



DEPARTMENT NEWS

January 3, 2017

DEPARTMENT OF FINANCIAL INSTITUTIONS

Volume 1, Issue 1

Special points of interest:

- Arizona has more boats per capita than any other U.S. state
- Arizona has more parks and national monuments than any other state, more mountains than Switzerland, and more golf courses than Scotland.
- Only about 18% of land in Arizona is privately held.

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The Arizona Department of Financial Institutions (AZDFI), formerly known as the State Banking Department, was originally codified in 1922 and enacted into law in 1973. The Governor appoints the Superintendent of Banks, who oversees all operations. The Department charters and examines banks, savings and loan associations, credit unions, trust companies and small loan companies. The Department also licenses financial enterprises and investigates potential mismanagement of the enterprises. The Department does not have jurisdiction over federally chartered banks, savings and loans and credit unions. A variety of Federal agencies have responsibility for federally chartered institutions.

A PIECE OF HISTORY

HISTORIC CHANGES AT THE ARIZONA DEPARTMENT OF FINANCIAL INSTITUTIONS

In honor of the Arizona Banker's Association celebrating their 113th year, here are some interesting facts about the history of banking in Arizona:

Twenty eight people have led the State Regulatory Agency since its inception; five oversaw operations prior to 1912, with twenty three individuals serving in the role since statehood. Prior to statehood, the chief bank regulator held a different title – from 1897 to 1900 George Vickers served as the "Territorial Auditor" and 4 others served as the "Bank Comptroller" from 1901 to January 1912. The title remained Bank Comptroller until 1919 when the title

changed to "Superintendent of Banks". When the Department was changed from the Department of Banking to the Department of Financial Institutions the title became simply, "Superintendent."

Two women have held the title; Mary C. Short from 1986 to 1989 and

Felecia Rotellini from 2006 to 2009.

Only two Superintendents have served more than 10 years; Dick Houseworth served 13 years from 1993 to 2006 and D.O. Saunders served 13 years from 1947 to 1960.

Currently, Superintendent Robert Charlton leads our agency. He has been with the Department for more than 30 years and he offers vast experience and insight in the Arizona Financial Markets and the Agency's supervision activities.

Are you interested in a career with the Department of Financial Institutions? We currently have two Examiner's positions posted for our agency. Please visit https://azstatejobs.azdoa.gov/ for more information.



Industry Consolidation

Many have heard or perhaps even voiced concerns about the declining number of banks in Arizona. Since 2007 the number of banks headquartered in Arizona has declined nearly 70%, from 55 to 17. This consolidation trend is not unique to Arizona; it has been taking place throughout the U.S. for many years. In fact, the number of banks has declined in the United States every year for the past 30 years.



Conversely, the number of bank branches has increased in 25 of the past 30 years, reflecting the changes in branch banking laws and national bank consolidation activities.

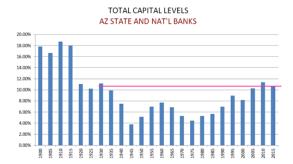
The greatest number of banks in Arizona occurred in 1920, with 87 banking institutions. At that time, roughly 21% of banks were head-quartered in Phoenix, Tucson and Prescott. Other towns with more than 3 banks included Bisbee, Douglas, Flagstaff, Globe, Mesa, Nogales, and Yuma. Thirty-six other communities had at least one local community bank.

The number of banks declined after 1920, es-

pecially during the Great Depression. The year with the fewest banks in Arizona was 1958, when there were only 6 state and national banks.

Capital levels of banks headquartered in Arizona has improved since 2000 and the percent of assets held in Bank Capital is now at levels not seen in the past 80 years. Arizona has enjoyed a nice balance of State and Nationally chartered banks. This is an indication of the unique market value of dual chartering system in the banking industry.

AZ BANKS % TOTAL CAPITAL





Regulatory Burden

There is much said regarding the regulatory burden imposed on banks today, hopefully there will be some relief as the federal regulators have all agreed to extend the time between the examinations for banks in satisfactory condition. As a reminder, we at DFI do not create the requirements; we just enforce them. You are encouraged to continue to speak up whenever the cost of complying exceeds the benefit gained and ask the state and federal lawmakers to find a reasonable balance in managing compliance risk and regulatory burdens.

As the banking industry marks continued improvement during 2016, the challenges of 2017 will surely continue in the very complex industry of banking. Arizona is grateful for the service of Arizona Bankers to communities, families, businesses and for supporting the Arizona economy.

Credit Union Regulations

2016 was significant for Arizona Credit Unions because of important changes to modernize the Arizona Credit Unions statutes. The changes to the Arizona Revised Statutes (ARS) included:

STATUTORY REFERENCE	BRIEF DESCRIPTION OF CHANGE	ADDITIONAL INFORMATION
ARS 6-531 (C)	Reduced number of required Board meetings each year from twelve to ten.	Decisions made electronically subject to ARS 6-543 (below) do not count as one of the required 10 Board meetings
ARS 6-533	Removal of prohibition to Compensate Officials.	AZDFI has provided guidance to Credit Union Officials that are considering implementation of expanded compensation programs
ARS 6-543	Allows Board members to vote and make decisions outside of Board meetings	Voting records are subject to compliance with the requirements under ARS 44-7002
ARS 6-577 (A)(10)	Removal of 5 percent limit on investments in fixed assets	This update makes Arizona laws consistent with the Federal Credit Union Act

Credit Unions Officials Compensation Programs

Summary of guidance provided to Credit Unions regarding implementation of the Officials Compensation Programs for ARIZONA CREDIT UNION OFFICIALS (e.g., Board and Committee Members.)

- The program should be Fair and Reasonable, Consistent with the Mission, and Properly Managed.
- Credit Unions must complete adequate initial and ongoing due diligence to develop an effective, fair and reasonable Compensation program and maintain an ongoing commitment to maintaining a safe and sound institution for members.
- Credit Unions must establish adequate infrastructure and controls to support the updated Compensation programs.

Because the change is significant to Arizona Credit Unions, transparency about the adoption of an *Officials Compensation Programs* is recommended through notification to Credit Union members.

Arizona Department of Financial Services, Mortgage Lending Division

The Mortgage Lending Division of the Arizona Department of Financial Institutions regulates 380 Mortgage Brokers, 67 Commercial Mortgage Brokers, 397 Mortgage Bankers, 20 Commercial Mortgage Bankers, and 13,596 Mortgage Loan Originators.

It's been an exciting year for our industry. Refinance volume was strong, purchase volume was strong, commercial lenders saw growth, mortgage rates took us for a ride but were generally at historic lows. All in all, it was a pretty good year in the mortgage industry.

If you're a consumer in the market to buy a home, refinance your current home, or are just thinking about a home "someday", learning about how mortgages work is a great first step. The Arizona Mortgage Lenders Association provides some valuable consumer tools including a list of "Do's and Don'ts" when choosing a mortgage provider. Their list can be found at http:// azmortgagelenders.com/consumer-tools/. Fannie Mae also provides consumer information at http://www.knowyouroptions.com/. The site provides help making a rent vs. buy decision, advice when selling or refinancing a home, as well as tools to help you avoid foreclosure. There are a lot of things to consider when shopping for a mortgage. Knowledge and preparation will go a long way toward making your next mortgage experience a good one.

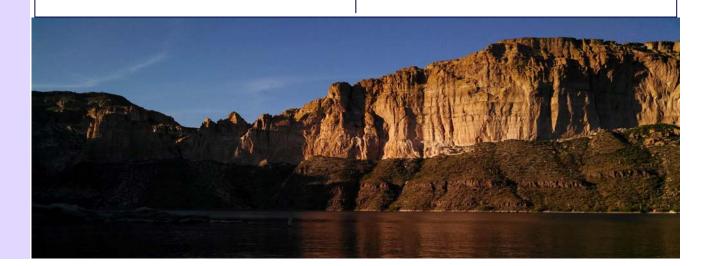


Reminder to mortgage licensees:

All mortgage license types must request *renewal* through NMLS. Beginning this year, Loan Originators and Commercial Mortgage Bankers must submit renewal fees via NMLS. Renewal fees for all other mortgage license types will continue to be submitted directly to AZDFI. For more information see the department's renewal reminder email dated December 9, 2016.

Beginning this
year, Loan
Originators
and
Commercial
Mortgage
Bankers must
submit renewal
fees via NMLS.

It can be said every year, but next year promises to be full of challenges, opportunities, and surprises. We wish all of our licensees and the consumers they serve the very best in 2017!



Legislative Update- December 2016

The makeup of the Arizona State Legislature will have a new look in 2017. Representative J.D. Mesnard will serve as Speaker of the House and Senator Steve Yarbrough will serve as the President of the Senate. With new leadership comes new committees and committee assignments.

In the House, Speaker Mesnard created a new Committee on Banking & Insurance and is Chaired by Rep. David Livingston and includes; Rep. E. Farnsworth, Vice Chair; Rep. Phil Lovas; Rep. Paul Mosley; Rep. Jeff Weninger; Rep. Kelli Butler; Rep. Pamela Powers Hannley; Rep. Athena Salman.

In the Senate, President Yarbrough assigned Senator David Farnsworth as Chair of Financial Services Committee and includes; Sen Karen Fann, Vice Chair; Sen. Sonny Borrelli; Sen. Warren Petersen; Sen. Steve Farley, Sen. Sean Bowie, Sen. Olivia Cajero Bedford.

The Department of Financial Institutions plans on running one piece of legislation in 2017. It will codify the decision by the Legislature in 2015, to bring the regulation of the appraisal industry under the Department of Financial Institutions. The bill will be similar to the one we ran last year, HB2560, except we will be adding the language to comply with the AMC final rules this year. Senator Kate Brophy McGee has agreed to sponsor the bill and we look forward to receiving bipartisan support again, on this important legislation. More information will be available after the legislature convenes Monday, January 9th, 2017.

Please contact Stephen Briggs, Legislative Liaison at sbriggs@azdfi.gov with any questions.

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Legislative Session at a Glance		
Legislature Adjourned:	5:45 AM 05/07/2016	
Total Days of Session:	117	
Bills Posted:	1247	
Bills Passed:	388	
Bills Vetoed:	14	
Bills Signed:	374	
Resolutions Posted:	114	
Resolutions Passed:	38	



Appraisal Division News - Real Estate Appraiser Shortage?

This year we worked to consolidate the Appraisal Division's activities within the Department's agency platform. The efficiencies we have attained include payments by credit card, sharing administrative support in our Accounting and IT areas, as well as sharing the support from our Attorney General's Office. By sharing these costs, it has placed the appraisal program on a more sustainable basis than was previously experienced.

The number of active appraisal licensees has continued to decline in our state. As of December 30th we had 2,010 active appraisers. As of this same date, there were 94 registered Appraiser Trainees working under the supervision of our Designated Supervisory Appraisers towards their licensure. We know there are concerns about a possible shortage of appraisers in the future. The telephone calls we receive by those interested in becoming an appraiser has increased substantially in this past quarter. It is anticipated that changes to ease the qualifications to become an appraiser from the national Appraisal Qualifications Board (AQB) will be coming, but when those changes may occur is likely to be months away. The AOB will next be meeting in Tampa, Florida on April 7th, 2017. We expect another exposure draft and continued discussions around alternatives to the current experience and education requirements. So far the AQB has received more than 500 comments from stakeholders around this topic.

In addition to the licensing of appraisers, we also issue registrations to Property Tax Agents and Appraisal Management Companies. Currently, we have 262 Property Tax Agents, and 165 Appraisal Management Companies registered. The number of Property Tax Agents has declined with the passage of legislation to limit the increase in property taxes two years ago. The number of Appraisal Management Companies has remained fairly stable since registration began in 2010. Even though there have been several mer-

gers, and a few have ceased to do business in our state, there seems to be new companies to take their places, keeping the numbers of registrations relatively stable.

From January 1st thru December 31st, we received 105 complaints regarding appraisals. There have been 87 cases resolved in this same time frame. Of those 51 (58%) were found to have no violations of standards or laws; 21 (24%) received a Letter of Concern (official warning letter, that is non-disciplinary); 10 (11%) were settled with some education assigned to correct the issue for the future; 2 (2%) were placed on probation; and 3 (3%) of the complaints resulted in the revocation of the appraiser's license. On average it takes approximately 120 days from the date the complaint is received until the date it is closed. In the past two months, the number of complaints filed with our Division has decreased from those received in the past. While there may be several reasons for the decline, it is too early to tell whether this trend will remain going forward.

Real Estate Appraisal Division		
New Applications Received:	360	
Issued by Category:		
New AMC Registrations:	18	
Registered Trainee:	40	
Licensed Residential:	4	
Certified Residential*:	35	
Certified General*:	66	
Temporary Practice:	128	
Property Tax Agent:	25	

^{*}Appraisal applications include: Certified Residential and Certified General by reciprocity.

The above statistics represent applications received from January 1st - December 30th 2016.

ABOUT AZDFI

Consumer Affairs Division

The Consumer Affairs Division is responsible for reviewing and handling any complaints filed against entities licensed with the Department. The Division also responds to inquiries from consumers and licensees that may not be an actual "complaint". A list of license types and the various lists of active licensees may be obtained at http://azdfi.gov/Consumers/Licensees/default.asp. The Department reviews complaints to ensure compliance with all applicable laws and rules.

All complaints are forwarded to the Licensee with a requirement to respond to the complaint within 10 days. It is the Licensee's responsibility to ensure that it responds to the complaint within ten days. Failure to respond may subject the Licensee to administrative action up to and including a cease and desist order with a civil money penalty of up to \$5,000.00 per day per violation.

Complaints are processed electronically via e-mail. It is the responsibility of the Licensee to ensure that the Department has the correct email address in order to process a complaint.

In addition, the Consumer Affairs Division processes complaints filed against entities transacting business in Arizona that should be but are not licensed by the Department. It is the responsibility of each company doing business in Arizona to ensure that if a license is required, that they obtain the appropriate license before conducting business in Arizona.

Anyone who would like to file a complaint may obtain a complaint form at http://azdfi.gov/Consumers/Complaints/ConsumerComplaint.html. Please provide a valid e-mail address to expedite the processing of your complaint. Complaints may be emailed to consumeraffairs@azdfi.gov.

Money Services Businesses

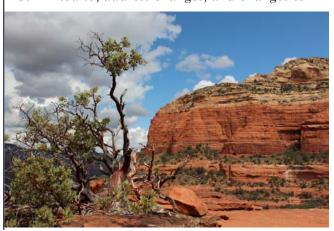
Collection Agencies:

Fictitious names reports must be filed twice a year, by July 1st and by December 31st, with the Department.

Collection agencies are also required to notify the Department within ten days of learning that their active manager will cease to be in active management. The Licensee shall have 90 days in which to replace its active manager and notify the Department of the qualified person. Failure to replace the active manager with a qualified replacement and notify the Department within 90 days will result in the expiration of your license. Please refer to Arizona Revised Statutes Section 32-1023 for the qualifications of the active manager.

Failure to maintain an active manager may result in an administrative action by this Department. Administrative action may include a civil money penalty of up to \$5,000.00 per day per violation or the revocation of the license issued by this Department.

Also, as a reminder, reporting changes on renewal forms is not sufficient. Licensees must use the appropriate Department change forms located at www.azdfi.gov for any changes made including but not limited to, address changes, and changes to



Money Services Businesses

Money Transmitters:

On October 5, 2016 the Consumer Financial Protection Bureau (CFPB) issued a final rule to correct the clerical errors identified in Regulation E. Other amendments the CPFB made to Regulation E, which became effective as of October 28, 2013, provide error resolution and cancellation rights to consumers who send remittance transfers to other consumers or businesses in a foreign country. The amendments implement statutory requirements set forth in the Dodd-Frank Act. The amendments regarding remittance transfers are contained in subpart B to Regulation E. Also issued on October 5, 2016, was the final Prepaid Card Rule (amending Regulation E and Regulation Z) that implements comprehensive consumer protections for consumers holding prepaid accounts. It will become effective on October 1, 2017.

Notice to Consumers:

If anyone ever asks you to wire money, here are the key points to remember:

If you don't know them, don't wire. Period.

If you think you do know them or know on whose behalf they're calling,

check their story thoroughly.

If you get a check, with a request to wire back part of the payment, don't bank it. Report it to the police and the Federal Trade Commission at (202) 326-2222.

Know that you alone are responsible for verifying the authenticity of the person with whom you're dealing, not the wiring company.

Understand that if you're scammed, it's highly unlikely you'll ever get your money back.

Motor Vehicle Dealers:

As of August 6, 2016, Motor Vehicle Dealers are not required to obtain a license from the Department, but are still required to submit the appropriate filing and renewal fees to ADOT. Questions should be directed to ADOT Motor Vehicle Division Dealer Services and Licensing at (602) 712-7571.

Sales Finance Company:

Title lenders offering tile loans in Arizona are required to be licensed as a Sales Finance Company with the Arizona Department of Financial Institutions. Consumers should verify that the title lender is properly licensed with Department and read the loan terms before signing a loan agreement.





JUST THE FACTS

Fiscal Year to Date (07/01/2016)

New Applications Received 2,307 Renewal Applications Received 390 Applications Denied 0 Number of Licenses Issued 2,042

Currently, all Mortgage Bankers, Mortgage Brokers, Commercial Mortgage Bankers, Commercial Mortgage Brokers, and Loan Originators apply through NMLS. Fees for using the NMLS system are \$100.00 per Company, \$20.00 per branch, and \$30.00 per Loan Originator. The use of the NMLS system has allowed DFI Licensing to process applications much quicker.

Delays in the application process are attributed to failure to provide appropriate education information or proof of citizenship and problems with the background check.

<u>License Processing Times</u>

Collection Agency (CA)	87 Days
Commercial Mortgage Broker (CMB) 53 Days
Consumer Lender (CL)	116 Days
Escrow Agent (EA)	94 Days
Money Transmitter (MT)	121 Days
Mortgage Banker (BK)	53 Days
Mortgage Broker (MB)	67 Days
Premium Finance (PF)	130 Days
Sales Finance (SF)	27 Days

NMLS Update

The Arizona Department of Financial Institutions (AZDFI) is proud to announce that starting Sunday, January 1st, 2017, we will begin using NMLS to manage the Collection Agency License. Through NMLS, Collection Agencies will be able to apply for, amend, and renew its license authority conveniently and safely online.

NMLS is a secure web-based system created by state regulators to provide efficiencies in the processing of state licenses and to improve supervision of state-regulated industries. Through NMLS, companies maintain a single record which they use to apply for, maintain, renew, and surrender license authorities in one or more states. NMLS also contains functionality for the submission of financial statements as required for the Collection Agency License.

More information about NMLS can be found on the $\underline{\text{NMLS}}$



Mortgage Broker Test Stats

MARCH 30, 2016

Total of people registered: 15 Total of people who took test: 15

Total that passed: 15 Total that failed: 0

Least amount of questions missed: 13 Most amount of questions missed: 33

SEPTEMBER 28, 2016 Total of people registered: 12

Total of people who took test: 12

Total that passed: 5 Total that failed: 7

Least amount of questions missed: 30 Most amount of questions missed: 57



To promote excellence in strong consumer protection, effective regulatory oversight, and exceptional customer service.

About DFI

Our Mission

To license, examine, and supervise Financial Institutions, in compliance with State law, to ensure safety for the Arizona consumer and soundness for the Arizona business.

Our Vision

To promote excellence in strong consumer protection, effective regulatory oversight, and exceptional customer service.

Our Goals

- To conduct a professional, efficient and effective examination program, meeting statutory requirements and ensuring licensees operate in a safe and sound manner and comply with all applicable laws.
- To create new strategies to keep pace with the changing financial services industry.

Our Strategies

- A thorough investigation of the applicants for all permits and licenses issued by the Department at the speed of business.
- An ongoing program of examination of licensees to determine the safety and soundness of their operations and to identify those licensees with serious financial or operational problems.
- Ensuring that management of the licensees initiate timely and effective corrective action by complying with Arizona Statutes and Rules.

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