Arizona Department of Financial Institutions

February 28, 2020

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SEMI - ANNUAL DEPARTMENT NEWS

A parting message from Superintendent Keith A. Schraad

Dear Colleagues, Licensees, and Fellow Arizonans

It is with a mixture of sadness and excitement that I am letting you know that I am going to be leaving the Department. Leading this Department is easily the best, most enjoyable job I have ever had. I was very lucky to work with so many dedicated, knowledgeable and hard-working members of the soon-to-be DIFI organization. I want to thank you all for making our Department so successful.

The Governor's Office has already appointed a highly-qualified interim director and we expect business as usual during the transition.

Christina Corieri, the Governor's senior policy advisor, will serve as Interim Director of Department of Insurance and Financial Institutions in addition to her current role. Corieri will lead day-to-day operations in the interim, as the Governor's Office coordinates a national search for a permanent director.

I wish the Department and the public it serves continued success.

LICENSING DIVISION

Meet The New Licensing Division Manager

On November 16, 2019, the Department of Financial Institutions (DFI) appointed Steven Fromholtz as the Licensing Division Manager. Steven has been with the Department of Insurance (DOI) for 16 years and was previously the Producer Licensing Administrator as well as the Assistant Director of the Consumer Protection Division at the DOI.

In this new role, at the combined Arizona Department of Insurance and Financial Institutions (DIFI), Steven will oversee both the DFI and DOI Licensing sections as well as the Healthcare Appeals and Administrative Enforcement sections in the DOI. Prior to his work at the DOI, Steven was a licensed insurance agent where he worked for an Allstate agency office as well as for Prudential Insurance.

Licensing Division (cont.)

We asked Steven Fromholtz a few questions to learn more about him:

Now that you have been named the Licensing Division Manager, what are some of the biggest challenges you see?

The biggest challenge that I see at this point would be mastering the intricacies of the 27 license types issued through DFI, in addition to learning the new backend systems such as Salesforce. With my experience in Insurance Producer licensing it will be interesting to discover the commonalities between the two areas.

How many license types does your Division process?

DFI has 27 different license types while the DOI has 12 different license types.

What are your plans for the next 90 days with the Division?

In the first 90 days, I plan to learn all of the licensing processes in DFI. Once I have a handle on the process, the two licensing sections will start to share best practices to find efficiencies in our common processes that will be mutually beneficial to the state as well as the Department.

Legislative Update

Legislative Update – The 54th Legislature began in mid-January 2020. SB 1293 has been proposed as a follow-up to last year's SB 1469, which combines the Department of Financial Institutions (DFI) and Arizona Automobile Theft Authority (AATA) into the Department of Insurance (DOI) and changes the name of the combined agency to the Department of Insurance and Financial Institutions (DIFI) effective July 1, 2020.

The department is also considering a couple of licensing ideas that would reduce the burden and cost on small business required to comply with outdated and cumbersome paper license requirements. More information will follow.

If you have any legislative questions, please contact **Stephen Briggs at sbriggs@azdfi.gov**

We Need Your Help

There's no regulation too small or rule too out-of-date to suggest eliminating to expand opportunities for people across the state.

Visit **http://azgovernor.gov/redtape** and make a difference today. You send it and we'll see it, because big things can happen when government gets out of the way of innovation, creativity, and entrepreneurship.

FINANCIAL SERVICES DIVISION

ESCROW AGENTS REPORTING NOTICE

You must file an annual audit report of your escrow, account-servicing, and subdivision trust activities **within 120 days after the end of your fiscal year**. The report must be prepared by a certified public accountant in accordance with generally accepted accounting principles, and must include consideration of the escrow agent's internal control structure. The report must conform to the requirements set forth in Regulatory Alert EA-06-01, Escrow Agent Audit Guidelines. A.R.S. § 6-832(A).

For each day a required report is not filed with the Department, A.R.S. § 6-816(B) levies a fee of $25. The Department may excuse the fee for good cause if the cause is presented **before** the due date of a report. *See* A.R.S. § 6-816(B).

For additional information please refer to A.R.S. § 6-832, A.R.S. 6-816(B) and Regulatory Alert EA-06-01, issued August 31, 2006.

A.R.S. §6-832
https://www.azleg.gov/viewdocument/?docName=https://www.azleg.gov/ars/6/00832.htm
A.R.S. § 6-816(B)
https://www.azleg.gov/viewdocument/?docName=http://www.azleg.gov/ars/6/00816.htm
Regulatory Alert
https://dfi.az.gov/sites/default/files/Regulatory_Bulletin_EA-06-01.pdf
Substantive Policy Statement
https://dfi.az.gov/sites/default/files/DFI-AD-PO-EA-Substantive_Policy_Statement-EA-1-073012ver1.pdf

CONSUMER LENDER REPORTING NOTICE

Report Due Dates:

·Annual Report - due on or before 10/1—a $5 per day late fee is assessed on late submissions

·Standard Rate of Charge Report -

- Annually on or before 10/1 along with the Annual Report
- Within thirty days after effectuating a change in the standard rate of charge for any of the types of loans described in the report
- Newly licensed consumer lenders should submit the rate of charge report once their license is approved

Did you know the rate of charge reports are combined for all consumer lender licensees and can be found on our website under the Public Information link? The combined rate of charge report is updated quarterly and posted to our website.

Financial Services Division (Cont.)

2020-2021 USPAP for Appraisers: The 2020-2021 Uniform Standards of Professional Appraisal Practice is effective January 1, 2020. Appraisers, who have not already done so, should schedule the new biennial 7-hour update course at their earliest opportunity to be in compliance with the new USPAP version. There are important changes of which to be aware. Effective June 10, 2019, Arizona appraisers are no longer required to take their USPAP course in the classroom. Online courses are now acceptable. A complete list of courses approved by the State of Arizona can be found online at https://dfi.az.gov/licensing/education/appraisal-course-approval, sorted by course provider. On that same page, you will also find a link to the Appraisal Foundation AQB/CAP list. The courses on the CAP list are also approved for continuing education credit in Arizona. Please check the websites of the course providers for scheduled courses.

Revised Rules – Appraisers, AMCs, Property Tax Agents and Course Approvals: Revisions to the Arizona Administrative Code ("Rules") that affect Arizona Real Estate Appraisers, Appraisal Management Companies, Course Approval and Property Tax Agents (Title 4, Chapter 46) became effective June 10, 2019 and are now available thru the Department website at: https://dfi.az.gov/regulatory/rules

Appraisers: Setting up Accounts in eLicensing: Appraisers who have not yet set up an account in the Department's e-Licensing portal will need to do so before submitting a renewal application. The portal provides the ability to update contact information, submit a service request and renew or apply for a new license. The Department emailed all licensees last March with instructions on how to set up an account and a password. Go to: https://elicense.az.gov/. Using the information provided in the email, set up a password for your account by clicking on "Login/Create Your Account"; then, "I Have a License". The next screen will ask for a security code. Retrieve your personal code from the email. After you create a login with a passcode, this security code will no longer be valid. If you have any difficulties, please contact the Department at reainfo@azdfi.gov and we will be happy to assist you in setting up your account.

Appraisal Complaint Statistics

	2019/ JAN	2019/ FEB	2019/ MAR	2019/ APR	2019/ MAY	2019/ JUN	2019/ JUL	2019/ AUG	2019/ SEP	2019/ OCT	2019/ NOV	2019/ DEC	Year Total
# of Appraiser Complaints Filed*	5	4	3	7	4	7	7	12	3	4	5	5	66
TOTAL COMPLAINTS FILED:													66
The following actions were adjudicated:													
Dismissed or Conditional Dismissal	3	1	4	4	0	0	0	0	1	0	0	0	13
"Closed"**	0	0	0	0	2	3	2	1	0	1	0	0	9
Letter of Concern, Non-Disciplinary, Level 1	0	1	2	2	1	2	3	2	0	0	2	2	17
Order for Additional Education, Non-Disciplinary, Level 1 or 2	0	2	1	0	1	0	2	2	2	2	4	2	18
Order for Additional Education, Disciplinary, Level 2	0	0	0	0	0	0	0	0	0	0	0	0	0
Order for Additional Education, Disciplinary, Level 3	0	0	0	0	0	0	4	3	2	1	0	1	11
Order for Probation, Disciplinary, Level 3	0	0	0	0	0	0	0	0	0	0	0	0	0
Order for Suspension, Disciplinary, Level 4	0	0	0	0	0	0	0	1	0	1	0	0	1
Order for Voluntary Surrender, Disciplinary, Level 5	0	0	0	0	0	0	0	0	0	0	0	0	0
Order for Revocation, Disciplinary, Level 5	0	0	0	0	0	0	0	0	0	0	0	0	0
Order for Cease & Desist	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL COMPLAINTS ADJUDICATED:	3	4	7	6	4	5	11	9	5	5	6	5	69
Informal Meeting (# of Complaints)	0	3	1	0	0	0	0	1	0	2	1	1	9
Formal Hearing (# of Complaints)	0	0	0	0	0	0	0	0	0	1	0	0	1
TOTAL MEETINGS OR HEARINGS:													10

*'Complaints Filed' reflects the number of complaints received by the Department in the given month.
**Complaints that are "Closed" include those for which were received by the Department, but did not meet minimum jurisdictional requirements

Mortgage Lending Division

The Federal Housing Finance Agency (FHFA) set maximum conforming loan limits for mortgages to be acquired by Fannie Mae and Freddie Mac in 2020 at $510,400 for one-unit properties, up from $484,350 in 2019.

In areas where 115 percent of the local median home value exceeds the baseline conforming loan limit, the maximum loan limit will be higher than the baseline loan limit. The new ceiling loan limit for one-unit properties in most high-cost areas will be $765,600, or 150 percent of $510,400.

The FHFA also noted that special statutory provisions will be used to loan limit calculations for Alaska, Hawaii, Guam, and the U.S. Virgin Islands, where the baseline loan limit will be $765,600 for one-unit properties.

The Consumer Financial Protection Bureau (Bureau) issued a final rule amending Regulation C to extend the current temporary threshold of 500 open-end lines of credit to January 1, 2022. The final rule also incorporates into Regulation C the interpretations and procedures from the interpretive and procedural rule issued by the Bureau in August 2018, and further implements the amendments made to the Home Mortgage Disclosure Act by the Economic Growth, Regulatory Relief, and Consumer Protection Act.

The Bureau is also conducting an assessment of the Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act (Regulation X) and the Truth In Lending Act (Regulation Z) Rule and certain amendments in accordance with section 1022(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Bureau is requesting public comment on its plans for assessing this rule as well as certain recommendations and information that may be useful in conducting the planned assessment. The public was invited to comment on the feasibility and effectiveness of the assessment plan, recommendations to improve the assessment plan, and recommendations for modifying, expanding, or eliminating the TRID Rule, among other questions. Comments were due January 21, 2020 (60 days after it's published in the *Federal Register).*

The Mortgage Lending Division regularly provides the number of each of its Licensees and they are as follows in the chart on the right:

Arizona Mortgage Industry as of December 2019:

Mortgage Broker Licenses	566
Mortgage Banker Licenses	554
Commercial Mortgage Broker Licenses	68
Commercial Mortgage Banker Licenses	25
Loan Originator Licenses	18,599

MORTGAGE LENDING DIVISION (CONT.)

The mortgage broker test is offered on the first Thursday of every month and the mortgage broker handbook is available on our website at www.azdfi.gov . Registration for the mortgage broker test is available online 24 hours a day, 7 days a week at https://elicense.az.gov. The registration deadline is no later than two (2) days prior to the test date.

MORTGAGE BROKER TEST DATES

Test Dates	Test Dates
Thursday, March 5, 2020	Thursday, August 6, 2020
Thursday, April 2, 2020	Thursday, September 3, 2020
Thursday, May 7, 2020	Thursday, October 8, 2020
Thursday, June 4, 2020	Thursday, November 5, 2020
Thursday, July 2, 2020	Thursday, December 3, 2020

The Credit Union Industry

A FOCUS ON RECENT REGULATIONS

The Arizona Department of Financial Institutions continues to supervise its state-chartered credit unions to evaluate financial, management and operational conditions. While seasoned leadership and staff are familiar with key rules, the following reference may help all to be aware of some 2018 to 2019 requirements:

Agency	Reference Source	Subject
NCUA	18-CU-04 - Letters to Credit Unions	Sharing Bank Secrecy Act Resources *Permissible actions could benefit smaller institutions*
NCUA	12 CFR Part 723.8 - Aggregate Member Business Loan Limits	Statutory limits on amount of member business loans. *Altered thresholds to policies, procedures & oversight*
NCUA	12 CFR Part 760 - Loans in Areas Having Special Flood Hazards	Policy acceptance of statutory "private flood insurance" *Addresses notifications, availabilities & premiums*
NCUA	12 CFR Part 715.4-7 - Audit Responsibility of the Supervisory Committee	Annual audit requirement, financial audit options *Updated for clarification and relevance*
NCUA	12 CFR Part 722 - Real Estate Appraisals	Amends nonresidential thresholds/clarifies exemptions *Commercial threshold increased to $1 million from previous $250,000* *Addresses definitions & rural transactions*
CFPB	Final Rule Home Mortgage Disclosure (Regulation C)	Extends data threshold to January 1, 2022 *Temporary threshold is 500 open-end lines of credit*
CFPB & Federal Reserve	Availability of Funds and Collection of Checks (Regulation CC)	Statutory bank amounts for inflation; Addresses repeated overdrawn accounts; Mandatory July 1, 2020 *Amendments reflect evolution to electronic systems*

Legend: *CFPB – Consumer Financial Protection Bureau*
CFR – United States Code of Federal Regulations
NCUA – National Credit Union Administration ## #

Bank and Trust Company Division

The Transition Away from the London Interbank Offered Rate (LIBOR)

LIBOR is expected to go away sometime after 2021. LIBOR is a global financial benchmark and reference rate that is meant to represent the average rate that large banks pay for unsecured, short-term borrowing. A global effort is now under way to transition market participants to alternative reference rates. The expected discontinuation of LIBOR is important for community banks because they may have LIBOR exposures on the asset or liability side of the balance sheet at the bank and/or bank holding company. The vast majority of this exposure is found in derivative products, including interest rate swaps, options, and futures. Community banks may have exposure to the LIBOR rate if their contracts, or the legal document underlying the financial transaction, contain a reference to LIBOR for determining the interest rate.

Many existing financial contracts do not contain appropriate "fallback" language to specify which interest rate should be used in the event that LIBOR is no longer published. Failure to determine a new rate acceptable to the parties of each contract may result in confusion about what to do under the contract (e.g. how to calculate interest payments). A lack of appropriate fallback language could also result in legal risk, as neither party to the contract may be willing to accept a reduced margin because of a change in the reference rate.

Uncertainty about the rates on assets and liabilities could result in increased interest rate risk exposure. In addition, LIBOR may be embedded in systems, formulas, and financial models: therefore, its discontinuance could also pose an operational risk for firms. Finally, effective and consistent communication would be necessary to inform key stakeholders and clients about the implications of moving away from LIBOR.

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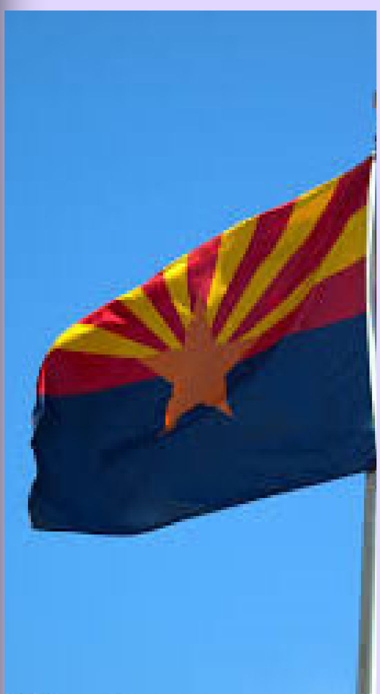

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