

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 2463 (Third Edition)

SHORT TITLE: Regulate Mortgage Servicers.

SPONSOR(S):

FISCAL IMPACT					
	Yes ()	No ()	No Estimate Available ()		
	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>
REVENUES					
General Fund	\$0	\$0	\$0	\$0	\$0
Banking Commission	\$1,030,042	\$1,050,028	\$1,074,932	\$1,101,386	\$1,128,739
EXPENDITURES					
General Fund	\$0	\$0	\$0	\$0	\$0
Banking Commission	\$0	\$0	\$0	\$0	\$0
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: State Banking Commission					
EFFECTIVE DATE: Sec. 12 and 21 effective when the bill becomes law; remainder effective January 1, 2009.					

BILL SUMMARY:

H.B. 2463 makes several changes to Article 19 of G.S. 53 (the "Mortgage Lending Act"). Article 19 regulates many aspects of the mortgage lending business and applies specifically to mortgage bankers (those who make mortgage loans) and mortgage brokers (those who solicit applications for mortgage loans, negotiate terms, issue loan commitments, and engage in similar mortgage-related activities). H.B. 2463 extends the coverage of Article 19 to mortgage servicers, requiring them to obtain a license like brokers and bankers. The bill also allows the Commission of Banks to charge a fee to cover the expense of routine examinations of books and records of any licensee to determine compliance with Article 19. Previously, these examinations were conducted at the expense of the Banking Commission.

ASSUMPTIONS AND METHODOLOGY:

General Fund. The State Banking Commission (Commission) is wholly receipt supported. It receives no General Fund appropriation. Therefore, this bill will have no impact on either revenues or expenses of the General Fund.

NC State Banking Commission. The State Banking Commission has stated that no additional staff will be hired as a result of the bill, so no expenditures are estimated for the Commission. However, H.B. 2463 will result in increased revenue to the State Banking Commission from two sources: licensing fees and examination fees.

Licensing Fees

The bill extends coverage of Article 19 of G.S. 53 to include mortgage servicers. This section of the bill will result in approximately \$10,000 in additional revenue for the State Banking Commission in FY 2008-09. The Commission charges the following fees for licensure of mortgage brokers and mortgage bankers:

Initial application:	\$1,250
Annual Renewal:	\$ 625
Late Renewal:	\$ 250

The State Banking Commission estimates that an additional eight companies will be licensed under Article 19 as a result of this bill. If all eight companies apply for a license, the total new fees collected will be \$10,000 (8 X \$1,250 = \$10,000). Annual renewals will result in an additional \$5,000 each year after that (8 X \$625 = \$5,000). For the purposes of this estimate, the following assumptions were made:

1. All eight companies will apply and will seek renewal for the next five years.
2. All new applications and subsequent renewals will occur in the same fiscal year.
3. No new companies will apply within the next five years.
4. All eight companies will pay their bill on time, resulting in no late fees.
5. The fee will not be increased within the next five years.

Examination Fees

H.B. 2463 allows the State Banking Commission to charge a fee to cover the expenses associated with examinations of books and records for Article 19 licensees. Currently, these expenses are covered by the Commission. This section of the bill will result in approximately \$1 million in increased revenue for the Banking Commission.

For the past five years, the Commission has done approximately 606 examinations, or an average of 121 examinations per year. Total hours spent on exams during that period were 12,323, or an average of 2,465 per year. However, the Banking Commission has revamped their examination policy. They now plan to conduct examinations of all licensees every three years.

The Commission states that approximately 1,575 companies will be licensed in FY 2008-09. Conducting an examination on a rotating basis so that each company is examined every three years

would result in 525 exams per year. The Commission estimates that each exam will take approximately 31 hours. 85% of the time allotted for examinations will be charged by field examiners; 15% will be for administrative review of the completed exam by senior administrative staff. The rates charged are set out in 04 NCAC 03C.1601, and are as follows:

Staff	Hourly Rate
Senior Administrative Staff	\$75
Examiner II	\$50
Examiner I	\$35

The Banking Commission usually provides the same base salary increase as the Legislative Salary Increase (LI). For FY 2008-09, that increase is expected to be 2.75%. The Consumer Price Index (CPI) has projected salaries and wages will increase by an average of 5.5% over the next five years. However, the LI has historically been less than the CPI, so an average of the LI over the last five years (2.55%) was used to project hourly rate increases for FY 2009-10 through FY 2012-13. The following table shows the projected hourly rate for each position through FY 2012-13.

Estimated Wage Rates					
Position	2008-09	2009-10	2010-11	2011-12	2012-13
Senior Staff	\$77.06	\$79.03	\$81.04	\$83.11	\$85.23
Examiner II	\$51.38	\$52.69	\$54.03	\$55.41	\$56.82
Examiner I	\$35.96	\$36.88	\$37.82	\$38.78	\$39.77

To calculate the wage portion of the expenses, the estimated hours per examination (31) was multiplied by the percentage of time each position would be involved in the examination. The resulting estimated hours per position was then multiplied by the hourly rate. Finally, the amount for each examination by position was multiplied by 525 (the estimated number of examinations that will be conducted each year). The following table shows the results of these calculations:

Estimated Wage Expense						
Position	% Time	2008-09	2009-10	2010-11	2011-12	2012-13
Senior Staff	15.0%	\$188,129	\$192,926	\$197,846	\$202,891	\$208,065
Examiner II	42.5%	\$355,354	\$364,416	\$373,709	\$383,238	\$393,011
Examiner I	42.5%	\$248,748	\$255,091	\$261,596	\$268,267	\$275,108
Total Wages		\$792,231	\$812,433	\$833,150	\$854,396	\$876,183

Expenses for examinations are also incurred through travel. The Commission estimates that the average travel cost per exam is approximately \$425. This figure includes hotel expense, subsistence, and mileage reimbursement at the IRS rate. To calculate travel, the average travel cost per exam was multiplied by the general consumer price index projections provided by

Moody's.com. The resulting projected cost was then multiplied by 525 (the estimated number of examinations that will be conducted each year). Travel expenses are projected as follows:

Estimated Travel Expense

	2008-09	2009-10	2010-11	2011-12	2012-13
Exams	525	525	525	525	525
Travel Expense	\$434	\$443	\$451	\$461	\$472
Total Travel	\$227,811	\$232,595	\$236,781	\$241,991	\$247,556

The wage and travel expenses were added together to determine the total estimated revenues that will be generated by the new examination charges. The projections are as follows:

Total Estimated Examination Expenses

	2008-09	2009-10	2010-11	2011-12	2012-13
Wages	\$792,231	\$812,433	\$833,150	\$854,396	\$876,183
Travel	\$227,811	\$232,595	\$236,781	\$241,991	\$247,556
Total	\$1,020,042	\$1,045,028	\$1,069,932	\$1,096,386	\$1,123,739

Fines and Forfeitures. The bill includes civil penalties for non-compliance with Article 19 of G.S. 53. All civil penalty payments go to the Civil Penalty and Forfeiture Fund. In FY 2007-08, 0.3% of the 1,566 companies licensed by the Commission under this Article were assessed penalties. The Commission collected \$265,025 in fines. Because new companies are being added to the total number of licensees, it is reasonable to assume that more companies may be assessed penalties, resulting in an increase in revenue to the Civil Penalty and Forfeiture Fund. However, there is no estimate available regarding the extent of the increase.

SOURCES OF DATA: NC State Banking Commission

TECHNICAL CONSIDERATIONS: None

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