Arizona Department of Insurance and Financial Institutions

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SEMI - ANNUAL FINANCIAL INSTITUTIONS DIVISION NEWS

In This Issue

Introducing our new Deputy Director for Financial Institutions

Deputy Director Shane Foster

(The Arizona Department of Insurance and Financial Institutions issued this press release on December 2, 2020)

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The Arizona Department of Insurance and Financial Institutions (DIFI) Announces Two New Agency Deputy Directors to Join the Executive Team

PHOENIX - The Arizona Department of Insurance and Financial Institutions (DIFI) Director Evan G. Daniels announces two new deputy directors joining the executive team this month.

Shane Foster will serve as the Deputy Director for Financial Institutions. Mr. Foster comes to the agency from the Arizona Attorney General's Office, where his most recent position was as Senior Litigation Counsel in the Office's Consumer Protection & Advocacy Section. Mr. Foster has worked in private practice and has extensive experience in the mortgage industry.

Jon Savary will serve as the new Deputy Director for the Division of Insurance. Mr. Savary comes to the agency from Banner Health, where his most recent position was as Medicare Administrative Director for Banner's University of Arizona Health Plans, where among other things, he managed regulatory oversight, policy development, and program implementation for all Medicare-related departments composed of over 600 employees.

Effective July 1, 2020, the Department of Insurance, the Department of Financial Institutions & the Automobile Theft Authority consolidated to form a single state agency - the Arizona Department of Insurance and Financial Institutions.

“I believe the individual talents and experience both Shane and Jon possess will be a tremendous asset to the newly consolidated agency. Our teams look forward to enhancing and highlighting public outreach regarding consumer protection issues, stakeholder engagement, vehicle theft and fraud awareness and prevention strategies.” said Director Evan Daniels.

LICENSING DIVISION

The end of the year renewal season has recently concluded and it has been one of the biggest years yet. As of December 20, 2020, the Financial Enterprise licensing section has processed over 947 renewal applications for collection agencies, escrow agents, money transmitters, and premium finance companies as well as 18,847 renewal applications for loan originators, mortgage bankers and brokers, and commercial mortgage bankers and brokers.

Licensing Division (cont.)

The processing time for all Financial Enterprise new and renewal applications continue to remain within our goal of an average of 3 days.

INFORMATION ELEMENT	July 2020	August 2020	September 2020	October 2020	November 2020	December 2020 (as of 12-20-20)
Number of license/renewal applications processed	**1230**	**1410**	**1557**	**1376**	**15214**	**6618**
Average Calendar days to process all financial enterprise license/renewal applications	**2.5**	**3.0**	**2.1**	**2.0**	**0.2**	**0.4**

Renewal Reminder

Renewal windows open up 30-45 days prior to the renewal deadline.

Consumer Lenders – Renewals due by June 30th.

Debt Management Companies – Renewals due by June 15th.

Legislative Update

2021 – Fifty-fifth Legislature – First Regular Session

Laws 2019, Chapter 252 merged the Department of Financial Institutions with the Department of Insurance and established the new agency as the Arizona Department of Insurance and Financial Institutions (DIFI). In 2020, SB1293 was signed into law and addressed conforming changes within the insurance statutes found in Title 20. In the upcoming legislative session, DIFI's main focus will be on working through the anticipated omnibus legislation concerning Titles 6 and 32.

If you have any legislative questions, please contact **Stephen Briggs at Stephen.Briggs@difi.az.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 https://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

REPORTING NOTICES

Please see the Required Reports for Financial Services Licensees listed below. Please visit our website https://difi.az.gov/ to access the guidelines, forms, and instructions.

ESCROW AGENTS:

Escrow Rate Filing: Approval required prior to implementation

Semiannual Financial and Escrow Report: Due 2/14 and 8/15; $25 late fee per day until received

Annual Audited Financials: Due 120 days after the end of the escrow agent's fiscal year; $25 late fee per day until received

Examples: 12/31 Fiscal Year End; due date is 4/30, except leap year is 4/29

6/30 Fiscal Year End; due date is 10/28

Please visit our website to access the annual audit guidelines, escrow rate filing forms, and semi-annual forms and instructions.

DEBT MANAGEMENT:

Annual Report: Due 8/15; $5 late fee per day until received

PREMIUM FINANCE:

Annual Report: Due 2/1; $25 late fee per day until received

CONSUMER LENDER:

Annual Report: Due 10/1; $5 late fee per day until received

Consumer Rate of Charge Report: Due 10/1 and within thirty days after effectuating a change

MONEY TRANSMITTER: Quarterly Reports must be filed through AZDIFI portal.

Fiscal Quarterly Report: Due within forty-five (45) days after the end of each fiscal quarter, as follows:

For Quarter Ending	No Later Than
March 31	May 15
June 30	August 14
September 30	November 14
December 31	February 14

COLLECTION AGENCY:

Fictitious Name Report: Due 7/1 and 12/31

Financial Services Division (Cont.)

Escrow Agent licensees are examined at a minimum as follows:

- Trust Bank Activity – Every Two Years
- Escrow Activity – Every Four Years

The most common violations found during an **escrow agent examination** are:

1. A.R.S. 6-846.04(A): Failure to charge escrow fees as approved in the escrow rate filing.
2. A.R.S. 6-841.02: Failure of escrow agent that is a title insurance agent to disclose to the buyer and seller of a residential dwelling that the title insurer shall offer on request a closing protection letter that provides protection for the loss of escrow monies due to fraud or dishonesty of the escrow agent.
3. A.R.S. 6-834(D): Failure to provide to each depositing buyer or seller adequate notice of his right to earn interest on all deposited monies not later than three business days after receipt of any escrow monies.
4. A.R.S 6-841.03: Failure to provide a complete and accurate disclosure to each buyer and seller of a residential dwelling as defined in section 6-841.02 that monies deposited in an escrow account are not insured against loss from fraud or theft by this state or the United States, not later than three business days after an escrow agent receives any escrow monies.
5. A.R.S. 6-817(A)(14): Failure to authorize each financial institution with which it has deposited trust or fiduciary funds to notify the superintendent of any overdraft or check returned for insufficient funds on any trust or fiduciary accounts of the escrow agent.

Resources for Appraisers

As appraisers well know, every appraisal is unique and has different challenges in determining value. Appraisers are often "on their own" and have a difficult time finding opportunities to discuss challenging assignments with their peers. This is one reason why many appraisers prefer to take courses in the classroom - to connect with their peers. Unfortunately with the pandemic, one of the many challenges appraisers have experienced is the inability to connect with those peers. Those courses usually held in the classroom are now being held virtually, in many cases. This can be a great new way to connect with other appraisers, sometimes across the country, especially in courses with a limited number of participants. On the Department's website, appraisers can find all of the courses for appraisers approved by our Department. The website is located at https://dfi.az.gov/licensing/education/appraisal-course-approval.

The "Continuing and Qualifying Approved Appraiser Education" link on that page has all current Arizona-approved appraisal courses, as well as courses in the Appraisal Qualifications Board Course Approval Program (AQB/CAP). AQB/CAP-approved courses are accepted by the Department for continuing, qualifying, and corrective appraisal education. There is a new column called "Covid-19 Notes", in which you will see classroom courses that have been approved for virtual learning. This is a very handy list for appraisers for everything from qualifying or continuing education to courses required for compliance with complaint resolutions. The list is alphabetical by course provider and includes the number of hours and the website of each provider where you can get descriptions of the courses, available course dates, and cost. The list also may provide ideas of courses an appraiser might want to take to fill gaps in knowledge. There is much to know in this industry and education available to help with every aspect of being an appraiser. As a reminder, Arizona no longer requires that USPAP (or any other course) be taken in the classroom. Appraisers can now take one of the many USPAP courses offered online.

When trying to determine the best way to tackle an appraisal challenge, there are many resources available to appraisers. In addition to discussions with peers, USPAP instructors are a great resource. There are many organizations that work with appraisers and some may offer peer review services. There are forums online in which appraisers have the opportunity to discuss any subject relating to appraisals with peers; some of the forums maintain a searchable library of topics previously discussed. Attending appraisal conferences is another great way to get to know many appraiser peers and discuss relevant topics. This past year, several conferences were held online. Most appraisers are aware that USPAP has a very extensive FAQ section with a table of contents to assist in finding answers to specific topics. Just flipping through the FAQs when you have an extra few minutes of down time will prove to be enlightening. Additionally, there are blogs and newsletters which discuss relevant topics. You can get more information than you can keep up with coming straight into your email inbox. The 15th edition of The Appraisal of Real Estate has recently been released. There are also many other books that offer guidance about general or specific topics relating to the practice and theory of appraising. The Appraisal Foundation holds public meetings online in which they discuss revisions to USPAP and industry-wide, and possibly transformative, topics affecting appraisers. A trip to their website can get you registered to any number of online events.

Financial Services Division (Cont.)

Consumer Affairs

Consumer safety tip from the Consumer Affairs Division

During our review of complaints involving escrow agents, we note that closing documents to their customers include a wire fraud warning. These written warnings must be followed to avoid being the victim of a wire transfer scam. The licensees are fully aware that wire transfer scams are based on confidence games to coerce loan customers into sending money electronically to scam artists. At some point, you need to wire him money and trust all his promises on his "good intentions." In the best-case scenario, you lose your money with no chance of getting a refund. If they work from a third-party website, they may make promises that go against the licensee's terms and conditions. Con artists work from their own company website that are not regulated, so they can make the boldest promises in the world. This false confidence disguises wire transfers as a risk-free method. Lastly, the cus-tomers are not protected if they fail to comply with the licensee's written instructions.

Follow these universal rules to safeguard yourself and your money:

- Do not give anyone your financial or other personal information unless you know who you are dealing with.
- Do not wire money or send a check to someone you don't know.
- Do not trust a name or number. Contact a company or agency directly to verify if they made the call or sent the letter.

If you are having doubts about a **financial institution** that you are currently working with, please contact us:

602-771-2800 (option #2) **or**

visit our License Search function at:

https://elicense.az.gov/ARDC_LicenseSearch

MORTGAGE LENDING DIVISION

The Federal Housing Finance Agency (FHFA) announced the maximum conforming loan limits for mortgages to be acquired by Fannie Mae and Freddie Mac in 2021. In most of the U.S., the 2021 maximum conforming loan limit (CLL) for one-unit properties will be $548,250, an increase from $510,400 in 2020.

The Housing and Economic Recovery Act (HERA) requires that the baseline CLL be adjusted each year for Fannie Mae and Freddie Mac to reflect the change in the average U.S. home price. FHFA published its third quarter 2020 FHFA House Price Index (FHFA HPI®) report, which includes estimates for the increase in the average U.S. home value over the last four quarters. According to the seasonally adjusted, expanded-data FHFA HPI, house prices increased 7.42%, on average, between the third quarters of 2019 and 2020. Therefore, the baseline maximum CLL it in 2021 will increase by the same percentage.

For areas in which 115 percent of the local median home value exceeds the baseline CLL, the maximum loan limit will be higher than the baseline loan limit. HERA establishes the maximum loan limit in those areas as a multiple of the area median home value, while setting a “ceiling" on that limit of 150 percent of the baseline loan limit. Median home values generally increased in high-cost areas in 2020, driving up the maximum loan limits in many areas. The new ceiling loan limit for one-unit properties in most high-cost areas will be $822,375 — or 150 percent of $548,250.

As the Federal Housing Finance Agency announced, Freddie Mac and Fannie Mae will begin immediately providing greater liquidity to mortgage markets by temporarily purchasing loans from lenders where the borrower has requested forbearance or has been approved for forbearance due to the COVID-19 pandemic. To address the risk of these temporary measures and to protect taxpayers, eligible loans delivered to Freddie Mac will be assessed an additional credit fee -- 5% for first-time homebuyers and 7% for non-first-time homebuyers.

Loan Eligibility Criteria:

- The mortgage must have closed on or after February 1, 2020 and on or before May 31, 2020.
- The loan must be a purchase transaction or a no-cash-out refinance.
- The loan cannot be more than 30-days delinquent.

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

ARIZONA MORTGAGE INDUSTRY AS OF DECEMBER, 2020:

Mortgage Broker Licenses	672
Mortgage Banker Licenses	606
Commercial Mortgage Broker Licenses	72
Commercial Mortgage Banker Licenses	33
Loan Originator Licenses	24,699

The Credit Union Division

A Look at NCUA's MERIT

Our financial industry continues to change, as many have experienced directly. Several of us working with credit unions also learned that the National Credit Union Administration (NCUA) will be rolling out a new software program in late 2021 for both examiners and credit unions to use. The NCUA's new web-based platform is the Modern Examination and Risk Identification Tool, which is being referred to by its short name of MERIT.

As part of the NCUA's modernization program, the agency explored solutions for replacement of AIRES, a 25 -year old legacy examination application. The AIRES examination program was developed using a combination of Visual Basic in conjunction with Microsoft Excel, Access and Word Programs. While AIRES served the examination process quite well over decades, some improvements were needed. As part of NCUA's long-term vision, the federal agency sought to enhance its examination and documentation processes.

MERIT was developed to simplify the manner in which the examiners and credit unions work during examinations. The following examples are what the credit union will be able to accomplish:

- Transfer files securely within the examination setting;
- Deliver status updates or request changes to due date for examination findings and action items; and
- Download examination reports.

DIFI's Credit Union Division continues to provide a critical service and supervisory role in support of a healthy financial industry in the state of Arizona. The MERIT program will assist our department in its goal to serve the credit union industry as the primary regulator as well as more efficiency when partnering in joint examinations with our federal NCUA regulators.

ARIZONA FUN FACTS

Located in Fountain Hills is a fountain believed to be the tallest in the world.

BANK AND TRUST COMPANY DIVISION

Payable on Death Accounts Can Increase FDIC Insurance

The FDIC maintains a $250,000 coverage limit on deposits held at single financial institutions, which might leave wealthier retirees in a bind when trying to protect their assets. That $250,000 limit includes all savings accounts, checking accounts, certificates of deposit, and money market accounts.

However, there is one easy-to-use trick available to increase your total coverage limits to at least $1,250,000 —the “payable on death” designation.

Payable on Death Defined

In essence, when you designate a bank account as payable on death, the person who you've named is not entitled to any of the money until you pass away. When you do, however, they suddenly become the owner of the account. It bypasses your estate and is even more powerful than your last will and testament.

It is a type of revocable trust in that there is someone else who has a beneficiary interest in the account. That is the reason that these types of accounts are often referred to as the "poor man's trust fund." For virtually no paperwork or cost, they achieve many of the same net effects as a basic trust fund. The assets in the account get to skip probate entirely. Because of that beneficiary interest, the FDIC currently allows you to cover as much as $1,250,000 at a single financial institution by designating up to five payable on death beneficiaries, none of whom can be covered for more than $250,000.

Drawbacks to Payable on Death Accounts

As with all things in life, there are some drawbacks to using the payable on death designation to increase your FDIC insurance limits on things such as savings accounts or certificates of deposit. Many states around the country have specific laws on the process that must be followed if you change your mind and want to change the designated beneficiary on a payable on death account.

You cannot override your payable on death instructions, which are a type of revocable living trust, with a will. If you name your son as the beneficiary on the account form, and then later leave the money to your daughter in your will, your daughter is going to receive nothing.

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Arizona Department of Insurance and Financial Institutions (DIFI).

Our new mission—Our new vision!

- **Mission:** To help Arizonans receive the benefits and protections to which they are legally entitled by enforcing insurance and financial insti-tution laws and by providing information and assistance, and to combat vehicle theft.
- **Vision:** Safe, innovative, competitive, and readily available financial and insurance products and services with minimal regulatory and taxpayer burdens.