

MEMORANDUM

November 19, 2004

To: Floyd Lanter, Administrator, Division of Finance and Corporate Securities, DCBS
Thru: Rick Elliott, Financial Economist and Actuary, Information Management Division, DCBS
From: Elshad Hajiyevev, Forecasting Analyst, Information Management Division, DCBS
Subject: Mortgage Lender Program Fee Structure Proposal

Attached is IMD's recommended Mortgage Lender Program Fee Structure Proposal as approved by the Division of Finance and Corporate Securities and the Mortgage Banker and Mortgage Broker industry representatives. The following table shows license, examination, and assessment fees agreed upon to be effective as of January 1, 2005.

Table 1.
Proposed License Fee Changes and New Loan Originator Assessment Fee Effective January 1, 2005

Fee Type	Current	Effective 1/1/2005	Difference
Initial Branch Fee	\$100	\$165	\$65
Renewal Branch Fee	\$100	\$165	\$65
Addition Branch Fee to Existing License	\$150	\$250	\$100
Main Office Initial Fee	\$500	\$825	\$325
Main Office Renewal Fee	\$500	\$825	\$325
LO Assessment Fee	n/a	\$60 per LO	n/a

cc: Cory Streisinger Greg Malkasian Scott Harra Dan Adelman
 Carey Thompson David Tatman Dale Laswell Patricia Locnikar
 Fernando Velez

**DIVISION OF FINANCE AND CORPORATE SECURITIES
MORTGAGE LENDER PROGRAM
FEE STUDY PROPOSAL**

Department of Consumer and Business Services

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Mortgage Lender Fee Structure Proposal

INTRODUCTION

The Division of Finance and Corporate Securities, Mortgage Lender Program (MLP) regulatory activities are currently funded by: 1) a set of license fees for main and branch offices, 2) interest on investments, and 3) reimbursement for examinations of main and branch offices. While a fair amount of regulatory effort is expended on the registration of loan originators and investigations of complaints on loan originator (LO) activities, there is currently no element in the fee structure that directly takes this regulatory effort into account. The Information Management Division (IMD) was asked to devise a fee structure that would more equitably allocate the regulatory burden (expressed in terms of expenditures by regulatory activity) to the cost causers accounting for the LO regulatory burden. The study methods and results of the study are discussed below.

The Legislature has granted the agency considerable latitude in establishing coverage ratios for divisions' cash balances. Per FIN-01, the Division of Finance and Corporate Securities (DFCS) long term goal is to maintain coverage ratios for DFCS programs of 3.0 quarters of expenditures and transfers. At the end of FY 2004, the MLP coverage ratio was approximately 1.83. IMD's recommended fee structure proposal would increase this ratio to about 2.45 by the end of FY 2009, with a coverage ratio as low as 2.25 in the second quarter of the fiscal year.

The Division strives to keep fees appropriate for the services they cover. However, rapid growth in the number of registered loan originators, as well as main and branch offices over the past few years, has pushed regulatory expenditures much higher while the fee structure has not accounted for the LOs' share of the regulatory costs. To better ensure that the costs ultimately flow to the cost causers, the fee structure proposed would include not only main and branch office license fees and direct examination billings, but would also include an assessment on the number of LOs' registered with a broker or lender company.

RECOMMENDATION

IMD recommends setting the license and LO assessment rates effective January 1, 2005 as shown in Table 1. These rates and assessment amounts are projected to result in a cash balance equal to 2.45 quarters of expenditures and transfers for the MLP program by the end of FY 2009, the forecast horizon.

Table 1.
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Effective January 1, 2005

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LO Assessment Fee	n/a	\$60 per LO	n/a

METHODOLOGY

The analysis employed is essentially consistent with other funding studies that have been conducted by IMD; however, detailed regulatory effort studies, including the development of a detailed, division functionalized budget, have not been conducted. Instead we have relied on managerial input concerning the distribution of regulatory effort for the Mortgage Lender Program (MLP). The programmatic expenditures have been developed from the agency's 2005-07 biennium budget request, and include recognition of cost-of-living adjustments and benefits. The programmatic expenditure distributions are based on the current distribution reflected in the fifth-quarter planned Budget and Execution Reporting System (BERS) for the current biennium. The steps in the study method involved:

1. Allocate personnel, Identify and Allocate Costs

- A. Identify each position within the pertinent organizational structure (MLP, MLP Examinations, and LO).
- B. Determine what percent of each position's time in the pertinent organizational structure, LO regulatory effort, should be allocated to the LO regulatory function (see Exhibit C).
- C. Identify planned expenditures and overhead chargeback for the pertinent organizational structure. This includes Main and Branch Office oversight and licensing, LO regulation, and Examination activity (see Exhibit D).

2. Determine beginning balance and target ending balance

- A. Obtain an estimate of the Division's fiscal year beginning balance from the Business Administration Division (BAD) for the period ending June 30, 2004, which is reflected in the agency's quarterly financial statements.
- B. Determine a target end balance in accordance with DCBS and DFCS policy.
- C. Determine revenue required to achieve the targeted ending fund balance.

3. Forecast Fee-for-Service Units (Licensees) and Corresponding Revenue and Cash Flows

- A. Forecast fee-for-service units, that is main and branch office licensees (see Exhibit A), and LO units subject to an assessment (see Exhibits B and D).
- B. Determine how much revenue will be received by the MLP through examination direct billing recoveries (see Exhibit D, Table 1).
- C. Determine the appropriate LO assessment rate (see Exhibit D, Tables 1 and 2) and forecast revenue (see Exhibit D, Table 3).
- D. Determine the appropriate main and branch office license fees, LO assessment rate (see Exhibit E, Table 4), and corresponding forecast revenue (see Exhibit E, Table 1).
- E. Develop a quarterly cash flow model to calculate interest income, assuming the fees and LO assessment rate required to achieve the desired ending balance for the forecast period (see Exhibits F and G).

FINDINGS, ASSUMPTIONS, AND ANALYSIS

The goal of this analysis is to recommend a funding plan for the 2005-07 biennium that will continue the Division's long-term, incremental attainment of the coverage ratios detailed in FIN-01. The plan must equitably distribute regulatory costs among the main and branch license, loan originators, and examination activities. Ideally, the plan will also minimize volatility in fee amounts charged and the corresponding coverage ratio outcomes.

The proposed Mortgage Lender Fee Structure becomes effective January 1, 2005. The business rules and processes for main and branch office licenses and examination fees are already in place and have proven to be effective. The LO assessment fee will be charged for the first time starting January 1, 2005. The IMD proposed set of business rules for charging, processing, and collecting LO assessment revenue is presented in Exhibit I.

Identification and Allocation of Costs

The Division of Finance and Corporate Securities plans to spend \$9,627,656 for personal services and \$2,056,847 for services and supplies during the 2005-07 biennium. BAD projects DFCS overhead costs for the biennium will total \$2,159,024. There will be cost-of-living adjustments for personal services during the period. The funding study assumes that all expenditures for the biennium will be split 49% for FY 06 and 51% for FY07. For a detailed presentation, refer to Exhibit D, Table 5.

The Mortgage Lender Program accounts for 12.55% of the total division's biennial personal services and services and supplies costs that amount to \$1,208,226 and \$258,125 respectively. The MLP's overhead costs for 2005-07 biennium amount to \$259,083 (12.0% of the total division's overhead cost). For a detailed presentation, refer to Exhibit D, Tables 4 and 5.

The LO associated regulatory cost amounts to approximately 21.4% of the total Mortgage Lender Program's costs. The LO associated regulatory cost was estimated as follows:

- The list of positions and respective percentage of time each position spends on LO regulatory effort activities was provided by DFCS management.
- For each identified position, the 2005-07 biennium base budget rate and other personal expenses (OPE) were provided by BAD (see Exhibit C, Table 5).
- The LO regulatory effort time percentages were applied to the base budget rates and OPE to arrive at the LO regulatory effort personal services cost (see Exhibit C, Table 1).
- The LO personal services cost was escalated by the anticipated growth rate in the Consumer Price Index (CPI) to account for the cost-of-living adjustments (see Exhibit C, Table 2).
- The LO personal services cost for the 2005-07 biennium amounts to \$257,097 (2.67% of the total DFCS personal services cost). The LO services and supplies, and overhead costs were estimated by applying the LO personal services cost percentage (2.67%) to the total DFCS services and supplies and overhead costs, respectively. The total cost of the LO regulatory effort for 2005-07 biennium amounts to \$369,678 (21.4% of total MLP expenditures). For a detailed presentation, refer to Exhibit C, Table 3.
- The LO personal services cost for the 2007-09 biennium were estimated by escalating the 2005-07 biennium LO personal service cost by 3% per annum. The LO services and supplies, and overhead costs for the 2007-09 biennium were estimated by applying the LO personal services cost percentage (2.67%) to the total DFCS services and supplies and overhead costs for the 2007-09 biennium, respectively. The total LO regulatory cost for the 2007-09 biennium amounts to \$385,823 (see Exhibit C, Table 4).

The MLP's expenditure amounts associated with the examination of main and branch offices exceed the amount of reimbursement collected by the program. The estimation of expenditure amounts associated with the examination regulatory effort is out of the scope of this analysis. Therefore, instead of examination expenditure amounts, we used an examination charge offset. The examination charge offset is the amount of revenue generated by the examination regulatory effort. We estimated that 150 exams would be

conducted every fiscal year. The average exam time is six hours. Currently, DFCS charges \$60 per hour for exams. Therefore, our estimate of the revenue generated by examination activity, and the corresponding examination charge offset, amounted to \$54,000 per fiscal year. For a detailed presentation, refer to Exhibit E, Tables 1 and 4, and Exhibit D, Table 1.

The remaining expenditure amount is associated with the regulatory oversight of main and branch offices (see Exhibit D, Table 1).

Beginning Balance, Planned Expenditures, and Target Ending Balance

According to the Business Administration Division (BAD), the ending cash balance for FY 04 was \$363,488 for the Mortgage Lender Program. At the end of FY 2004, the MLP's coverage ratio was approximately 1.83. IMD's recommended fee structure proposal would increase the ratio to about 2.45 by the end of FY 2009. Due to the seasonality of revenue flows, in the second quarter of each fiscal year the program fund balance will be at the fiscal year lows. The second quarter coverage ratio is a better indicator of the program's financial health. At the end of the second quarter of FY 2009, the MLP's coverage ratio would be approximately 2.25 (see Exhibit G). The fiscal impact summary of the proposed MLP fee structure is presented in Exhibit H.

Forecast and Allocation of Revenues

The Mortgage Lender Program regulatory activities are currently funded by: 1) a set of license fees for main and branch offices, 2) reimbursements for examinations of main and branch offices, and 3) interest on investments. There is currently no element in the fee structure that takes the loan originators regulatory effort into account. The proposed fee structure introduces an assessment rate based on the number of loan originators associated with the licensee. The LO assessment rate is estimated at \$60 per LO. The derivations of the LO assessment rate and associated revenue amount, as well as, revenue amounts for other revenue sources are discussed in greater detail below.

MLP Revenue Components Forecast

1) LO assessment revenue.

As of December 31, 2003, there were 1,281 firms licensed to conduct business in Oregon and 10,916 LOs associated with them. The licensees were grouped into three categories by the location of the LOs associated with the licensee: Oregon based firms, out-of-state firms, and mixed firms. Oregon based firms constituted more than 43% of the total number of firms, but only 18.46% of LOs. The average number of LOs per Oregon based company was 3.65. Out-of-state and mixed companies combined constituted almost 57% of all firms licensed in Oregon and more than 81% of all LOs. The average number of LOs per company varied from 7.5 for out-of-state firms to 27.11 for mixed firms. For a detailed presentation, refer to Exhibit B, Table 1.

Currently, the MLP fee structure doesn't account for the costs associated with LO regulatory oversight. The introduction of the LO assessment fee will necessitate the need for licensees to revise the number of LOs associated with them. Unfortunately, at this time, we do not have the necessary means to gauge the fee elasticity-of-demand for the LO assessment associated with the licensee. Based on consultations with pertinent DFCS management staff and industry representatives, it was assumed that the fee elasticity-of-demand for the LO assessment fee was rather elastic. This means that changes in fees, in this particular case an introduction of a new assessment fee, would affect the demand for the election of LOs associated with the licensee under the new fee structure.

Based on our consultation with pertinent DFCS management staff and industry representatives, a set of LO retention values was adopted. It was assumed that the retention values for out-of-state and mixed firms would be lower than for Oregon based companies. A 50% retention value was chosen for out-of-state and mixed companies, and a 70% retention value was chosen for Oregon based companies. The average

numbers of LOs per company were adjusted to reflect the selected retention ratios. For a detailed presentation, refer to Exhibit B, Table 2.

The forecast of the LO assessable base is produced by applying the average number of LOs per company, adjusted to reflect the retention rates, to the forecast of the number of main initial and renewal license applications. The forecast of main initial and renewal license applications is discussed in greater detail in the next section. The forecast of the LO assessable base on a calendar year basis is presented in Exhibit B, Table 3.

The calendar year LO assessable base forecast was transformed into a fiscal year forecast. The LO assessment rate was calculated as the ratio of expenditures associated with the LO regulatory effort to the LO assessable base. The estimated value of the LO assessment rate varied from \$47 to \$66 per LO depending on the fiscal year. Several averages were computed, including a simple average (\$58), average excluding the highest value (\$56), average excluding the lowest value (\$61), and average excluding the highest and lowest values (\$59). The value of \$60 per LO was chosen as an LO assessment rate. For a detailed presentation, refer to Exhibit D, Table 2. The LO assessment revenue was computed by applying a \$60 assessment rate to the LO assessable base (see Exhibit D, Table 3).

2) Main and branch office license revenue forecast.

The revenue generated by the main and branch office license initial and renewal applications constitutes the largest share of the MLP's revenue. The forecasting process for the main and branch office licenses consists of two consecutive steps.

- First, the fee-for-service unit counts forecast for initial main and branch licenses was produced. The main office initial license fee-for-service unit counts were forecasted as a function of US Financial Services Employment. The forecasting model explained more than 99% of the variability in the initial main license counts. For a detailed presentation, refer to Exhibit A-1 and Exhibit A, Table 1. The branch office initial license fee-for-service unit counts were forecasted as a function of Oregon Construction Employment. The forecasting model explained more than 99% of the variability in the initial branch license count. For a detailed presentation, refer to Exhibit A-2 and Exhibit A, Table 1.
- Second, the renewal cycles for main and branch licenses were simulated. The main office renewal license counts forecast assumed a 60% renewal rate. The branch office renewal license counts forecast assumed a 50% renewal rate. For a detailed presentation, refer to Exhibit A, Tables 2, 4, and 5.

The combined count of initial and renewal license forecasts for main and branch offices is presented in Exhibit A, Table 3. The combined main license count forecast is used to produce a forecast of the LO assessable base. The calendar year forecast of main and branch license counts was transformed into a fiscal year forecast using historic quarterly revenue distributions. For a detailed presentation, refer to Exhibit E, Tables 3, 5, 6, and 7.

The fee amounts for main and branch office licenses will be increased by 65%, from \$500 to \$825 for main initial and renewal licenses, and from \$100 to \$165 for branch initial and renewal licenses. The fee amount required to add a branch office to the existing main license will be increased from \$150 to \$250 (see Exhibit E, Table 4).

The proposed fee amounts were applied to the main and branch license counts to arrive at the revenue amounts generated by main and branch licenses respectively (see Exhibit E, Table 1). The revenue amount generated by main and branch office licenses for the FY 05 – FY 09 forecast horizon has an 85/15 percent distribution (see Exhibit E, Table 2). This distribution is close to the 80/20 percent managerial estimation of the expenditure distribution for main and branch licenses regulatory effort.

3) Reimbursements for examinations of main and branch offices.

The revenue generated by examinations of main and branch offices is forecasted to amount to \$54,000 per fiscal year (see the discussion regarding examination expenditures above).

4) Interest on investments.

IMD projects \$8,561 in interest income for FY 05 and \$33,156 for the 2005-07 biennium, assuming an annual interest rate of 1.5 percent on the beginning cash balance for each quarter (see Exhibit G).

Caveats and Limitations

- The renewal rates chosen for main and branch office licenses of 60% and 50%, respectively, are at the low side of a range of reasonable values. The renewal rates will be monitored and adjusted if necessary.
- The retention rates chosen for estimation of the LO assessable base are based on managerial experience and industry representatives' judgment. There is no data available to validate the accuracy of the selected LO assessable base retention rates. The retention rates will be closely monitored and adjusted if necessary.

Future Developments

- The forecast performance and underlying assumptions of the Mortgage Lender Program forecasting system will be monitored, and adjustments to the assumptions and methodology will be made if necessary.
- The initial license of a mortgage banker or mortgage broker expires one year after the date of issuance and the renewal license expires two years after the date of renewal. The license expiration date and the renewal cycle could be modified in the future for purposes of coordination with any national registration or licensing system.
- It was brought to DFCS management staff's attention by industry representatives that some of the branch offices assume functions that should be performed by the principal place of business (main office). The functions performed by the branch offices will be monitored and necessary regulatory actions will be undertaken.
- The Division of Finance and Corporate Securities is currently conducting a policy review of the Mortgage Lender Program. The recommendations provided by the review team could change and add to the future developments listed above.

Prepared November 2004 by Research and Analysis Section, IMD.

EXHIBITS

Main and Branch Office License Forecasts

EXHIBIT A

Table 1. ML Initial Applications

CY	Main Offices	Branch Offices	Late Branch Offices	Total Branches
1995	201	173	11	184
1996	233	229	7	236
1997	353	323	0	323
1998	328	455	2	457
1999	314	421	0	421
2000	281	297	17	314
2001	245	199	6	205
2002	261	282	6	288
2003	324	330	6	336
2004	269			253
2005	250			270
2006	246			295
2007	237			314
2008	234			330
2009	238			344

Table 2. ML Renewals

	Main Offices	Branch Offices
1995	243	130
1996	317	198
1997	350	236
1998	478	386
1999	488	380
2000	479	381
2001	504	325
2002	509	315
2003	581	413
2004	500	326
2005	510	333
2006	450	298
2007	453	314
2008	412	306
2009	413	322

Table 3. Total ML Licenses

	Main Offices	Branch Offices
	444	314
	550	434
	703	559
	806	843
	802	801
	760	695
	749	530
	770	603
	905	749
	769	578
	760	603
	695	593
	690	628
	647	636
	651	666

Notes:

1. The actual license counts are as of December 31, 2003.
2. Branch Office License count for CY 1999 is adjusted for 178 branch office licenses issued to Allstate.
3. Late Branch Office license counts for CY 2001 through CY 2003 represent the average number of late branch office licenses issued from CY 1995 through CY 2000.
4. The main office initial license counts are forecasted as a function of US Financial Services Employment (see Exhibit A-1).
5. The branch office initial license counts are forecasted as a function of Oregon Construction Employment (see exhibit A-2).
6. The forecasts of US Financial Services Employment and Oregon Construction Employment are from the Office of Economic Analysis March 2004 Forecast.
7. The main office renewal license counts forecast assumes a 60% renewal rate. The branch office renewal license counts forecast assumes a 50% renewal rate.

Main and Branch Office License Forecasts

EXHIBIT A

Table 4. Total Main Offices Simulated Renewal Cycle

CY	Due to Renewal1	Due to Renewal2	%1	%2	# Due to Renewal	Renewed	Renewal Rate
1995							
1996	201						
1997	233	243	48.95%	51.05%	476	350	73.53%
1998	353	317	52.69%	47.31%	670	478	71.34%
1999	328	350	48.38%	51.62%	678	488	71.98%
2000	314	478	39.65%	60.35%	792	479	60.48%
2001	281	488	36.54%	63.46%	769	504	65.54%
2002	245	479	33.84%	66.16%	724	509	70.30%
2003	261	504	34.12%	65.88%	765	581	75.95%
2004	324	509	38.90%	61.10%	833	500	60.00%
2005	269	581	31.63%	68.37%	850	510	60.00%
2006	250	500	33.31%	66.69%	749	450	60.00%
2007	246	510	32.50%	67.50%	755	453	60.00%
2008	237	450	34.52%	65.48%	687	412	60.00%
2009	234	453	34.09%	65.91%	688	413	60.00%

Average		696	484	69.87%
Average xhl		721	492	70.54%
Average xh		680	468	68.86%
Selected Renewal rate				60.00%

Exhibit A-1

Dependent Variable: ML_MAIN				
Method: Least Squares				
Date: 04/27/04 Time: 14:32				
Sample: 1997 2003				
Included observations: 7				
Convergence achieved after 178 iterations				
Backcast: OFF (Roots of MA process too large)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1026.470	20.82349	49.29387	0.0000
US_EMP_FINANCE	-93.80669	2.891359	-32.44381	0.0000
MA(2)	-17.16872	8.926207	-1.923407	0.1268
R-squared	0.997932	Mean dependent var		300.8571
Adjusted R-squared	0.996898	S.D. dependent var		39.29982
S.E. of regression	2.188769	Akaike info criterion		4.702083
Sum squared resid	19.16284	Schwarz criterion		4.678901
Log likelihood	-13.45729	F-statistic		965.1695
Durbin-Watson stat	1.545507	Prob(F-statistic)		0.000004
Inverted MA Roots	4.14	-4.14		
Estimated MA process is noninvertible				

Exhibit A-2

Dependent Variable: BRANCHES_ADJ				
Method: Least Squares				
Date: 05/20/04 Time: 17:23				
Sample: 1995 2003				
Included observations: 9				
Convergence achieved after 419 iterations				
Backcast: OFF (Roots of MA process too large)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-307.3679	39.75888	-7.730798	0.0002
OR_EMP_CONSTR	7.147509	0.601932	11.87429	0.0000
MA(2)	-9.912719	4.737205	-2.092525	0.0813
R-squared	0.990642	Mean dependent var	307.1111	
Adjusted R-squared	0.987523	S.D. dependent var	91.90817	
S.E. of regression	10.26612	Akaike info criterion	7.756778	
Sum squared resid	632.3597	Schwarz criterion	7.822519	
Log likelihood	-31.90550	F-statistic	317.5939	
Durbin-Watson stat	0.853317	Prob(F-statistic)	0.000001	
Inverted MA Roots	3.15	-3.15		
	Estimated MA process is noninvertible			

LO Summary Statistics

EXHIBIT B

Table 1. Loan Originators Statistics for all firms

Firm Type	# of Firms	% of Firms	# of LO	% LO
Oregon Based Firms	552	43.09%	2015	18.46%
Out-of-State Firms	554	43.25%	4156	38.07%
Mixed Firms	175	13.66%	4745	43.47%
Total	1281	100.00%	10916	100.00%

Firm Type	Max # of LO per Firm	Min # of LO per Firm	Mean # of LO per Firm	Median # of LO per firm	Mode # of LO per Firm
Oregon Based Firms	33	1	3.65	2	1
Out-of-State Firms	720	1	7.50	2	1
Mixed Firms	516	2	27.11	11	3

Table 2. Statistics for all firms

Firm Type	# of firms	% of firms	Average #LO per firm	Retention Rates	Average*Retention Rate
Oregon Based	552	43.09%	3.65	70%	2.56
Out-of-state	554	43.25%	7.50	50%	3.75
Mixed	175	13.66%	27.11	50%	13.56
Total	1281	100.00%			

Table 3. Forecast of LO Assessment Fee Base

CY	Main ML Forecast	Oregon Based	Out-of-State	Mixed	LO Assessable Base
2005	760	327	328	104	3476
2006	695	300	301	95	3184
2007	690	297	299	94	3155
2008	647	279	280	88	2956
2009	651	280	281	89	2976

Loan Originators Section Expenditures

EXHIBIT C

Table 1. Loan Originators Section Personal Services Cost by Position

POSNO	LO Allocation	2005-07 Budget Rate	ERB Rate	PERS	Social Security	WC Tax	Flexible Benefits	Monthly Salary + OPE	OPE Rate	Biennial Cost
1002	10%	320.80	0.13	53.40	24.50	0.35	89.20	488	52.24%	11,712
1003	15%	581.25	0.20	96.75	44.40	0.52	133.80	857	47.43%	20,568
1007	20%	775.00	0.27	129.00	59.20	0.69	178.40	1,143	47.43%	27,432
1008	25%	765.00	0.33	127.25	58.50	0.87	223.00	1,175	53.59%	28,200
1030	10%	548.60	0.13	91.30	42.00	0.35	89.20	772	40.65%	18,528
1316	20%	984.20	0.27	163.80	75.20	0.69	178.40	1,403	42.51%	33,672
1317	20%	775.00	0.27	129.00	59.20	0.69	178.40	1,143	47.43%	27,432
1319	70%	1,782.20	0.93	296.80	136.50	2.42	624.40	2,843	59.54%	68,232
2033	8%	155.92	0.11	26.00	11.92	0.28	71.36	266	70.33%	6,384
2076	3%	76.38	0.04	12.72	5.85	0.10	26.76	122	59.54%	2,928
2635	5%	160.40	0.07	26.70	12.25	0.17	44.60	244	52.24%	5,856

Table 2. Loan Originators Section Personal Services Cost Items Subtotals

	2005-07 Budget Rate	ERB Rate	PERS	Social Security	WC Tax	Flexible Benefits	Monthly Salary + OPE	Biennial Cost
W/out 2+2	6,925	3	1,153	530	7	1,838	10,456	250,944
With 2+2 ¹	7,132	3	1,187	546	7	1,838	10,712	257,097

Note: 1. The Personal Services Cost estimates are escalated using the anticipated growth in CPI.

Table 3. Loan Originators Section Total Expenditures BI 2005-07

2005-07 Personal Services Cost	257,097	2.67%	percentage of the total DFCS Personal Services Cost
2005-07 Services and Supplies/Capital Outlays	54,926		
2005-07 Central Support Services	57,655		
2005-07 Total Expenditures	369,678	21.4%	percentage of the LO associated expenditures of the total ML program expenditures
FY 06	181,142	49%	expenditure fiscal year split
FY 07	188,536	51%	expenditure fiscal year split

Table 4. Loan Originators Section Total Expenditures BI 2007-09

2007-09 Personal Services Cost	268,782	2.67%	percentage of the total DFCS Personal Services Cost
2007-09 Services and Supplies/Capital Outlays	57,012		
2007-09 Central Support Services	60,030		
2007-09 Total Expenditures	385,823	21.4%	percentage of the LO associated expenditures of the total ML program expenditures
FY 08	189,053	49%	expenditure fiscal year split
FY 09	196,770	51%	expenditure fiscal year split

Note: The 2007-09 biennium Personal Services Cost Estimates were escalated by 3% per annum.
 3%+3% Personal Services Cost Growth Factor 1.045

Loan Originators Section Expenditures

EXHIBIT C

Table 5. Base Personal Services Cost

POSNO	2005-07 Budget Rate	ERB Rate	PERS	Social Security	WC Tax	Flexible Benefits	Monthly Salary + OPE	OPE Rate	Biennial Cost
1002	3,208.00	1.33	534.00	245.00	3.46	892.00	4,884	52.24%	117,216
1003	3,875.00	1.33	645.00	296.00	3.46	892.00	5,713	47.43%	137,112
1007	3,875.00	1.33	645.00	296.00	3.46	892.00	5,713	47.43%	137,112
1008	3,060.00	1.33	509.00	234.00	3.46	892.00	4,700	53.59%	112,800
1030	5,486.00	1.33	913.00	420.00	3.46	892.00	7,716	40.65%	185,184
1316	4,921.00	1.33	819.00	376.00	3.46	892.00	7,013	42.51%	168,312
1317	3,875.00	1.33	645.00	296.00	3.46	892.00	5,713	47.43%	137,112
1319	2,546.00	1.33	424.00	195.00	3.46	892.00	4,062	59.54%	97,488
2033	1,949.00	1.33	325.00	149.00	3.46	892.00	3,320	70.33%	79,680
2076	2,546.00	1.33	424.00	195.00	3.46	892.00	4,062	59.54%	97,488
2635	3,208.00	1.33	534.00	245.00	3.46	892.00	4,884	52.24%	117,216

	2005-07 Budget Rate	ERB Rate	PERS	Social Security	WC Tax	Flexible Benefits	Monthly Salary + OPE	Biennial Cost
W/out 2+2	38,549	15	6,417	2,947	38	9,812	57,780	1,386,720
With 2+2	39,705	15	6,611	3,037	38	9,812	59,218	1,421,225

Notes: PERS rate as percentage of 2005-07 Budget Rate 16.65%
 Social Security rate as percentage of 2005-07 Budget Rate 7.65%

Loan Originators Assessment Revenue Estimate

EXHIBIT D

Table 1. Expenditure Estimates for Mortgage Lenders and LO

FY	Total ML	LO Associated Expenditures		Main and Branch License Expenditures		Examinations Charge Offset	
		Amount	Percentage	Amount	Percentage	Amount	Percentage
2005(q3,q4)	\$379,883	\$81,391	21.4%	\$268,268	70.6%	\$30,225	8.0%
2006	\$845,462	\$181,142	21.4%	\$610,320	72.2%	\$54,000	6.4%
2007	\$879,971	\$188,536	21.4%	\$637,435	72.4%	\$54,000	6.1%
2008	\$882,402	\$189,053	21.4%	\$639,349	72.5%	\$54,000	6.1%
2009	\$918,418	\$196,770	21.4%	\$667,649	72.7%	\$54,000	5.9%
Total	\$3,906,137	\$836,892		\$2,823,020		\$246,225	

Tables 2 and 3 assume that the LO Assessment is paid upon the ML Main License Initial/Renewal Application.

Table 2. LO Assessment Rate Estimates

FY	Assessment Base	LO Assessment Rate
2005(q3,q4)	1,738	\$ 47
2006	3,330	\$ 54
2007	3,170	\$ 59
2008	3,056	\$ 62
2009	2,966	\$ 66
Average	2,852	\$ 58
Average xh	2,732	\$ 56
Average xl	3,130	\$ 61
Average xhl	3,064	\$ 59
Chosen		\$ 60

Table 3. LO Assessment Revenue Estimates at \$60 assessment rate

FY	LO Assessment Revenue
2005(q3,q4)	\$ 104,280
2006	\$ 199,800
2007	\$ 190,170
2008	\$ 183,330
2009	\$ 177,960
Total	\$ 855,540

Exhibit D

Table 4. DFCS Expenditure and Chargeback Allocation

2003-05 Allocation using FY 2004 actuals, from 2003-05 5th Quarter Planned BERS, 9/2004.		
2003-05 Expenditure Allocation		
Securities	1,670,653	35.38%
B&T	1,486,820	31.49%
Pawnbrokers	21,276	0.4506%
Collection Agencies	57,804	1.22%
Consumer Finance	291,158	6.17%
Mortgage Brokers/Bank	592,530	12.55%
Sellers of Travel	214	0.005%
Credit Unions	521,692	11.05%
Investor Education	23,434	0.50%
Electronic Signatures	230	0.00%
Money Transmitters	21,260	0.45%
International Trade Consultant	214	0.00%
Pre-Needs Trust	<u>34,246</u>	<u>0.73%</u>
Total Budgeted Expenditures:	4,721,531	100.00%

Chargeback Distribution from Beri Leslie, 5/14/03. Effective 7/1/04	
Chargeback Allocation	
Securities	35.00%
B&T	32.00%
Pawnbrokers	0.50%
Collection Agencies	1.00%
Consumer Finance	6.00%
Mortgage Brokers/b	12.00%
Sellers of Travel	0.00%
Credit Unions	12.00%
Investor Education	0.00%
Electronic Signatur	0.00%
Money Transmitter:	0.50%
International Trade	0.00%
Pre-Needs Trust	<u>1.00%</u>
	100.00%

Exhibit D

Table 5

DCBS Division Breakdown of Expenditures (Including COLA amounts) and Central Support Services Chargeback in FY06 and FY07 Agency Request Budget

	Total Budgeted Amount For 05-07 Biennium			Total Budgeted Amount For 05-07 Biennium	
		FY06--49%	FY07--51%	MLP	
Division of Finance and Corporate Securities					
Personal Services	9,627,656	4,717,552	4,910,105	\$1,208,226	MLP (12.55%)
S&S /CO/Other	2,056,847	1,007,855	1,048,992	\$258,125	MLP (12.55%)
Total	\$ 11,684,503	\$ 5,725,407	\$ 5,959,097	\$1,466,350	Total MLP
Central Support Services Transfer	\$ 2,159,024	1,057,922	\$ 1,101,102	\$259,083	MLP-CSS (12.0%)
Total Expenditures and CSS	\$ 13,843,527	\$ 6,783,328	\$ 7,060,199	\$1,725,433	MLP Expenditures and CSS

Mortgage Lenders Program Revenue Estimates **EXHIBIT E**

Table 1. Mortgage Lenders Program Revenue Components

FY	Total ML Revenue Old Fee Structure	ML Revenue Components				Total ML Components
		Examinations	Branches @ 165	Mains @ 825	LO Assessment	
2005(q3,q4)	\$523,110	\$30,225	\$55,689	\$350,941	\$104,280	\$541,135
2006	\$897,659	\$54,000	\$98,571	\$597,447	\$199,800	\$949,819
2007	\$869,160	\$54,000	\$101,077	\$571,429	\$190,170	\$916,677
2008	\$845,868	\$54,000	\$104,359	\$548,932	\$183,330	\$890,621
2009	\$833,357	\$54,000	\$107,711	\$535,259	\$177,960	\$874,929
Total	\$3,969,153	\$246,225	\$467,407	\$2,604,009	\$855,540	\$4,173,181

Table 2. Main and Branch Revenue Distribution

	Amount	Distribution
Total Branches @ 165	\$467,407	15%
Total Mains @ 825	\$2,604,009	85%
Total Main and Branches	\$3,071,416	100%

Table 3. ML Program Quarterly Revenue Distribution

FY	CY	FY 06-FY 11	FY 05
Q1	Q3	22.70%	
Q2	Q4	21.33%	
Q3	Q1	25.68%	45.89%
Q4	Q2	30.29%	54.11%
Total		100.00%	100.00%

Table 4. ML Program Fee Amounts

Fee type	Amount
Main Initial/Renewal	\$ 825.00
Branch Initial/Renewal	\$ 165.00
Addition Branch fee to existing license	\$ 250.00
Examinations (per hour)	\$ 60.00
LO Assessment Rate	\$ 60.00

Average number of exams per FY	150
Average number of hours per exam	6
Average number of examination hours per FY	900

Mortgage Lenders Program Revenue Estimates **EXHIBIT E**

Table 5. Main and Branch License CY Counts Forecast

CY	Total Main	Total Branch
2005	760	603
2006	696	593
2007	690	628
2008	646	636
2009	651	666

Table 6. Main and Branch License FY Counts Forecast

FY	Total Main	Total Branch
2005 (q3&q4)	425	338
2006	724	597
2007	693	613
2008	665	632
2009	649	653

Table 7. Detailed Main and Branch License FY Counts Forecast

FY	Initial Main	Renewal Main	Total Main
2005 (q3&q4)	140	285	425
2006	247	477	724
2007	241	452	693
2008	236	429	665
2009	236	413	649

FY	Initial Branch	Renewal Branch	Total Branch
2005 (q3&q4)	151	187	338
2006	284	313	597
2007	306	307	613
2008	323	309	632
2009	338	315	653

Mortgage Lenders Program Revenue Forecast

FY 2005	112,662	105,896	248,322	292,813	759,692
FY 2006	222,485	209,124	237,802	280,407	949,819
FY 2007	207,942	195,454	235,540	277,741	916,677
FY 2008	206,577	194,171	224,799	265,075	890,621
FY 2009	197,419	185,563	225,751	266,197	874,929

Notes:

1. FY 1997 contains actual year end data, which we break out by quarter based on previous quarterly cash flows.
2. Forecasts for FY 2005 - 2011 are based on econometric models that relate the number of branch and main office locations to U.S. Employment in the Finance Industry and Oregon Employment in the Construction Industry.
3. Effective October 2000, the initial license fees and renewal fees were reduced from \$500 to \$250 for principal offices and from \$100 to \$50 for branch offices.
4. Effective January 2004, the initial license fees and renewal fees will be restored from \$250 to \$500 for principal offices and from \$50 to \$100 for branch offices.
5. Effective January 2005, the initial license fees and renewal fees will be increased to \$825 for main offices and \$165 for branch offices.
6. Effective January 2005, the assessment rate based on the number of LO per company will be payable upon main license renewal or initial application.
7. Effective January 2004, we are assuming 150 examinations per year at an average of 6 hours per examination.

October 2000 through December 2003

Branch Fee	\$50
Branch Fee to Existing License	\$75
Main Fee	\$250
Exam Fee	\$60

January 2004 through December 2004

Initial Branch Fee	\$100
Renewal Branch Fee	\$100
Branch Fee to Existing License	\$150
Main Office Initial Fee	\$500
Main Office Renewal Fee	\$500

January 2005 forward

Initial Branch Fee	\$165
Renewal Branch Fee	\$165
Branch Fee to Existing License	\$250
Main Office Initial Fee	\$825
Main Office Renewal Fee	\$825

LO Assessment Fee	\$60
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LO Assessment Revenue

	Q1	Q2	Q3	Q4	Total
FY 05			47,853	56,427	104,280
FY 06	45,346	42,623	51,318	60,513	199,800
FY 07	43,160	40,568	48,845	57,596	190,170
FY 08	41,608	39,109	47,088	55,525	183,330
FY 09	40,389	37,964	45,709	53,898	177,960

Total	170,504	160,264	240,813	283,958	855,540
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CY 03 Forecasted Revenue	
Locations	280,400
Examinations	28,320
Total	308,720

CY 04 Forecasted Revenue	
Locations	442,400
Examinations	54,000
Total	496,400

CY 05 Forecasted Revenue	
Locations	726,495
Examinations	54,000
Total	780,495

CY 06 Forecasted Revenue	
Locations	672,045
Examinations	54,000
Total	726,045

CY 07 Forecasted Revenue	
Locations	672,870
Examinations	54,000
Total	726,870

CY 08 Forecasted Revenue	
Locations	637,890
Examinations	54,000
Total	691,890

CY 09 Forecasted Revenue	
Locations	646,965
Examinations	54,000
Total	700,965

CY 10 Forecasted Revenue	
Locations	630,795
Examinations	54,000
Total	684,795

CY 03	Branch Renewals	367
	New Branches, Late Renewals, or existing w/1yr-	294
	New Branches to Existing License w/1yr+	308
	Total Branches	969
	Main Renewals	568
	New Main or Late Renewal	329
	Total Main	897

CY 04	Branch Renewals	326
	New Branches, Late Renewals, or existing w/1yr-	253
	New Branches to Existing License w/1yr+	0
	Total Branches	579
	Main Renewals	500
	New Main or Late Renewal	269
	Total Main	769

CY 05	Branch Renewals	333
	New Branches, Late Renewals, or existing w/1yr-	270
	New Branches to Existing License w/1yr+	0
	Total Branches	603
	Main Renewals	510
	New Main or Late Renewal	250
	Total Main	760

CY 06	Branch Renewals	298
	New Branches, Late Renewals, or existing w/1yr-	295
	New Branches to Existing License w/1yr+	0
	Total Branches	593
	Main Renewals	450
	New Main or Late Renewal	246
	Total Main	696

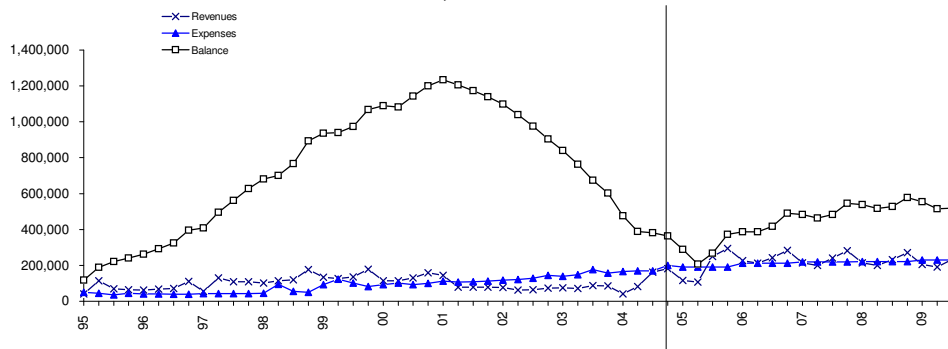
CY 07	Branch Renewals	314
	New Branches, Late Renewals, or existing w/1yr-	314
	New Branches to Existing License w/1yr+	0
	Total Branches	628
	Main Renewals	453
	New Main or Late Renewal	237
	Total Main	690

CY 08	Branch Renewals	306
	New Branches, Late Renewals, or existing w/1yr-	330
	New Branches to Existing License w/1yr+	0
	Total Branches	636
	Main Renewals	412
	New Main or Late Renewal	234
	Total Main	646

CY 09	Branch Renewals	322
	New Branches, Late Renewals, or existing w/1yr-	344
	New Branches to Existing License w/1yr+	0
	Total Branches	666
	Main Renewals	413
	New Main or Late Renewal	238
	Total Main	651

CY 10	Branch Renewals	325
	New Branches, Late Renewals, or existing w/1yr-	358
	New Branches to Existing License w/1yr+	0
	Total Branches	683
	Main Renewals	390
	New Main or Late Renewal	238
	Total Main	628

MORTGAGE LENDER PROGRAM
REVENUES, EXPENSES, AND FUND BALANCES
FISCAL YEARS 1995-2009; ACTUAL DATA THROUGH 6/30/2004



Period Ending	Revenues	Investment Income	Total Revenue	Expenses	Excess (Deficit)	Transfers/ Adjustments	Ending Fund Balance	Coverage Ratio
FY 1986	\$0	\$0	\$0	\$0	\$0	\$0	\$0	n/a
FY 1987	\$0	\$0	\$0	\$0	\$0	\$0	\$0	n/a
FY 1988	\$0	\$0	\$0	\$0	\$0	\$0	\$0	n/a
FY 1989	\$0	\$0	\$0	\$0	\$0	\$0	\$0	n/a
FY 1990	\$0	\$0	\$0	\$0	\$0	\$0	\$0	n/a
FY 1991	\$0	\$0	\$0	\$0	\$0	\$0	\$0	n/a
FY 1992	\$0	\$0	\$0	\$0	\$0	\$0	\$0	n/a
FY 1993	\$0	\$0	\$0	\$0	\$0	\$0	\$0	n/a
FY 1994	\$202,929	\$3,190	\$206,119	\$77,579	\$128,540	(\$1,835)	\$126,705	3.47
FY 1995	\$276,544	\$12,006	\$288,550	\$173,689	\$114,861	\$0	\$241,566	5.44
FY 1996	\$295,977	\$16,233	\$312,210	\$162,638	\$149,572	\$4,377	\$395,515	10.06
FY 1997	\$364,178	\$39,087	\$403,265	\$169,897	\$233,368	(\$1,748)	\$627,135	14.61
FY 1998	\$467,274	\$45,787	\$513,061	\$245,359	\$267,702	(\$474)	\$894,363	18.46
FY 1999	\$518,749	\$55,477	\$574,226	\$399,924	\$174,302	\$320	\$1,068,985	12.95
FY 2000	\$447,780	\$68,425	\$516,205	\$386,678	\$129,527	\$1,816	\$1,200,328	11.80
FY 2001	\$298,876	\$80,301	\$379,177	\$439,754	(\$60,577)	\$0	\$1,139,751	10.16
FY 2002	\$226,505	\$49,448	\$275,953	\$511,751	(\$235,798)	\$0	\$903,953	6.27
09/30/02	66,890	7,744	74,634	138,863	(64,229)	(129)	839,595	6.04
12/31/02	64,294	7,120	71,414	147,759	(76,345)	(22)	763,228	5.16
03/31/03	82,876	5,070	87,946	176,907	(88,961)	(20)	674,247	3.81
06/30/03	80,809	3,949	84,758	156,174	(71,416)	0	602,831	3.86
FY 2003	\$294,869	\$23,883	\$318,752	\$619,703	(\$300,951)	(\$171)	\$602,831	3.86
09/30/03	37,139	3,685	40,824	166,745	(125,921)	0	476,910	2.86
12/31/03	77,075	4,300	81,375	169,171	(87,796)	0	389,114	2.30
03/31/04	159,403	2,941	162,344	170,060	(7,716)	0	381,398	2.24
06/30/04	177,699	3,339	181,038	198,948	(17,910)	0	363,488	1.83
FY 2004	\$451,316	\$14,265	\$465,581	\$704,924	(\$239,343)	\$0	\$363,488	1.83
09/30/04	112,662	2,985	115,647	189,942	(74,295)	0	289,193	1.52
12/31/04	105,896	1,964	107,860	189,942	(82,082)	0	207,111	1.09
03/31/05	248,322	1,704	250,027	189,942	60,085	0	267,196	1.41
06/30/05	292,813	1,907	294,720	189,942	104,778	0	371,974	1.96
FY 2005	\$759,692	\$8,561	\$768,253	\$759,767	\$8,486	\$0	\$371,974	1.96
09/30/05	222,485	3,453	225,939	211,366	14,573	0	386,547	1.83
12/31/05	209,124	3,070	212,194	211,366	828	0	387,376	1.83
03/31/06	237,802	3,961	241,763	211,366	30,398	0	417,773	1.98
06/30/06	280,407	3,464	283,871	211,366	72,505	0	490,279	2.32
FY 2006	\$949,819	\$13,948	\$963,767	\$845,462	\$118,305	\$0	\$490,279	2.32
09/30/06	207,942	5,466	213,407	219,993	(6,585)	0	483,694	2.20
12/31/06	195,454	4,224	199,678	219,993	(20,315)	0	463,379	2.11
03/31/07	235,540	5,261	240,801	219,993	20,808	0	484,187	2.20
06/30/07	277,741	4,258	281,999	219,993	62,006	0	546,193	2.48
FY 2007	\$916,677	\$19,208	\$935,885	\$879,971	\$55,914	\$0	\$546,193	2.48
09/30/07	206,577	6,886	213,462	220,601	(7,138)	0	539,055	2.44
12/31/07	194,171	5,048	199,218	220,601	(21,382)	0	517,673	2.35
03/31/08	224,799	6,638	231,437	220,601	10,837	0	528,510	2.40
06/30/08	265,075	5,341	270,415	220,601	49,815	0	578,325	2.62
FY08	\$890,621	\$23,912	\$914,534	\$882,402	\$32,132	\$0	\$578,325	2.62
09/30/08	197,419	7,833	205,252	229,605	(24,353)	0	553,971	2.41
12/31/08	185,563	5,932	191,495	229,605	(38,110)	0	515,861	2.25
03/31/09	225,751	7,341	233,092	229,605	3,487	0	519,348	2.26
06/30/09	266,197	5,810	272,007	229,605	42,403	0	561,751	2.45
FY 2009	\$874,929	\$26,915	\$901,845	\$918,418	(\$16,574)	\$0	\$561,751	2.45

- Investment income is included in Revenue figures for FY86 through FY89.
- Expenditures include chargeback expenditures beginning in FY 95.
The expenditures for 2003-05 are from the Legislatively Adopted Budget. The expenditures for 2005-07 are from Agency Budget Request.
Expenditures from FY 2008 through FY 2009 are based on information provided by the Business Administration Division.
- Effective October 2000, the initial license fees and renewal fees were reduced from \$500 to \$250 for principal offices and from \$100 to \$50 for branch offices.
- Effective January 2004, the initial license fees and renewal fees will be restored to \$500 for principal offices and \$100 for branch offices.
- Forecasts for Mortgage Lender Location growth are based on econometric models that relate the number of branch and main office locations to U.S. Employment in the Finance Industry and Oregon Employment in the Construction Industry.
Examination revenue is based on 150 exams per year at an average of six hours each.
- Effective January 2005, the initial license fees and renewal fees will be increased to \$825 for principal offices and \$165 for branch offices.
- Effective January 2005, the assessment fee based on the number of Loan Originators associated with the licensee will be payable upon main office license renewal or initial application. The LO assessment rate will be \$60 per loan originator.

Change in Revenue for Mortgage Lender Program

Exhibit H

Mortgage Lender Program			
Change in Revenue			
	Control	With Fee Increase	Difference
FY 2006	\$475,829	\$949,819	\$473,990
FY 2007	\$461,580	\$916,677	\$455,097
2005-07 Biennium	\$937,409	\$1,866,496	\$929,087
Change in Fee Amounts			
Fee Type	Current	Effective 1/1/2005	Difference
Initial Branch Fee	\$100	\$165	\$65
Renewal Branch Fee	\$100	\$165	\$65
Addition Branch Fee to Existing License	\$150	\$250	\$100
Main Office Initial Fee	\$500	\$825	\$325
Main Office Renewal Fee	\$500	\$825	\$325
LO Assessment Fee	n/a	\$60 per LO	n/a

- Notes: 1. The revenue estimates do not include Investment Income.
 2. Increased and new fees are effective January 1, 2005.

Source: Research and Analysis, IMD, DCBS

Exhibit I

Mortgage Lender Fee Structure Proposal

Business Rules

The proposed Mortgage Lender Fee Structure becomes effective January 1, 2005. The business rules and processes for main and branch office licenses and examination fees are already in place and have proven to be effective. The LO assessment fee will be charged for the first time starting January 1, 2005. IMD proposes the following set of business rules for charging, processing, and collecting the LO assessment revenue.

- 1) All licensees that will be paying an LO assessment fee for the first time should be notified by DFCS approximately 60 days prior to the renewal date.
- 2) The LO assessment fee payment will be estimated based on the number of LOs associated with the licensee 60 days prior the renewal date. A system-generated list of LOs associated with the licensee will be provided.
- 3) All applicants for an initial ML license are required to estimate the LO assessment fee payment based on the number of LOs that the applicant projects will be associated with the firm for a period of no less than 1 year from the date the license becomes effective.
- 4) All licensees applying for a renewal license, and all applicants applying for an initial license during the period beginning January 1, 2005 and ending April 30, 2005 will be granted a grace period of 60 days from the date of the application to pay the LO assessment fee.
- 5) For applicants applying for a new license or licensees renewing an existing license after April 30, 2005, no grace period will be granted