

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0683-01
Bill No.: HB 139
Subject: Mortgages and Deeds; Licenses - Professional
Type: Original
Date: January 14, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Residential Mortgage Licensing*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

*** Offsetting income and costs total \$432,937 in FY 07 and \$410,835 in FY 08.**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED) - Division of Professional Registration** and **Department of Insurance** assume the proposal will have no fiscal impact on their organizations.

Officials from the **DED - Division of Finance (FIN)** state that the change in the law will have no effect on general revenue as the statute provides for the division to set the licensing fees at the level needed to make the mortgage broker section self-supporting.

DED-FIN assumes the proposal would substantially increase DED-FIN workload as it creates an education requirement for "originators" working with residential mortgage brokers and requires the licensing of approximately 15,000 "originators" in addition to the companies already licensed.

In arriving at an estimate, DED-FIN sought the assistance of the North Carolina (NC) Division of Finance since: 1) NC has approximately the same population as Missouri, 2) NC has a law somewhat like that proposed in this legislation, 3) the NC mortgage broker industry is approximately the same size as in Missouri and, consequently, 4) DED-FIN feels NC's past experience would be similar to what DED-FIN must address in this proposed legislation.

ASSUMPTION (continued)

North Carolina, to administer its residential mortgage broker laws in an industry essentially the same size and makeup as Missouri's, uses a total of sixteen to twenty people. That includes a director of the mortgage broker division, a continuing education director, seven examiners (two senior and five lower ranked), four full-time office assistants, two part-time office assistants plus an attorney. This does not include four or five others involved with consumer complaints and investigations which, if included would run the number to approximately twenty people.

DED - FIN believes, based on what they learned about the experiences of the licensing sections of the MO Department of Insurance and MO Board of Realtors, they would need four full time office assistants; (they already have one so they would need to add three). DED-FIN will, like NC, need a director for what is termed the Residential Mortgage Broker Section but, since they already have such an employee, there would be no increase. They do not believe they would need a director of continuing education as the section director would perform those duties.

Therefore, DED-FIN will need a total of seven new people to go with the two they already have: one examiner for field work, three new office assistants, a lawyer, and two people (designated as "examiners") to work complaints. These would, of course, need space, equipment and expenses. They would recover all of the costs, per the statute, through licensing fees.

Oversight assumes this proposal, as it relates to the licensing of "originators", will not go into effect until FY 2007 since those employed in that business have until August 2006, or their renewal date, to renew or obtain a license. DED-FIN indicated that many of the licenses would come due in July. DED-FIN also indicated that the licenses are biennial, but half of the license fee is collected each year.

Officials from the **Office of Secretary of State (SOS)** state the proposal modifies various provisions regarding the licensure of mortgage brokers and loan originators. The proposal may result in Professional Registration promulgating rules to implement the legislation. These rules will be published in the Missouri Register and the Code of State Regulations. Based on experience with other divisions, the rules, regulations and forms issued by Professional Registration could require as many as 22 pages in the Code of State Regulations. For any given rule, roughly one-half again as many pages are published in the Missouri Register as are published in the Code because of cost statements, fiscal notes and notices that are not published in the Code. The estimated cost of a page in the Missouri Register is \$23. The estimated cost of a page in the Code of State Regulations is \$27. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded, and withdrawn. The SOS estimates the cost of the proposal to be \$1,353 [(22 pgs. X \$27) + (33 pgs. X \$23)] for FY 06.

ASSUMPTION (continued)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

This proposal would increase Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
RESIDENTIAL MORTGAGE LICENSING FUND			
<u>Income - Department of Economic Development - Division of Finance</u>			
Licensing Fees	\$0	\$432,937	\$410,835
<u>Cost - Department of Economic Development - Division of Finance</u>			
Personal Service Costs (7 FTE)	\$0	(\$257,567)	(\$264,006)
Fringe Benefits	\$0	(\$109,878)	(\$112,625)
Equipment and Expense	\$0	(\$65,492)	(\$34,204)
Total <u>Costs</u> - Department of Economic Development - Division of Finance	\$0	(\$432,937)	(\$410,835)
ESTIMATED NET EFFECT ON RESIDENTIAL MORTGAGE LICENSING FUND*	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Offsetting income and costs total \$432,937 in FY 07 and \$410,835 in FY 08.

<u>FISCAL IMPACT - Local Government</u>	FY 2006 (10 Mo.)	FY 2007	FY 2008
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that originate loans would be affected by this proposal with the cost of continuing education and license fees.


DESCRIPTION

This proposal changes the laws regarding residential mortgage brokers. The proposal: (1) Defines "continuing education" and establishes standards to comply with the continuing education requirements; (2) Adds to the definition of "exempt entity" any authorized licensed insurance agent, broker, or producer in any state and any loan originator under exclusive contract with a licensee who has a net worth on file with the Director of the Division of Finance in the Department of Economic Development that exceeds \$25 million who only offers loan products of affiliated lenders wholly owned by the same publicly traded company as the licensee; (3) Adds any mortgage banker as specified in the proposal to the definition of "exempt entity" for the purpose of mortgage broker licensure; (4) Removes from the definition of "exempt entity" any person employed or contracted by a licensee who assists in brokerage activities; (5) Defines "loan originator" and "residential loan originator license certification course"; (6) Exempts certain financial institutions from the loan originator licensing requirements; (7) Exempts from the licensing requirements those persons holding mortgage broker or loan originator licenses prior to the effective date of the proposal; (8) Requires the director to consider advice from the Residential Mortgage Board on the promulgation of any rule and on the decision to deny or revoke a license. The director will provide relevant documents to the board; (9) Requires all license applications to include evidence of the satisfactory completion of the residential loan originator license certification course and examination; (10) Requires loan originator licensees to deliver their licenses to their current employer and notify the director. In the case where employment is terminated, the licensee will return his or her license to the director with a written explanation of the reasons for termination; and (11) Requires all license renewal applications to include evidence of the completion of all continuing education requirements.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development -
 Division of Finance
 Division of Professional Registration
Department of Insurance
Office of Secretary of State

A handwritten signature in black ink, reading "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
January 14, 2005