

**Department of Financial Institutions**  
**Financial Condition**  
**Fund 300 – Financial Services Regulation Account**  
**August 2008**

**Fund 300 – Financial Services Regulation Fund**

- Dedicated non-appropriated/allotted operating fund used to support DFI operations.
- Self supported through fees/assessments charged to regulated entities
- Examination staff generate revenue through fees or billable hours
- 87 cents per dollar of Securities' revenue (except fines) goes to the General Fund
- Revenues are highly sensitive to market volatility and economic conditions

**History of transfers (fund sweeps) to the General Fund:**

July 2006	\$779,000	June 2002	\$2.25 million
July 2005	\$778,000	Sept 2002	\$357,330
July 2004	\$1.63 million	Sept 2001	\$2.00 million

**Projected Fund Balance at end of 2007-2009 Biennium:** **\$4,923,261**

**Projected Fund Balance at end of 2009-2011 Biennium:** **\$ 3,665**

**DFI Recommended Minimum Reserve** **\$ 4 million**

- The 09-11 projection assumes DFI receives approval for 2 technology budget request packages.
- The projection assumes no bank or credit union assets are lost through charter conversion to national charter or state assets merged into national charter
- The projected fund balances are as of August 18<sup>th</sup> projections using the June 2008 OFM revenue forecasts.
- The recommended minimum reserve of 4 million represents only 2 months operating expenditures which allows time to react to unforeseen changes. The projected fund balance of only \$3,665 at the end of FY2011 is far below the minimum recommended reserve.
- Projections do not include statutory fee increase for the securities industry that DFI will seek through 2009 legislation. These proposed increases are subject to requirements of I-960 and will require legislative approval. Current estimates of revenue generated through these increases: 6.2 million in the 09-11 biennium.

**Impact of Subprime Lending Crisis on DFI Revenue:**

- During the last 2 years, DFI collected a total of \$10.2 million in Consumer Loan Company annual assessment revenue. More than \$4.8 million (47%) of the 10.2 million was paid by companies that have since closed which means that revenue will not recur in future years. The number of consumer loan companies has dropped from a high of 394 in May of 2007 down to 317 as of August 2008.
- In the last year, 20% of Mortgage Brokers and 45% of Loan Originators have ceased licensure. The annual fiscal impact of this Mortgage Broker exodus is an approximate \$1 million reduction in revenue (represents a net of companies exiting plus a few new companies).
- Mortgage broker and consumer loan company revenues represent approximately 41% of total agency revenues.

- Economic downturn coupled with the sub-prime lending crisis is resulting in decreased revenue while at the same time increasing workload. Number of complaints and enforcement actions are increasing. DFI also continues to struggle to complete high priority exams, only getting to a fraction of companies identified as high priority.

### **Impact of Further Fund Sweep**

- Increases the risk that DFI will incur a negative fund balance, particularly if the Securities fee increases are not approved by the legislature.
- Increases the risk that DFI will have to curtail operations at a time when the need for services is increasing. Poor economic conditions increase the risk of fraudulent activity in the financial services sector.
- State banks and credit unions supported legislation this past session authorizing DFI's Divisions of Banks and Credit Unions to increase fees by rule. A fund sweep increases the risk of regulated industries no longer supporting legislation authorizing necessary DFI fee increases due to potential of the fee increases being swept into the general fund. This is particularly true at a time when industry revenues are significantly down. By statute, DFI revenues are intended to support the cost of regulation.