of implementation. The bill would provide a total of \$242,000 in 2004-05 to fund one-time and ongoing costs associated of the proposal.

6. The increased revenue that would result from professional staff being able to perform more examinations is estimated by the Department to be \$26,000 annually, starting in 2004-05. Based on these projections, the net cost of the proposal in 2004-05 would be \$216,000 (\$242,000 less the off-setting revenue of \$26,000).

7. In subsequent years, however, the anticipated increase in examination revenues of \$26,000 annually would offset the annual expenses of \$21,000. The annualized net revenue gain would therefore be \$5,000 starting in 2005-06.

8. At the end of each fiscal year, the unexpended balance in DFI's PR appropriation for

general program operations lapses to the general fund as GPR-earned. Therefore, even though the Department is funded with program revenue, funding decisions also affect the general fund. If the on-line filing proposal were not approved, an additional \$216,000 would lapse to the general fund in 2004-05 (the net effect of reducing expenditures by \$242,000 and revenues by \$26,000). In subsequent years, however, the annual lapse would be lower by \$5,000 (the net effect of reducing expenditures by \$21,000 and revenues by \$26,000).

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$242,000 PR in 2004-05 to enable DFI to develop on-line filing capabilities for mortgage banking and financial services.
2. Maintain current law.

<u>Alternative 2</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
2003-05 REVENUE (Change to Bill)	\$216,000	- \$26,000	\$190,000
2003-05 FUNDING (Change to Bill)	\$0	- \$242,000	- \$242,000

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