Smart decisions. Lasting value.™

Fiscal and Cost Allocation Plan Analysis

November 18, 2024

Agreement #22-SA041

Table of Contents

Executive Summary

The Department of Financial Protection and Innovation's (DFPI) mission is to serve Californians by effectively overseeing financial service providers; enforcing laws and regulations; promoting innovation and fair and honest business practices; enhancing consumer awareness; and protecting consumers by mitigating potential marketplace risks and deterring fraud and abuse. DFPI's programs are primarily funded by fees and assessments paid by financial service providers that are regulated under state consumer and financial protection laws. DFPI has not adjusted many of its fees and assessments in decades. DFPI has also expanded its programmatic responsibilities due to legislative mandates. These added programmatic responsibilities, coupled with static fee and assessment rates, have put additional pressure on the Department's Financial Protection Fund (Fund).

In March 2024, the DFPI contracted with Crowe LLP (Crowe) to conduct department-wide fiscal and cost allocation analysis[1] to identify a path to fiscal sustainability with the goal of reducing funding risks. Since April 2024, Crowe conducted nearly 30 interviews with DFPI subject matter experts (SMEs) to understand current and emerging programmatic needs. Crowe then developed a fiscal and cost allocation model to identify projected program revenues, expenditures, and proposed adjustments to the Department's current fees and assessments to support identified programmatic needs through Fiscal Year (FY) 2027-2028.

This report provides Crowe's findings and recommendations based on our analysis. The rest of this report provides detailed background, assumptions, and rationale to support the findings and recommendations.

Recommendations

Based on the analysis, DFPI requires an additional $80.4 million through FY 2027-28 to support its programmatic needs for the Investment, Lender-Fiduciary, Banking, and Money Transmitters Programs. In addition, DFPI requires $112.8 million through FY 2027-28 to support its new programs, including the California Consumer Financial Protection, Debt Collectors, and Digital Financial Assets Programs.

<u>Established Programs</u>

To support its programmatic needs for established programs through FY 2027-28, Crowe recommends that DFPI:

- Increase DFPI's hourly examination rate to at least $120 per hour[2] in FY 2024-25 for subprograms within the Lender-Fiduciary Program and the Student Loan Servicing subprogram in the Banking Program, and in FY 2025-26 for subprograms within the Money Transmitters Program to consistently and appropriately cover the programmatic costs associated with examination related workload. The Money Transmitters Program will require statutory changes to implement the recommended examination rate.
- Increase non-exam revenues for the following subprograms within the Investment Program in FY 2025-26:
    - A 33 percent increase to non-exam revenues for the Broker-Dealer Investment Adviser subprogram
    - A 151 percent increase to non-exam revenues for the Franchise Investment subprogram.

[1] The analysis focused on the Department's primary funding source, the Financial Protection Fund, which supports nearly all the Department's programs. The Department's Credit Union Program is primarily supported by the Credit Union Fund. The Department also receives limited funding from other sources (e.g., Financial Empowerment Fund, Local Agency Deposit Security Fund, and Reimbursements). The analysis included the Credit Union Fund and these other sources.

[2] As part of the analysis, Crowe validated that the $120 per hour rate would consistently and appropriately cover the Department's costs associated with performing examination workload. The recommended examination hourly rate would cover $100 per hour for direct salary and benefits for the Department's financial examiners and $20 per hour for overhead.

- Increase non-exam revenues for the following subprograms within the Lender-Fiduciary Program in FY 2025-26:
    - A 158 percent increase to non-exam revenues for the Mortgage Bankers subprogram
    - A 24 percent increase to non-exam revenues for the California Finance Lenders subprogram
    - An 84 percent increase to non-exam revenues for the Escrow subprogram
    - A 65 percent increase to non-exam revenues for the Deferred Deposit Transaction subprogram.
- Increase current fees and/or assessments in the Banks subprogram by 18 percent in FY 2024-25; DFPI has the statutory authority for an immediate adjustment for this subprogram.

<u>New Programs</u>

To support its programmatic needs for new programs through FY 2027-28, Crowe recommends that DFPI:

- Set initial fees and/or assessments for the new California Consumer Financial Protection Program in FY 2024-25.
- Set initial fees and/or assessments for the new Debt Collectors Program in FY 2025-26.
- Set initial fees and/or assessments for the new Digital Financial Assets Program in FY 2026-27.

Summary of Fiscal and Cost Allocation Analysis Results

Exhibit ES-1 provides a breakdown of projected revenues and operating requirements and proposed cumulative fee and/or assessment adjustments to support DFPI's programmatic needs through FY 2027-28. These projections are based on current economic conditions and assumptions that are subject to change which may affect the accuracy of these projections.

- **Projected Revenues:** Reflects projected revenues from FY 2023-24 through FY 2027-28 at current fee and assessment rates. These projections are based on current economic conditions and assumptions.
- **Projected Operating Requirements:** Reflects financial requirements from FY 2023-24 through FY 2027-28 to develop and maintain existing DFPI functions based on anticipated future expenditure needs and planned fund allocations. These projections are based on current economic conditions and assumptions.
- **Projected Programmatic Needs:** Reflects the difference between projected revenues and projected operating requirements. If a program's projected operating requirements are greater than its projected revenues, then Crowe recommends that the DFPI adjust the program's current fee and/or assessment rate(s) to support the program's projected operating requirements.

  Proposed Cumulative Adjustments: Reflects the cumulative adjustments (as percentages) to overall fees and/or assessment rates to support the projected programmatic needs. These adjustments assume that the DFPI will increase the hourly rate it charges for all examination workload to $120 per hour. Programs with an "N/A" are anticipated to maintain adequate resources.
- **Proposed Ending Fund Balance:** Reflects a prudent reserve (i.e., covers roughly three months of expenditures) based on generally accepted practices to mitigate funding risks.

Exhibit ES-1
Proposed Cumulative Adjustments through FY 2027-28[3]

Program / Subprogram	Projected Revenues	Projected Operating Requirements	Projected Programmatic Needs	Proposed Cumulative Adjustments
Investment Program				
Broker-Dealers Investment Advisers	$91,670,000	$110,270,000	$18,600,000	33%
Corporate Securities	85,580,000	85,580,000	N/A	N/A
Franchise Investment	7,040,000	13,480,000	6,440,000	151%
Lender-Fiduciary Program				
Mortgage Bankers	$17,730,000	$30,440,000	$12,710,000	158%
Mortgage Loan Originators	65,220,000	65,220,000	N/A	N/A
California Finance Lenders	39,720,000	46,000,000	6,280,000	24%
Escrow	23,920,000	35,150,000	11,230,000	84%
Deferred Deposit Transaction	8,170,000	11,270,000	3,100,000	65%
Check Sellers, Bill Payers, and Proraters	140,000	140,000	N/A	N/A
Banking Program				
Banks	$151,560,000	$173,100,000	$21,540,000	18%
Industrial Banks	2,140,000	2,140,000	N/A	N/A
Student Loan Servicing	11,140,000	11,140,000	N/A	N/A
Money Transmitters Program				
Money Transmitters	$35,990,000	$36,470,000	$480,000	N/A[4]
New Programs[5]				
California Consumer Financial Protection	$46,030,000	$46,030,000	N/A	N/A
Debt Collectors	$40,240,000	$40,240,000	N/A	N/A
Digital Financial Assets	$26,560,000	$26,560,000	N/A	N/A
Total	**$652,850,000**	**$733,230,000**	**$80,380,000**	

[3] The proposed cumulative adjustments reflect increases in total revenue, excluding revenue from examinations, to cover projected programmatic needs through FY 2027-28. The proposed cumulative adjustments *include* projected interest and cost recovery revenues. The proposed fee and assessment increases presented in *Section 5* are greater than the proposed cumulative adjustments because the proposed fee and assessment increases *exclude* projected interest and cost recovery revenues.

[4] The increased examination rate of $120 per hour is sufficient to cover the Money Transmitter Program's programmatic needs.

[5] New Programs reflect the Department's added programmatic responsibilities due to recent legislative mandates. The Fund's existing balance will support these programs until they generate revenue from fees and assessments in FY 2024-25 for the California Consumer Financial Protection program, in FY 2024-25 for fees and in FY 2025-26 for assessments for the Debt Collectors program, and in FY 2026-27 for Digital Financial Assets Program. The DFPI assumes that these programs will then generate revenues sufficient to cover their operating requirements.

Resulting Fund Condition

Based on the analysis, the proposed fee and assessment adjustments presented in Exhibit ES-1 are intended to provide the DFPI with a pathway to adequately support its programmatic needs and the condition of its Financial Protection Fund through FY 2027-28. As shown in **Exhibit ES-2,** the Financial Protection Fund's projected ending balance in FY 2027-28 will total approximately $40.8 million. We calculated this projected ending balance based on the following key assumptions:

- **Projected Revenues**: A combination of methods, including a three-year moving average, linear regression, and/or subject matter expert (SME) judgement.
- **Projected Expenditures**: A 12.3 percent increase in FY 2023-24 based on DFPI's projections, a 7.5 percent decrease in FY 2024-25 due to planned statewide budget cuts,[6] and a 3 percent increase per year from FY 2025-26 to FY 2027-28.[7]
- **Fund Balance Allocation**: Some subprograms require an allocation totaling $76.2 million of the Fund's $117.1 million FY 2023-24 beginning balance based on DFPI's fund allocation methodology, summarized as follows:
  - $22.4 million to Enforcement, Legal, and Securities Regulation Divisions, and non-revenue generating subprograms.
  - $53.8 million to New Programs to support startup costs, as follows: California Consumer Financial Protection Program (New Covered Persons subprogram) ($6.6 million), Debt Collectors Program ($25.4 million), and Digital Financial Assets Program ($21.7 million).

Exhibit ES-2
Financial Protection Fund Condition with Proposed Cumulative Adjustments
FY 2023-24 through FY 2027-28

Category	Financial Protection Fund
Beginning Fund Balance (FY 2023-24)	**$117,060,000**
Projected Revenues[8]	$658,440,000
Projected Expenditures	$815,070,000
Projected Deficit (Revenues Minus Expenditures)	**-$156,630,000**
Projected Ending Fund Balance with no Adjustments (FY 2027-28)	-$39,570,000
Projected Additional Revenue from Proposed Adjustments	**$80,380,000**
Difference: Projected Deficit and Projected Additional Revenue	-$76,250,000
Projected Ending Fund Balance with Proposed Adjustments (FY 2027-28)	**$40,810,000 (covers 3 months of expenditures)**

6 The Department estimated a 7.5% reduction in FY 2024-25 expenditures pursuant to the Department of Finance's Budget Letter 24-10, Government Efficiency Reductions. This reduction accounts for general salary increases that went into effect on July 1, 2024, but does not apply to the Digital Financial Assets Program (DFAL) or to department-wide cost allocations, which are projected based on the approved budget.

7 A 3% annual increase aligns with the average annual change in CPI-U (West Region) over the last 10 years. Statewide cost allocations and the Digital Financial Assets program are projected based on the approved budget.

8 Includes $5.6 million generated as interest earned through the Surplus Money Investment Fund (SMIF).

Annual Monitoring

The $76.3 million difference between the projected deficit of $156.6 million and the projected additional revenue of $80.4 million is effectively covered by the existing Fund balance and can be attributed to startup costs for new programs as well as overhead costs. Based on the revenue and expenditure assumptions provided by DFPI, the fee and assessment adjustments recommended in this report are intended to meet DFPI's needs over the next five fiscal years (through FY 2027-28). As conditions can change, Crowe recommends an annual evaluation of fee and assessment levels to determine whether additional adjustments are needed to maintain financially self-sustaining programs.

Assumptions and Disclosures

The services were provided under the American Institute of Certified Public Accountants (AICPA) Consulting Services Standards only. These services and deliverables did not constitute an audit, review, compilation, agreed-upon procedures, or an examination in accordance with standards established by the AICPA, accordingly Crowe is unable to express an opinion, conclusion, nor provide any assurance on the Deliverables provided for this project. DFPI agreed that Crowe would not express an opinion, conclusion nor provide any assurance on the Deliverables. Crowe had no obligation to perform any services beyond those listed in the Scope of Work. If Crowe performed additional services beyond those listed, other matters might come to Crowe's attention that would be reported to DFPI. Crowe makes no representations as to the adequacy of the services or any Deliverables for DFPI's purposes. It was understood that Crowe prepared the deliverables listed in the Scope of Work (the "Deliverables") reflecting findings of the services outlined in the Scope of Work for use by DFPI.

In performing this Fiscal and Cost Allocation Plan Analysis for DFPI, Crowe assumed the following:

- Our analyses and work product are intended for the benefit and use of DFPI. This engagement was not planned or conducted in contemplation of reliance by any other party and is not intended to benefit or influence any other party. Therefore, items of possible interest to a third party may not be specifically addressed or matters may exist that could be assessed differently by a third party.
- DFPI reviewed and approved the Excel model used for revenue, expenditure and fund balance projections which resulted from this work; and DFPI confirmed that the model met DFPI's needs and contained all factors that DFPI deemed relevant.
- This report was developed based on DFPI data and other information provided by DFPI.
- Other factors may influence the actual results of the Fiscal and Cost Allocation Plan Analysis. Crowe cannot control for these factors and Crowe relied on DFPI-provided data and information to identify these factors.

1. Introduction

The Department of Financial Protection and Innovation (DFPI) initiated the Fiscal and Cost Allocation Plan Analysis Project (Project) to determine if its current fee and assessment levels are appropriate for the recovery of the actual costs of conducting its programs. The DFPI contracted with Crowe LLP (Crowe) to perform a fiscal and cost allocation plan analysis. DFPI's goal for this project is to identify a path to fiscal sustainability with the goal of addressing its funding risks.

Section 2 describes the methodology Crowe used to perform fiscal and cost allocation analysis, and to identify recommended adjustments to the DFPI's current fee and assessment levels. *Section 3* provides detailed results of the fiscal and cost allocation analysis. In the last sections, *Section 4*, we provide justification for recommended adjustments to specific current fee and assessment levels, and in *Section 5*, a proposed implementation plan. The remainder of this introduction section is organized as follows:

A. *Background*
B. *Program Authority and Objectives*
C. *Scope of Fiscal and Cost Allocation Plan Analysis.*

A. Background

The DFPI provides protection to consumers and services to businesses engaged in financial transactions. The Department regulates a variety of financial services, products, and professionals. The Department oversees the operations of state-licensed financial institutions, including banks, credit unions, money transmitters, issuers of payment instruments and travelers checks, and premium finance companies. Additionally, the Department licenses and regulates a variety of financial businesses, including securities brokers and dealers, investment advisers, deferred deposit (commonly known as payday loans) and certain fiduciaries and lenders. The DFPI also regulates the offer and sale of securities, franchises, and off-exchange commodities.

The DFPI's regulatory authority and its licensees are governed by California's Financial Code, Corporations Code, and Code of Regulations. The DFPI's programs are funded almost entirely with special funds derived mainly from fees paid by licensees including a mix of initial licensing costs, renewal fees, examination fees and annual assessments – varying by program. Many of the fees are set in code and have not been adjusted in years or decades.

In the past few years, the DFPI has expanded its programmatic responsibilities due to the following legislative mandates:

- California Consumer Financial Protection Law, 2021 (CCFPL), Chapter 157, Statutes of 2020 (AB 1864); effective January 1, 2021, gives the DFPI new regulatory responsibilities to protect consumers from unfair, deceptive, or abusive practices committed by previously unlicensed regulated entities. These may include industries that currently exist unregulated in California or new products or services that may enter the market in the future.
- Debt Collectors Licensing Act, 2022, Chapter 163, Statutes of 2020 (SB 908); effective January 1, 2022, gives the DFPI new regulatory responsibilities to provide licensure, regulation, and oversight of California debt collection practices.
- Digital Financial Assets Law, 2023 Chapters 792 and 871, Statutes of 2023 (AB 39 and SB 401); effective July 1, 2025, gives the DFPI new regulatory responsibilities to provide licensure, regulation, and oversight of digital asset activities in California.

These added programmatic responsibilities, coupled with static fee and assessment rates for many years, have put additional pressure on the Department's fiscal status. To address its fiscal sustainability, DFPI issued a request for proposal (RFP) to secure a consultant to conduct the fiscal and cost allocation plan analysis. The DFPI awarded the contract to Crowe.

1. DFPI's Budget

The DFPI's Fiscal Year 2024-25 (FY 2024-25) approved budget is $178.1M, as shown in **Exhibit 1.** Over a three-year period from FY 2022-23 to FY 2024-25, DFPI's budgeted positions increased by 21.7 percent and expenditures increased by 21.0 percent. **Exhibit 2** provides the budgeted positions and expenditures by program in FY 2024-25.

Exhibit 1
Budget Summary (dollars in millions), FY 2021-22 to FY 2024-25

Fund	2022-23 (Actual)	2023-24 (Budgeted)	2024-25 (Budgeted)	Cumulative % Δ
General Fund[9]	$2.1	$7.9	$0.0	-100.0%
Local Agency Deposit Security Fund	$0.4	$0.6	$0.6	53.5%
Credit Union Fund	$12.5	$14.3	$14.5	16.2%
Reimbursements	$0.5	$1.3	$1.3	150.5%
Financial Empowerment Fund	$2.0	$2.3	$2.3	16.0%
Financial Protection Fund	$129.7	$148.5	$159.4	22.9%
Total Expenditures	**$147.2**	**$175.0**	**$178.1**	**21.0%**
Total Positions	**720.0**	**845.0**	**876.0**	**21.7%**

Exhibit 2
Budgeted Positions and Expenditures by Program, FY 2024-25[10]

Program	Positions	Expenditures (dollars in millions)
Investment Program	238.7	$44.9
Lender-Fiduciary Program	191.3	$36.2
Licensing and Supervision of Banks and Trust Companies (Banks)	191.1	$36.6
Money Transmitters	36.7	$7.1
Local Agency Security	1.8	$0.6
Credit Unions	76.5	$14.8
CalMoneySmart	1.0	$2.3
California Consumer Financial Protection	51.5	$14.5
Debt Collectors	61.4	$13.1
Digital Financial Assets	26.0	$7.9
Total	**876.0**	**$178.1**

9 Funding from the state's General Fund reflect one-time grant appropriations.

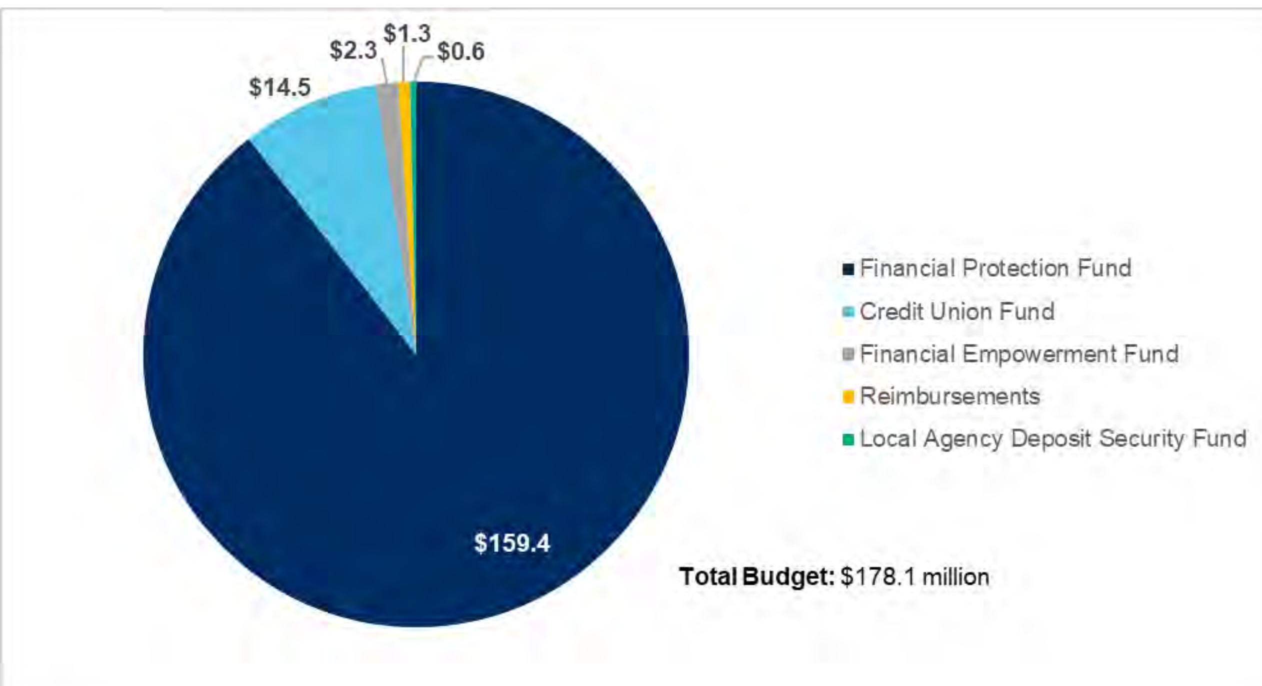
10 Some of the programs listed in this table are not shown in Exhibit ES-1 because they are not funded by the Financial Protection Fund (e.g., Credit Unions, CalMoneySmart, and Local Agency Security).

2. DFPI's Funding

As shown in **Exhibit 3,** the DFPI's FY 2024-25 total budget is covered by the following sources:

- **Financial Protection Fund** covers approximately $159.4 million (89.5%) of the DFPI's total budget and supports the Investment, Lender-Fiduciary, Licensing and Supervision of Banks and Trust Companies, Money Transmitters, California Consumer Financial Protection, Debt Collectors, and Digital Financial Assets Programs.
- **Credit Union Fund** covers approximately $14.5 million (8.1%) of the DFPI's total budget and supports the Credit Unions Program.
- **Financial Empowerment Fund** covers approximately $2.3 million (1.3%) of the DFPI's total budget and supports the CalMoneySmart Program.
- **Local Agency Deposit Security Fund** covers approximately $0.6 million (0.4%) of the DFPI's total budget and supports the Administration of Local Agency Security Program.
- **Reimbursements** covers approximately $1.3 million (0.7%) of the DFPI's total budget and provides limited support for the Licensing and Supervision of Banks and Trust Companies and Credit Unions Programs.

Exhibit 3
Funding (dollars in millions), FY 2024-25



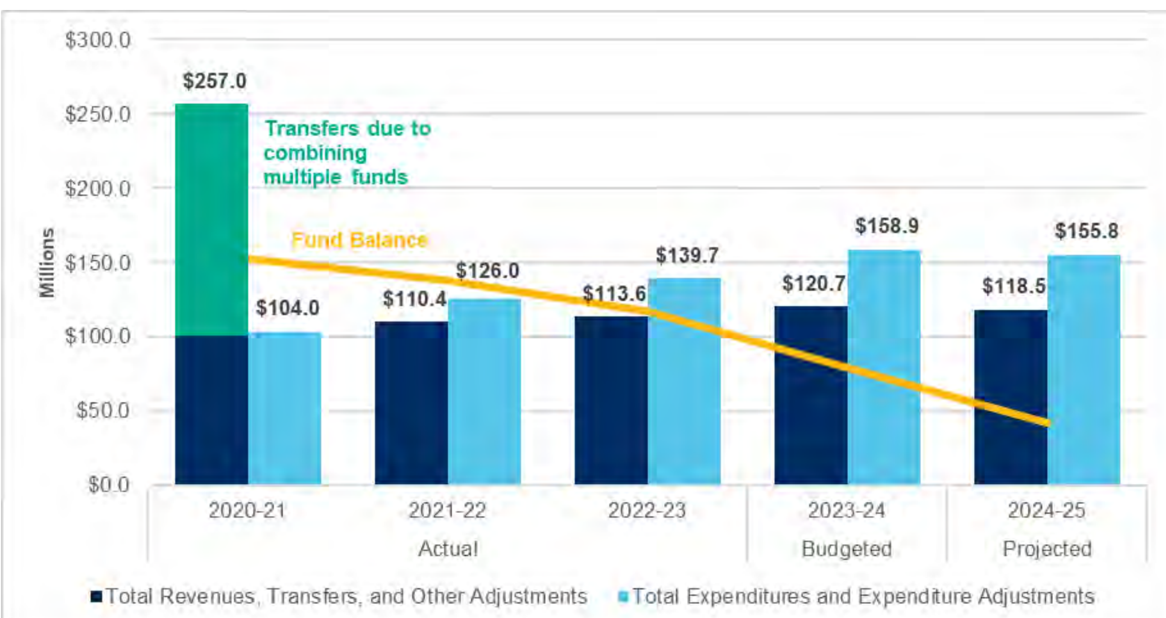
3. Financial Protection Fund Condition

The Financial Protection Fund is the Department's primary fund. In FY 2020-21, Chapter 264, Statutes 2020 (AB 107) created the Financial Protection Fund and abolished and transferred the responsibilities and balances of the State Corporations Fund and the Financial Institutions Fund to the Financial Protection Fund. The Financial Protection Fund received approximately $159.0 million in total from the Financial Institutions and State Corporations Fund balances. Revenues from licensing, application, registration, notice filing fees, and assessments account for nearly all the Financial Protection Fund's inflows. The Financial Protection Fund also collects penalty assessments and other enforcement related inflows. The Financial Protection Fund covers nearly 90 percent of the Department's total budgeted expenditures.

As shown in **Exhibit 4,** the Financial Protection Fund has operated in a structural deficit since FY 2021-22. A structural deficit occurs when total expenditures and expenditure adjustments exceed total revenues, transfers, and other adjustments. The Fund's structural deficit generally indicates that the Department's total revenues are not sufficient to cover its total expenditures. The fund balance declined significantly since FY 2020-21 primarily due to:

- Annual salary adjustments for all classifications and general salary increases (GSI) for various classifications
- Static fee and/or assessment levels resulting from statutory limits for several programs
- Startup costs for new programs, including the California Consumer Financial Protection, Debt Collectors, and Digital Financial Assets Programs
- Decrease in Banking Program revenues from recent large bank closures (e.g., Silicon Valley Bank, First Republic Bank).

Exhibit 4
Financial Protection Fund Condition (dollars in millions), FY 2020-21 to FY 2024-25[11]



[11] FY2021-21 total revenues, transfers, and other adjustments reflect $153.6M in transfers (in green) and $103.4M in revenues (in blue). According to the Department's FY 2024-25 budget galley, budgeted revenues, transfers, and other adjustments total $151.1M and budgeted expenditures and expenditure adjustments total $170.9M.

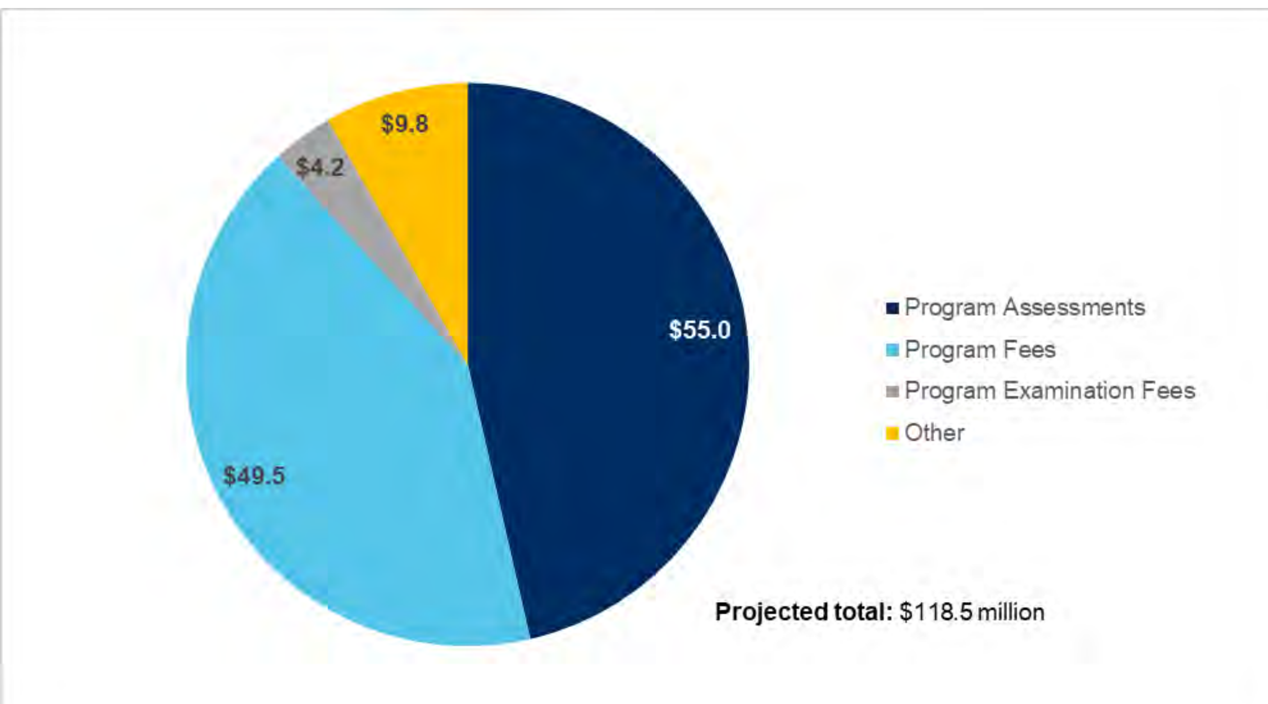
4. DFPI's Fees and Assessments

The DFPI derives revenue from various fees and assessments to finance its program operations and fulfill its regulatory responsibilities. The Department's fees and assessments primarily fall into three categories: program assessments, program fees, and program examination fees. The DFPI also derives revenue from Surplus Monetary Investment Fund (SMIF) interest, and cost recovery from enforcement actions.

Exhibit 5 provides a breakdown of the Financial Protection Fund's projected revenues, by source, for FY 2024-25. Below is a description of each source:

- **Program assessments:** charges levied on regulated entities based on their size, volume of business, or other relevant factors defined in program law. These assessments are intended to cover the costs associated with regulatory oversight, including the administrative expenses related to relevant programs. Not all programs collect assessments.
- **Program fees:** fees collected for various services provided by the DFPI's programs. These fees are typically associated with applications, registrations, licenses, and renewals. Not all programs collect fees.
- **Program examination fees:** fees imposed on entities subject to regular examinations or audits by the DFPI programs. Not all programs collect examination fees.
- **Other:** miscellaneous income streams that contribute to the DFPI's budget. These can vary but commonly include SMIF interest and cost recovery from enforcement actions, such as penalties and settlements.

Exhibit 5
Financial Protection Fund
Projected Revenue Sources (dollars in millions), FY 2024-25



B. Program Authority and Objectives

The DFPI's authority is defined in California Financial Code, Division 1, Chapter 3. **Exhibit 6** summarizes the Department's program authority and objectives. *Section 4* identifies DFPI's authority, funding, and examination authority to support Crowe's recommendations for each program.

Exhibit 6
Summary of Program Authority and Objectives

Programs and Subprograms	Authority	Objectives
Investment Program • Broker Dealers • Investment Advisers • California Commodity • Franchise Investment • Corporate Securities	California Corporations Code, Title 4, Divisions 1, 3, 4, 4.5, and 5; Title 10, California Code of Regulations, Sections 260.000-260.617, 280.100-280.700, 290.570-290.571, and 310.000-310.505.	The objective of this program is to protect investors in securities, commodities, and franchise investment transactions and to promote capital formation in California. The program regulates the offer and sale of certain securities, franchises, and licenses and examines broker-dealers and investment advisers.
Lender-Fiduciary Program • Escrow • Mortgage Bankers • Mortgage Loan Originators • California Finance Lenders • Deferred Deposit Transaction • Check Sellers, Bill Payers, and Proraters • Property Assessed Clean Energy	California Financial Code, Divisions 1.4, 1.7, 3, 6, 9, 9.5, 10, 14, and 20; Title 10, California Code of Regulations, Sections 1400-1620.29, 1700-1769, 1772-1799.1, 1805.001-1805.213.1, 1950.003-1950.317, and 2020-2030	The objective of this program is to protect consumers who borrow and enter into financial transactions with lenders and fiduciaries licensed by the Department. The program licenses and regulates businesses engaged in financial transactions such as mortgage loan originators, finance lenders, escrow agents, deferred deposit originators, bill payers, proraters, residential mortgage lenders and servicers, and property assessed clean energy program administrators.
Licensing and Supervision of Banks and Trust Companies Program • Banks • Industrial Banks • Student Loan Servicing • Public Banks	Licensing and Supervision of Banks and Trust Companies: California Financial Code, Divisions 1, 1.1, 1.6, 7, 12.5, and 15; Title 10, California Code of Regulations, Sections 10.1-10.190501, 40.1-40.1703, 50.1-50.15309, and 2032-2044.5	The objective of this program is to promote the integrity and stability of state-licensed banks and trust companies, student loan servicing, state-licensed business and industrial development corporations, and state-licensed public banks, industrial banks, and premium finance companies. This objective is achieved through the regulation, supervision, and examination of these institutions, which helps to provide their safe and sound operation and compliance with laws and regulations.

Programs and Subprograms	Authority	Objectives
Money Transmitters Program	California Financial Code, Division 1.2; Title 10, California Code of Regulations, Sections 80.1-80.8310	The objective of this program is to promote the integrity and stability of businesses that receive money for transmission and sell or issue payment instruments and stored value. This objective is achieved through the regulation, supervision, and examination of these institutions, which helps provide their safe and sound operation and compliance with laws and regulations.
Local Agency Security Program	California Government Code, Title 5, Division 2; Title 2, California Code of Regulations, Sections 16001.1.1-16010.1.3	The objective of this program is to monitor the amount and quality of collateral pledged in compliance with law to secure deposits of public funds held by banks, savings and loans, industrial banks, credit unions, and federally chartered financial institutions.
Credit Unions Program	California Financial Code, Division 5; Title 10, California Code of Regulations, Sections 30.1-30.1001	The objective of this program is to promote the integrity and stability of state-licensed credit unions. This objective is achieved through the regulation, supervision, and examination of these institutions, which helps to provide their safe and sound operation and compliance with laws and regulations.
CalMoneySmart Program	California Financial Code, Division 10.5	This program provides grants to specified nonprofits for financial education and empowerment services to unbanked and underbanked populations in the state.
California Consumer Financial Protection Program • Consumer Financial Protection • Supervision and Registration of New Covered Persons	California Financial Code, Division 24	The objectives of this program are to expand consumer financial protection against illegal, deceptive, or unscrupulous practices through the supervision of certain financial product and service providers not previously regulated by the Department prior to January 1, 2021; provide market monitoring, research, consumer outreach, and education services; and encourage innovative financial products.
Debt Collectors Program	California Financial Code, Division 25; Title 10, California Code of Regulations, Sections 1850-1850.61	The objective of this program is to protect consumers and ensure transparency of the debt collector industry through strong government oversight and data collection. This objective is achieved through the regulation, supervision, and examination of debt collectors, which helps provide compliance with laws and regulations.
Digital Financial Assets Program	California Financial Code, Division 1.25.	The objective of this program is to establish a licensing and regulatory framework for digital financial asset business activity. This objective is achieved through the regulation, supervision, and examination of licensees.

C. Scope of Fiscal and Cost Allocation Plan and Analysis

The scope of this project includes fiscal and cost allocation plan analysis to determine if the DFPI's current fee and assessment levels are appropriate for the recovery of the actual cost of conducting its programs. The scope of this project also includes an assessment of the DFPI's support and indirect services and the allocation of costs to its programs. Important elements of the analysis include:

- Defining the financial operating requirements of each program
- Performing a comprehensive review of DFPI's programs and costs associated with conducting those programs, both direct and indirect
- Assessing revenues and costs over a 5-year planning horizon (FY 2023-24 through FY 2027-28).

Due to declining fund balance and program deficits, the analysis focused on the DFPI's Financial Protection Fund, which covers nearly all the Department's programs. The analysis also included the Credit Union Fund, Financial Empowerment Fund, and Local Agency Deposit Security Fund.

Key activities within our analysis were to:

- Develop a Project Work Plan with specific deliverables and timelines
- Collect and review historical and current fiscal data, including actual, budgeted, and projected program revenues and expenditures
- Collect and review background documents, including the DFPI's recent budget change proposals (BCPs), cost allocation plan, organizational charts, and program-specific policies
- Research the DFPI's regulatory authority, including specific programmatic regulatory and funding authorities
- Meet with the DFPI Executive Staff on an ongoing basis to assure the analysis aligned with the goals and objectives of the project
- Interview DFPI's leadership and subject matter experts (SMEs) to identify current and emerging workload demands, fiscal constraints, and programmatic needs
- Analyze DFPI's cost allocation plan to assure the Department's direct and indirect costs are adequately distributed and supported by its fees and/or assessments
- Develop a fiscal and cost allocation model to identify projected program revenues, expenditures, and proposed adjustments to the Department's current fees and assessments to support identified programmatic needs
- Develop recommendations supported by information obtained from interviews and analysis of DFPI's programmatic needs and regulatory and funding authorities
- Prepare a final report documenting the fiscal and cost allocation plan analysis.

2. Methodology

This section describes Crowe's methodology to perform the fiscal and cost allocation plan analysis. Our approach was to first develop a clear, detailed understanding of the DFPI's current and emerging programmatic needs; and second, to use this understanding as a baseline for identifying a path to fiscal sustainability so that the Department can continue to stand on its own. The key tasks described in this section are:

A. Data Collection and Review

B. Program Interviews

C. Fiscal and Cost Allocation Plan Analysis Model

D. Supporting Rationale for Recommendations.

A. Data Collection and Review

Crowe collected and performed an evaluation of the DFPI's fiscal data and supporting documentation. Our goal was to inform our analysis by understanding the Department's program objectives, organizational structure, fee and assessment structure, regulatory activities, stakeholders, and potential constraints. Below are examples of the fiscal data and documentation Crowe collected and evaluated:

- Existing fee-related statutes and regulations
- Current fee schedules
- Historical revenue details for the last five (5) fiscal years (FY 2018-19, FY 2019-20, FY 2020-21, FY 2021-22, and FY 2022-23)
- Historical expenditure details for the last three (3) fiscal years (FY 2020-21, FY 2021-22, and FY 2022-23)
- Budgeted and actual revenue and expenditure details for FY 2023-24
- Future revenue and expenditure projections
- FY 2024-2025 Enacted Budget; and salary supplement
- Historical and current cost allocation plan and supporting documentation
- Historical fund condition statements
- Workload and staffing analysis reports
- Staff roster, including title and salary
- Organizational charts.

B. Program Interviews

Crowe conducted structured meetings and interviews at multiple levels within the DFPI to understand its current and emerging programmatic needs required to meet its regulatory responsibilities. Crowe conducted nearly 30 interview sessions with key representatives from the DFPI's programs, including the Department's executive office and administrative and information technology support services. Crowe used these meetings to collect additional data to identify processes, practices, roles, and responsibilities in each program that would support our fiscal and cost allocation plan analysis. The interviews covered the following areas:

- Overview of program objectives and operations
- Descriptions of regulatory activities and services
- Direct programmatic costs
- Indirect programmatic costs
- Staff and other commitments for fee and assessment related regulatory activities and services
- Key statute and regulatory codes related to regulatory activities and services
- Efficiencies or other factors that may impact workloads
- Other current and emerging external factors impacting workloads.

C. Fiscal and Cost Allocation Plan Analysis Model

Crowe developed an analytical model based on our data collection and analysis, and interviews with DFPI's program staff. The Excel-based model served as a tool to perform the fiscal and cost allocation plan analysis and identify DFPI's projected programmatic needs through FY 2027-28. Crowe validated the model's data inputs and assumptions with the DFPI. *Section 3* provides the fiscal and cost allocation plan analysis results derived from the model. Projections are based on current economic conditions and assumptions that are subject to change which may affect the accuracy of these projections.

Key Data Inputs

The model includes the following key data inputs:

- **Beginning Fund balance** – The FY 2023-24 beginning fund balance for all funds (e.g., the Financial Protection Fund, Credit Union Fund, Local Agency Deposit Security Fund, Financial Empowerment Fund) detailed in the FY 2024-25 Enacted Budget galley.
- **Revenues** – The model includes actual revenues from FY 2018-19 to FY 2022-23 and projected revenues from FY 2023-24 to FY 2027-28. The model includes revenue sources for each fund, including revenues from program examination fees, program fees, program assessments, and other revenue sources (e.g., SMIF interest and cost recovery from enforcement actions). The model includes current and historical fee and assessment rates. Historical data was sourced from DFPI's accounting system (FI$Cal).
- **Expenditures** – The model includes actual expenditures from FY 2018-19 to FY 2022-23 and projected expenditures from FY 2023-24 to FY 2027-28. The model includes direct and indirect expenditures for each fund, organized by category such as salaries, benefits, and facilities costs. Historical data was sourced from DFPI's accounting system (FI$Cal).
- **Fund allocations** – Fund balance and surplus allocations aligned with DFPI's fund allocation methodology.

Key Assumptions

The model assumes the following for the Financial Protection Fund:

- **Revenue projections:** Includes five prior years of revenues (FY 2018-19 through FY 2022-23) which formed the basis for projecting future revenues based on a combination of methods including: three-year moving average, linear regression, and subject matter expert (SME) judgement. Revenues for new programs were based on DFPI's projections.
- **Expenditure projections:** A 12.3 percent increase in FY 2023-24 based on DFPI's projections, a 7.5 percent decrease in FY 2024-25 due to planned Statewide budget cuts[12], and a 3 percent increase per year from FY 2025-26 to FY 2027-28.[13]
- **FY 2023-24:** Revenues and expenditures based on nine months of actual results (FM01 through FM09) and three months of projections (FM10 through FM12).
- **FY 2024-25 to FY 2027-28:** Represents entirely projected revenues and expenditures.
- **Examination fee adjustments:** Examination fee adjustments increased to $120 per hour in FY 2024-25 for California Finance Lenders, Deferred Deposit Transaction, Escrow, Mortgage Bankers, and Student Loan Servicing subprograms; and in FY 2025-26 for the Money Transmitters Program.
- **Fee/assessment adjustments:** Assessment adjustments implemented in FY 2024-25 for the Banks subprogram and fee/assessment adjustments in FY 2025-26 for selected subprograms in the Investment and Lender-Fiduciary Programs.
- **Fund Balance Allocation**: Some subprograms require an allocation totaling $76.2 million of the Fund's $117.1 million FY 2023-24 beginning balance based on DFPI's fund allocation methodology, summarized as follows:
  - $22.4 million to Enforcement, Legal, and Securities Regulation Divisions, and non-revenue generating subprograms.
  - $53.8 million to New Programs to support startup costs, as follows: California Consumer Financial Protection Program (New Covered Persons subprogram) ($6.6 million), Debt Collectors Program ($25.4 million), and Digital Financial Assets Program ($21.7 million).

[12] The Department estimated a 7.5% reduction in FY 2024-25 expenditures pursuant to the Department of Finance's Budget Letter 24-10, Government Efficiency Reductions. This reduction does not apply to the Digital Financial Assets Program (DFAL) or to department-wide cost allocations, which are projected based on the approved budget.

[13] A 3% annual increase aligns with the average annual change in CPI-U (West Region) over the last 10 years. Statewide cost allocations and the Digital Financial Assets program are projected based on the approved budget.

Examples

For clarification purposes, we include examples of our fiscal and cost allocation plan analysis results from the model. The examples demonstrate how Crowe calculated programmatic needs and proposed cumulative adjustments.

Exhibit 7 provides an example of the Lender-Fiduciary Program results with an explanation of each column for the Projected Revenues, Operating Requirement, and Programmatic Needs table. Each column is described below:

- **Projected Revenues (A):** Reflects expected revenues between FY 2023-24 to FY 2027-28 at current fee and assessment rates. These projections are based on current economic conditions and assumptions.
- **Projected Expenditures (B):** Projected expenditures between FY 2023-24 to FY 2027-28.
- **Fund Balance Allocation (C):** Fund balance allocations are based on DFPI's methodology and are driven based on statutory authority. Negative amounts indicate a transfer out, positive amounts indicate a transfer in.
- **Surplus Allocation (D):** Surplus allocations are based on DFPI's methodology and are driven based on statutory authority. This input mainly applies to surpluses generated by the Corporate Securities and Mortgage Loan Originators subprograms. Most other programs and subprograms are barred from reallocating any surpluses. Negative surplus allocations indicate a transfer out; positive amounts indicate a transfer in.
- **Projected Operating Requirement (E):** Reflects financial requirements between FY 2023-24 to FY 2027-28 to develop and maintain existing DFPI functions based on anticipated future expenditure needs and planned fund allocations. These projections are based on current economic conditions and assumptions. The projected operating requirement is calculated as follows:
  = Projected Expenditures (B) – Fund Balance Allocation (C) – Surplus Allocation (D)
- **Projected Programmatic Needs (F):** Reflects the difference between projected revenues and projected operating requirements. If a program's projected operating requirements are greater than its projected revenues, then Crowe recommends that the DFPI adjust the program's current fee and/or assessment rate(s) to support the program's projected operating requirement. The projected programmatic needs are calculated as follows:
  = Projected Operating Requirement (E) – Projected Revenues (A)

Exhibit 7
Lender-Fiduciary Program Projected Revenues, Operating Requirement, and Programmatic Needs through FY 2027-28[14]

	FY 23-24 to FY 27-28	FY 23-24 to FY 27-28	FY 23-24 to FY 27-28	FY 23-24 to FY 27-28	B – C – D	E – A
	A	B	C	D	E	F
Lender-Fiduciary Subprograms	Projected Revenues	Projected Operating Requirement Calculation				Projected Programmatic Needs
		Projected Expenditures	Fund Balance Allocation	Surplus Allocation	Projected Operating Requirement	
Mortgage Bankers	$17,731,580	$59,864,142	$0	$29,422,226	$30,441,916	$12,710,336
Mortgage Loan Originators	$65,224,222	$20,774,816	$0	($44,449,406)	$65,224,222	$0
California Finance Lenders	$39,718,066	$60,545,738	$0	$14,544,486	$46,001,252	$6,283,186
Escrow	$23,920,794	$35,146,462	$0	$0	$35,146,462	$11,225,668
Deferred Deposit Transaction	$8,174,051	$11,267,407	$0	$0	$11,267,407	$3,093,357
Check Sellers, Bill Payers, and Proraters	$139,863	$87,657	$0	($52,206)	$139,863	$0
Program Total	**$154,908,576**	**$187,686,224**	**$0**	**($534,899)**	**$188,221,123**	**$33,312,547**

Exhibit 8 provides an example of the Lender-Fiduciary Program results with an explanation of each column for the Proposed Cumulative Non-Exam Revenue Adjustments table. Each column is described below:

<u>Exam Revenues</u>

- **Projected Revenues (A):** Projected exam revenues between FY 2024-25 to FY 2027-28 (i.e., projected revenues from implementing $120 per hour rate for most programs effective FY 2024-25).
- **Projected Revenue with Adjustments (B):** Projected exam revenues with adjustments between FY 2024-25 to FY 2027-28. This column reflects projected total exam revenue resulting from increasing examination fees to $120 per hour. The difference between columns B and C reflect additional exam revenue to help address the programmatic need identified in the preceding table. Not all subprograms have exam revenue.
- **Projected Cumulative Adjustment (C):**
= [Projected Revenues with Adjustments (B) / Projected Revenues (A)] – 1

[14] Exhibits have figures rounded to the nearest dollar, which may result in rounding differences. In addition, the percentages in this report are rounded to the nearest whole percent.

<u>Non-Exam Revenues</u>

- **Projected Revenues (D):** Projected non-exam revenues between FY 2025-26 to FY 2027-28. For all subprograms besides Banks, fees/assessments could be adjusted in FY 2025-26. For the Banks subprogram, its assessments can be adjusted in FY 2024-25.
- **Projected Revenue with Adjustments (E):** Projected non-exam revenues with adjustments between FY 2025-26 to FY 2027-28. This column reflects projected total non-exam revenue required to meet the remaining programmatic need after applying the exam fee increase to $120 per hour. For the Banks subprogram, the non-exam calculations reflect FY 2024-25 to FY 2027-28.
- **Projected Cumulative Adjustment (F):**
  = [Projected Revenues with Adjustments (E) / Projected Revenues (D)] – 1

Exhibit 8
Lender-Fiduciary Program Proposed Cumulative Exam and Non-Exam Revenue Adjustments, through FY 2027-28

	FY 24-25 to FY 27-28	A + Exam fees increase to $120	(B / A) – 1	FY 25-26 to FY 27-28	A + Column F of preceding table minus exam fees	(D / E) − 1
	A	B	C	D	E	F
Lender-Fiduciary Subprograms	**Exam Revenues FY 2024-25 to FY 2027-28**			**Non-Exam Revenues FY 2025-26 to FY 2027-28**		
	Projected Revenues	**Projected Revenues w/ Adjustments**	**Proposed Cumulative Adjustment**	**Projected Revenues**	**Projected Revenues w/ Adjustments**	**Proposed Cumulative Adjustment**
Mortgage Bankers	$6,069,724	$9,104,586	50%	$6,127,372	$15,802,846	158%
Mortgage Loan Originators	$0	$0	0%	$39,134,533	$39,134,533	0%
California Finance Lenders	$1,464,204	$2,196,306	50%	$22,776,375	$28,327,459	24%
Escrow	$2,390,786	$3,019,940	26%	$12,627,420	$23,223,934	84%
Deferred Deposit Transaction	$126,297	$189,445	50%	$4,690,418	$7,720,626	65%
Check Sellers, Bill Payers, and Proraters	$0	$0	0%	$84,293	$84,293	0%
Program Total	**$10,051,011**	**$14,510,277**		**$85,440,411**	**$114,293,691**	

D. Supporting Rationale for Recommendations

Section 4 summarizes Crowe’s recommendations based on the analysis presented in *Section 3* and includes supporting rationale for recommendations. Crowe’s rationale defines the condition, criteria, cause, and effect for the proposed fee and/or assessment adjustments within each program. The following provides a brief description of each element:

- **Condition** – Identifies the DFPI’s programmatic needs based on the fiscal and cost allocation plan analysis. This element provides the current fiscal state of each program.
- **Criteria** – Identifies the DFPI’s authority, including its program, funding, and/or examination authority (where applicable). This element delineates the legal and regulatory framework that governs the program, specifying the statutory and regulatory provisions that authorize the DFPI to levy fees, collect funding, and conduct examinations.
- **Cause** – Provides context as to the factors necessitating the need for the fee and/or assessment adjustment. This element identifies the primary factors driving the need for changes, such as increased operational costs, changes in regulatory requirements, shifts in market conditions, or other factors. It identifies the specific issues or trends that have created the current condition and necessitate a response.
- **Effect** – Provides the recommended cumulative change to each program's fees and/or assessments. This element presents the recommended impact of the solutions to address the identified condition, criteria, and cause.

3. Fiscal and Cost Allocation Plan Analysis Results

This section provides the fiscal and cost allocation plan analysis results. We based our fiscal and cost allocation plan analysis on the methodology described in *Section 2*. This section is organized as follows:

A. Overview of Results
B. Investment Program Results
C. Lender-Fiduciary Program Results
D. Banking Program Results
E. Money Transmitters Program Results
F. *New Programs Results.*

A. Overview of Results

The results identify the DFPI's programmatic needs through FY 2027-28. We used these results to develop the recommendations presented in *Section 4*. Below we provide an overview of the results:

Established Programs

The DFPI requires an additional $80.4 million through FY 2027-28 to support its programmatic needs for the Investment, Lender-Fiduciary, Banking, and Money Transmitters Programs.

- The Investment Program's needs total $25.0 million. This includes $18.6 million for the Broker-Dealers Investment Advisers subprogram and $6.4 million for Franchise Investment subprogram.
- The Lender-Fiduciary Program's needs total $33.3 million. This includes $12.7 million for Mortgage Bankers, $6.3 million for California Finance Lenders, $11.2 million for Escrow, and $3.1 million for Deferred Deposit Transaction subprograms.
- The Banking Program's needs total $21.5 million.
- The Money Transmitters Program's needs total $0.5 million.
- The DFPI does not currently require additional resources to support the Administration of Local Agency Security, Credit Unions, and CalMoneySmart Programs.

New Programs

The DFPI requires $112.8 million through FY 2027-28 to support its new programs, including the California Consumer Financial Protection, Debt Collectors, and Digital Financial Assets programs. Specific operating requirements are as follows:

- The California Consumer Financial Protection Program's needs total $46.0 million.
- The Debt Collectors Program's needs total $40.2 million.
- The Digital Financial Assets Program's needs total $26.6 million.

Proposed Cumulative Adjustments

Exhibit 9 summarizes proposed cumulative fee and/or assessment adjustments to support DFPI's programmatic needs through FY 2027-28. The table includes projected revenues at current fee and assessment rates, projected requirements to operate based on projected expenditures and fund allocations, and projected programmatic needs based on the difference between projected revenues and operating requirements. Crowe assumes that the DFPI will increase the hourly rate it charges for its examination workload to $120 per hour. Programs with an "N/A" will likely maintain adequate resources.

Exhibit 9
Proposed Cumulative Adjustments through FY 2027-28[15]

Program / Subprogram	Projected Revenues	Projected Operating Requirements	Projected Programmatic Needs	Proposed Cumulative Adjustments
Investment Program				
Broker-Dealers Investment Advisers	$91,670,000	$110,270,000	$18,600,000	33%
Corporate Securities	85,580,000	85,580,000	N/A	N/A
Franchise Investment	7,040,000	13,480,000	6,440,000	151%
Lender-Fiduciary Program				
Mortgage Bankers	$17,730,000	$30,440,000	$12,710,000	158%
Mortgage Loan Originators	65,220,000	65,220,000	N/A	N/A
California Finance Lenders	39,720,000	46,000,000	6,280,000	24%
Escrow	23,920,000	35,150,000	11,230,000	84%
Deferred Deposit Transaction	8,170,000	11,270,000	3,100,000	65%
Check Sellers, Bill Payers, and Proraters	140,000	140,000	N/A	N/A
Banking Program				
Banks	$151,560,000	$173,100,000	$21,540,000	18%
Industrial Banks	2,140,000	2,140,000	N/A	N/A
Student Loan Servicing	11,140,000	11,140,000	N/A	N/A
Money Transmitters Program				
Money Transmitters	$35,990,000	$36,470,000	$480,000	N/A[16]
New Programs[17]				
California Consumer Financial Protection	$46,030,000	$46,030,000	N/A	N/A
Debt Collectors	$40,240,000	$40,240,000	N/A	N/A
Digital Financial Assets	$26,560,000	$26,560,000	N/A	N/A
Total	**$652,850,000**	**$733,230,000**	**$80,380,000**	

[15] The proposed cumulative adjustments reflect increases in total revenue, excluding revenue from examinations, to cover projected programmatic needs through FY 2027-28. The proposed cumulative adjustments *include* projected interest and cost recovery revenues. The proposed fee and assessment increases presented in *Section 5* are greater than the proposed cumulative adjustments because the proposed fee and assessment increases *exclude* projected interest and cost recovery revenues.

[16] The increased examination rate of $120 per hour is sufficient to cover the Money Transmitter Program's programmatic needs.

[17] New Programs reflect the Department's added programmatic responsibilities due to recent legislative mandates. The Fund's existing balance will support these programs until they generate revenue from fees and assessments in FY 2024-25 for the California Consumer Financial Protection program, in FY 2024-25 for fees and in FY 2025-26 for assessments for the Debt Collectors program, and in FY 2026-27 for Digital Financial Assets Program. The DFPI assumes that these programs will then generate revenues sufficient to cover their operating requirements.

Resulting Fund Condition

Based on the analysis, the proposed fee and assessment adjustments presented in Exhibit 9 are intended to provide the DFPI with a pathway to adequately support its programmatic needs and the condition of its Financial Protection Fund through FY 2027-28. As shown in **Exhibit 10,** the Financial Protection Fund's projected ending balance in FY 2027-28 will total approximately $40.8 million. **Exhibit 11** provides a comparison of the projected fund balance with and without adjustments to fees and/or assessments. We calculated this projected ending balance based on the following assumptions:

- **Projected Revenues**: A combination of methods, including a three-year moving average, linear regression, and/or subject matter expert (SME) judgement.
- **Projected Expenditures**: A 12.3 percent increase in FY 2023-24 based on DFPI's projection, a 7.5 percent decrease in FY 2024-25 due to planned Statewide budget cuts,[18] and a 3 percent increase per year from FY 2025-26 to FY 2027-28.[19]
- **Fund Balance Allocation**: Some subprograms require an allocation totaling $76.2 million of the Fund's $117.1 million FY 2023-24 beginning balance based on DFPI's fund allocation methodology, summarized as follows:
    - $22.4 million to Enforcement, Legal, and Securities Regulation Divisions, and non-revenue generating subprograms.
    - $53.8 million to New Programs to support startup costs, as follows: California Consumer Financial Protection Program (New Covered Persons subprogram) ($6.6 million), Debt Collectors Program ($25.4 million), and Digital Financial Assets Program ($21.7 million).

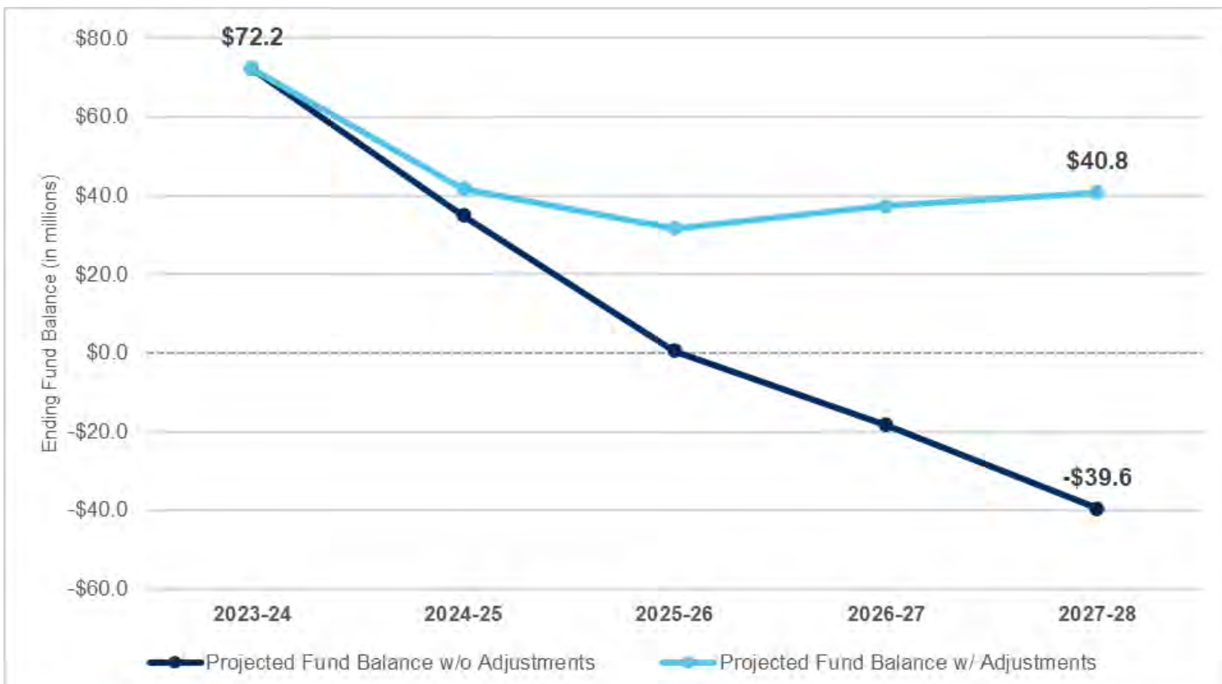
[18] The Department estimated a 7.5% reduction in FY 2024-25 pursuant to the Department of Finance's Budget Letter 24-10 Government Efficiency Reductions. This reduction accounts for general salary increases that went into effect on July 1, 2024, but does not apply to the Digital Financial Assets Program (DFAL) or to department-wide cost allocations, which are projected based on the approved budget.

[19] A 3% annual increase aligns with the average annual change in CPI-U (West Region) over the last 10 years. Statewide cost allocations and the Digital Financial Assets program are projected based on the approved budget.

Exhibit 10
Financial Protection Fund Condition with Proposed Cumulative Adjustments
FY 2023-24 through FY 2027-28

Category		Financial Protection Fund
Beginning Fund Balance (FY 2023-24)	A	**$117,060,000**
Projected Revenues	B	$658,440,000
Projected Expenditures	C	$815,070,000
Projected Deficit (Revenues Minus Expenditures)	D=B-C	**-$156,630,000**
Projected Ending Fund Balance with no Adjustments (FY 2027-28)	E=A+D	-$39,570,000
Projected Additional Revenue from Proposed Adjustments	F	**$80,380,000**
Difference: Projected Deficit and Projected Additional Revenue	G=D+F	-$76,250,000
Projected Ending Fund Balance with Proposed Adjustments (FY 2027-28)	H=A+G	**$40,810,000 (covers 3 months of expenditures)**

Exhibit 11
Projected Fund Balance Comparison – With and Without Cumulative Adjustments (in millions)
FY 2023-24 to FY 2027-28



B. Investment Program Results

The analysis, summarized in **Exhibit 12,** indicates the Investment Program requires an additional $25.0 million through FY 2027-28. Of this amount, the Broker-Dealers Investment Advisers subprogram requires $18.6 million, and the Franchise Investment subprogram requires $6.4 million. Corporate Securities, California Commodity, and Enforcement & Legal Divisions, and Securities Regulations subprograms do not require additional resources through FY 2027-28.

The DFPI would need to implement the proposed cumulative adjustments, shown in **Exhibit 13,** to support the Investment Program's projected programmatic needs through FY 2027-28. In FY 2025-26, the Broker-Dealers Investment Advisers subprogram requires a 33 percent cumulative adjustment to its fees, and the Franchise Investment subprogram requires a 151 percent cumulative adjustment to its fees. These cumulative adjustments include revenue from SMIF and enforcement actions.

Exhibit 12
Investment Program
Projected Revenues, Operating Requirement, and Programmatic Needs, FY 2023-24 to FY 2027-28

Subprogram	Projected Revenues	Projected Operating Requirement Calculation				Projected Programmatic Needs
		Projected Expenditures	Fund Balance Allocation	Surplus Allocation [20]	Projected Operating Requirement	
Broker-Dealers Investment Advisers	$91,665,239	$110,265,163	$0	$0	$110,265,163	$18,599,924
Corporate Securities	$85,578,058	$19,234,458	$14,146,388	($80,489,988)	$85,578,058	$0
Franchise Investment	$7,040,821	$13,479,472	$0	$0	$13,479,472	$6,438,652
California Commodity	$0	$2,801,192	$0	$2,801,192	$0	$0
Enforcement & Legal Divisions, Securities Regulation	$0	$77,688,796	$0	$77,688,796	$0	$0
Program Total	**$184,284,118**	**$223,469,082**	**$14,146,388**	**$0**	**$209,322,693**	**$25,038,576**

Exhibit 13
Investment Program
Proposed Cumulative Exam and Non-Exam Revenue Adjustments

Program / Subprogram	Exam Revenue FY 2024-25 to FY 2027-28			Non-Exam Revenue FY 2025-26 to FY 2027-28		
	Projected Revenue	Projected Revenue w/ Adjustments	Proposed Cumulative Adjustment	Projected Revenue	Projected Revenue w/ Adjustments	Proposed Cumulative Adjustment
Broker-Dealers Investment Advisers	$0	$0	0%	$56,060,991	$74,660,915	33%
Corporate Securities	$0	$0	0%	$51,374,903	$51,374,903	0%
Franchise Investment	$0	$0	0%	$4,264,266	$10,702,917	151%
California Commodity	$0	$0	0%	$0	$0	0%
Enforcement & Legal Divisions, Securities Regulation	$0	$0	0%	$0	$0	0%
Program Total	**$0**	**$0**		**$111,700,160**	**$136,738,736**	

[20] The $80.5 million surplus from the Corporate Securities subprogram was reallocated to meet the programmatic needs of the California Commodity subprogram as well as the Enforcement, Legal, and Securities Regulation divisions.

1. Broker-Dealers Investment Advisers

The Broker-Dealers Investment Advisers subprogram (BDIA) requires an additional $18.6 million through FY 2027-28. The Broker-Dealers Investment Advisers subprogram's needs require a fee increase of 35 percent, as shown in **Exhibit 14.**[21] This proposed fee increase excludes revenue from SMIF and enforcement actions. This proposed fee adjustment would provide $12.8 million for Broker-Dealers, $4.2 million for Investment Advisers, and $1.6 million for Agent Monitoring through initial applications and renewal fees. Overall, the proposed fee adjustment would generate an additional $3.7 million in initial application fees and $14.9 million in renewal fees.

Renewal fees account approximately 80 percent of BDIA's projected revenue from FY 2025-26 through FY 2027-28. The Department could consider implementing a 44 percent increase to BDIA's renewal fees for broker dealer agents and investment adviser representatives as an alternative to implementing a uniform 35 percent increase across all fees. For discussion purposes, Crowe provides alternative fee rates in *Section 5* based on these two adjustment methods.

Exhibit 14
Investment Program – Broker-Dealers Investment Advisers Subprograms
Proposed Revenue Adjustments by Fee/Assessment, FY 2025-26 to FY 2027-28

Subprogram Fee	Projected Revenue	Proposed Adjustments	Projected Revenue w/ Proposed Adjustments
Broker Dealer – Proposed Fee Adjustment: 35%			
Initial Application Fees	$91,147	$31,471	$122,618
Renewal Fees	$36,865,992	$12,728,782	$49,594,774
Other (SMIF/Penalties/ Cost Recovery)	$1,404,953	$0	$1,404,953
Subtotal		**$12,760,252**	
Investment Advisers – Proposed Fee Adjustment: 35%			
Initial Application Fees[22]	$1,213,872	$419,116	$1,632,988
Renewal Fees	$10,922,697	$3,771,298	$14,693,995
Other (SMIF/Penalties/ Cost Recovery)	$597,566	$0	$597,566
Subtotal		**$4,190,413**	
Agent Monitoring – Proposed Fee Adjustment: 35%			
Initial Application Fee	$4,776,699	$1,649,259	$6,425,958
Other (SMIF)	$188,064	$0	$188,064
Subtotal		**$1,649,259**	
Total Adjustments		**$18,599,924**	

[21] The 35% proposed fee adjustment is greater than the proposed cumulative adjustment presented in Exhibit 9 because the proposed fee adjustment does not account for SMIF interest and cost recovery from enforcement actions. This is the case for the other proposed fee adjustments presented in this section. *Section 5* presents proposed rates based on these proposed fee adjustments.

[22] Investment Adviser Representative (IAR), Initial Notice Filing, and Initial Application Fees.

2. Franchise Investment

The Franchise Investment subprogram requires $6.4 million in additional revenue through FY 2027-28. The Franchise Investment subprogram's needs can be met by increasing its fees by 176 percent, as shown in **Exhibit 15.** This fee increase excludes revenue from SMIF and enforcement actions. This proposed fee adjustment would generate an additional $3.5 million in initial application fees, $1.9 million in renewal fees, and $1.0 million in exemption fees.

Exhibit 15
Investment Program – Franchise Investment Subprogram
Proposed Revenue Adjustments by Fee/Assessment, FY 2025-26 to FY 2027-28

Subprogram Fee	Projected Revenue	Proposed Adjustments	Projected Revenue with Proposed Adjustments
Proposed Fee Adjustment: 176%			
Initial Application Fee	$1,987,969	$3,502,722	$5,490,691
Exemption Fee	$590,494	$1,040,427	$1,630,920
Renewal Fee	$1,075,792	$1,895,503	$2,971,295
Other (Amendments, Cost Recovery, SMIF)	$610,011	$0	$610,011
Total Adjustments		**$6,438,652**	

C. Lender-Fiduciary Program Results

The analysis, summarized in **Exhibit 16,** indicates that the Lender-Fiduciary Program requires an additional $33.3 million through FY 2027-28. Of this amount, the Mortgage Bankers subprogram requires an $12.7 million, the California Finance Lenders subprogram requires $6.3 million, the Escrow subprogram requires $11.2 million, and the Deferred Deposit Transaction subprogram requires $3.1 million. The Mortgage Loan Originators and Check Sellers, Bill Payers, and Proraters subprograms do not require additional resources through FY 2027-28.

The DFPI would need to implement the proposed cumulative adjustments shown in **Exhibit 17** to support the Lender-Fiduciary Program's projected programmatic needs through FY 2027-28. In FY 2025-26, the Mortgage Bankers subprogram requires a 158 percent cumulative adjustment to its fees, the California Finance Lenders subprogram requires a 24 percent cumulative adjustment to its fees, the Escrow subprogram requires an 84 percent cumulative adjustment to its fees, and the Deferred Deposit Transaction subprogram requires a 65 percent cumulative adjustment to its fees. These cumulative adjustments include revenue from SMIF and enforcement actions.

Exhibit 16
Lender-Fiduciary Program
Projected Revenues, Operating Requirement, and Programmatic Needs
FY 2023-24 to FY 2027-28

Subprogram	Projected Revenues	Projected Operating Requirement Calculation				Projected Programmatic Needs
		Projected Expenditures	Fund Balance Allocation	Surplus Allocation[23]	Projected Operating Requirement	
Mortgage Bankers	$17,731,580	$59,864,142	$0	$29,422,226	$30,441,916	$12,710,336
Mortgage Loan Originators	$65,224,222	$20,774,816	$0	($44,449,406)	$65,224,222	$0
California Finance Lenders	$39,718,066	$60,545,738	$0	$14,544,486	$46,001,252	$6,283,186
Escrow	$23,920,794	$35,146,462	$0	$0	$35,146,462	$11,225,668
Deferred Deposit Transaction	$8,174,051	$11,267,407	$0	$0	$11,267,407	$3,093,357
Check Sellers, Bill Payers, and Proraters[24]	$139,863	$87,657	$0	($52,206)	$139,863	$0
PACE	$303	$691,519	$208,523	$482,693	$303	$0
Program Total	**$154,908,879**	**$188,377,743**	**$208,523**	**($52,206)**	**$188,221,426**	**$33,312,547**

Exhibit 17
Lender-Fiduciary Program
Proposed Cumulative Exam and Non-Exam Revenue Adjustments

Subprogram	Exam Revenue FY 2024-25 to FY 2027-28			Non-Exam Revenue FY 2025-26 to FY 2027-28		
	Projected Revenue	Projected Revenue w/ Adjustments	Proposed Cumulative Adjustment	Projected Revenue	Projected Revenue w/ Adjustments	Proposed Cumulative Adjustment
Mortgage Bankers	$6,069,724	$9,104,586	50%	$6,127,372	$15,802,846	158%
Mortgage Loan Originators	$0	$0	0%	$39,134,533	$39,134,533	0%
California Finance Lenders	$1,464,204	$2,196,306	50%	$22,776,375	$28,327,459	24%
Escrow	$2,390,786	$3,019,940	26%	$12,627,420	$23,223,934	84%
Deferred Deposit Transaction	$126,297	$189,445	50%	$4,690,418	$7,720,626	65%
Check Sellers, Bill Payers, and Proraters	$0	$0	0%	$84,293	$84,293	0%
Program Total	**$10,051,011**	**$14,510,277**		**$85,440,411**	**$114,293,691**	

23 The $44.4 million surplus from the Mortgage Loan Originators subprogram was reallocated to meet the programmatic needs of the Mortgage Bankers subprogram and the California Finance Lenders subprogram.

24 The Check Sellers, Bill Payers, and Proraters subprogram may need to reduce future assessments to more appropriately align revenues and expenditures.

1. Mortgage Bankers

The Mortgage Bankers subprogram requires $12.7 million in additional revenue through FY 2027-28. The Mortgage Bankers subprogram's needs can be met by increasing its fees by 174 percent, as shown in **Exhibit 18.** This fee increase excludes revenue from SMIF and enforcement actions. This proposed fee adjustment would generate an additional $9.3 million in assessments, $0.2 million in application fees, and $0.1 million in fingerprint fees. In addition, the 50 percent increase to the Mortgage Bankers exam fee to $120 per hour beginning in FY 2024-25 would generate an additional $3.0 million.

The Mortgage Bankers pro rata assessment accounts for approximately 50 percent of projected revenue from FY 2025-26 through FY 2027-28. The Department could consider implementing a 181 percent adjustment to the assessment as an alternative to implementing a uniform 174 percent increase to the pro rata assessment and all fees (except exam fees). For discussion purposes, Crowe provides alternative fee rates in *Section 5* based on these two adjustment methods.

Exhibit 18
Lender-Fiduciary Program – Mortgage Bankers Subprogram
Proposed Revenue Adjustments by Fee/Assessment

Subprogram Fee	Projected Revenue	Proposed Adjustments	Projected Revenue w/ Proposed Adjustments
Proposed Exam Fee Adjustment: 50% (FY 2024-25 to FY 2027-28)			
Exam Fee	$6,069,724	$3,034,862	$9,104,586
Proposed Fee/Assessment Adjustment: 174% (FY 2025-26 to FY 2027-28)			
Assessment	$5,334,000	$9,293,833	$14,627,833
Application Fee	$137,227	$239,102	$376,329
Fingerprint Fee	$81,808	$142,540	$224,348
Other (SMIF/Cost Recovery, Investigations, Penalties)	$574,337	$0	$574,337
Subtotal		**$9,675,474**	
Total Adjustments		**$12,710,336**	

2. California Finance Lenders

The California Finance Lenders subprogram requires $6.3 million in additional revenue through FY 2027-28. The California Finance Lenders subprogram's needs can be met by increasing its fees by 26 percent, as shown in **Exhibit 19.** This fee increase excludes revenue from SMIF and enforcement actions. This proposed fee adjustment would generate an additional $5.2 million in assessments, $233 thousand in application fees, and $135 thousand in fingerprint fees. In addition, the 50 percent increase to the California Finance Lenders exam fee to $120 per hour would generate an additional $732 thousand through FY 2027-28.

The pro rata assessment accounts for approximately 80 percent of California Finance Lenders' projected revenue from FY 2025-26 through FY 2027-28. The DFPI could consider implementing a 28 percent increase to the pro rata assessment as an alternative to implementing a uniform 26 percent increase to the assessment and all fees (except exam fees). For discussion purposes, Crowe provides alternative fee rates in *Section 5* based on these two adjustment methods.

Exhibit 19
Lender-Fiduciary Program – California Finance Lenders Subprogram
Proposed Revenue Adjustments by Fee/Assessment

Subprogram Fee	Projected Revenue w/o Adjustments	Proposed Adjustments	Total Projected Revenue w/ Proposed Adjustments
Proposed Exam Fee Adjustment: 50% (FY 2024-25 to FY 2027-28)			
Exam Fee	$1,464,204	$732,102	$2,196,306
Proposed Fee/Assessment Adjustment: 26% (FY 2025-26 to FY 2027-28)			
Assessment	$19,786,218	$5,182,054	$24,968,272
Application Fee	$892,871	$233,845	$1,126,716
Fingerprint Fee	$516,164	$135,185	$651,349
Other (SMIF/Penalties/ Investigations/Cost Recovery)	$1,581,122	$0	$1,581,122
Subtotal		**$5,551,084**	
Total Adjustments		**$6,283,186**	

3. Escrow

The Escrow subprogram requires $11.2 million in additional revenue through FY 2027-28. The Escrow subprogram's needs can be met by increasing its fees by 88 percent, as shown in **Exhibit 20.** This fee increase excludes revenue from SMIF, cost recovery, and investigations. This proposed fee adjustment would generate an additional $10.4 million in assessments, $139 thousand in application fees, and $35 thousand in fingerprint fees. In addition, the 26 percent increase to the Escrow exam fee to $120 per hour beginning in FY 2024-25 would generate an additional $629 thousand through FY 2027-28.

The Escrow subprogram's annual license fee and special assessment[25] account for roughly 80 percent of its projected revenue from FY 2025-26 to FY 2027-28. The DFPI could consider implementing a 158 percent increase to its annual license fee as an alternative to implementing a uniform 88 percent increase to the special assessment and all fees (except exam fees). For discussion purposes, Crowe provides alternative fee rates in *Section 5* based on these two adjustment methods.

Exhibit 20
Lender-Fiduciary Program – Escrow Subprogram
Proposed Revenue Adjustments by Fee/Assessment

Subprogram Fee	Projected Revenue w/o Adjustments	Proposed Adjustments	Total Projected Revenue w/ Proposed Adjustments
Proposed Exam Fee Adjustment: 26% (FY 2024-25 to FY 2027-28)			
Exam Fee	$2,390,786	$629,154	$3,019,940
Proposed Fee/Assessment Adjustment: 88% (FY 2025-26 to FY 2027-28)			
Assessment	$11,799,186	$10,422,509	$22,221,695
Application Fee	$157,674	$139,277	$296,951
Fingerprint Fee	$39,315	$34,727	$74,042
Other (SMIF/Cost Recovery/Investigations)	$631,246	$0	$631,246
Subtotal		**$10,596,514**	
Total Adjustments		**$11,225,668**	

[25] The annual license fee and special assessment are grouped together in the Assessment column in Exhibit 20.

4. Deferred Deposit Transaction

The Deferred Deposit Transaction subprogram requires $3.1 million in additional revenue through FY 2027-28. The Deferred Deposit Transaction subprogram's needs can be met by increasing its fees by 68 percent, as shown in **Exhibit 21.** This fee increase excludes revenue from SMIF and investigations. The proposed fee adjustment would generate an additional $3.0 million in assessments, and minimal amounts in application fees and fingerprint fees. In addition, the 50 percent increase to the Deferred Deposit Transaction exam fee to $120 per hour beginning in FY 2024-25 would generate an additional $63 thousand through FY 2027-28. The Department may want to consider delaying assessment changes until pending legislation (AB 3148) is finalized.

Exhibit 21
Lender-Fiduciary Program – Deferred Deposit Transaction Subprogram
Proposed Revenue Adjustments by Fee/Assessment

Subprogram Fee	Projected Revenue w/o Adjustments	Proposed Adjustments	Total Projected Revenue w/ Proposed Adjustments
Proposed Exam Fee Adjustment: 50% (FY 2024-25 to FY 2027-28)			
Exam Fee	$126,297	$63,148	$189,445
Proposed Fee/Assessment Adjustment: 68% (FY 2025-26 to FY 2027-28)			
Assessment	$4,465,152	$3,022,626	$7,487,778
Application Fee	$8,649	$5,855	$14,505
Fingerprint Fee	$2,551	$1,727	$4,278
Other (SMIF/Investigations)	$214,065	$0	$214,065
Total Adjustments		**$3,093,357**	

D. Banking Program Results

The analysis, summarized in **Exhibit 22,** indicates the Banking Program requires $21.5 million through FY 2027-28 (the entire amount is for the Banks subprogram). The Industrial Banks, Student Loan Servicing, and Public Banks subprograms do not require additional resources through FY 2027-28. The surplus allocations for Industrial Banks and Student Loan Servicing indicate that these subprograms maintain sufficient funding to support their programmatic needs.

The DFPI would need to implement the proposed cumulative adjustments, shown in **Exhibit 23,** to support the Banking Program's projected programmatic needs through FY 2027-28. Beginning in FY 2024-25, the Banks subprogram requires an 18 percent cumulative adjustment to its fees. This cumulative adjustment includes revenue from SMIF and enforcement actions.

Exhibit 22
Banking Program
Projected Revenues, Operating Requirement, and Programmatic Needs
2023-24 to FY 2027-28

Subprogram	Projected Revenues	Projected Operating Requirement Calculation				Projected Programmatic Needs
		Projected Expenditures	Fund Balance Allocation	Surplus Allocation[26]	Projected Operating Requirement	
Banks	$151,558,364	$173,102,723	$0	$0	$173,102,723	$21,544,360
Industrial Banks	$2,140,508	$725,608	$0	($1,414,900)	$2,140,508	$0
Student Loan Servicing	$11,139,168	$8,901,803	$0	($2,237,365)	$11,139,168	$0
Public Banks	$0	$29,219	$0	$29,219	$0	$0
Program Total	**$164,838,040**	**$182,759,354**	**$0**	**($3,623,046)**	**$186,382,400**	**$21,544,360**

Exhibit 23
Banking Program
Proposed Cumulative Exam and Non-Exam Revenue Adjustments

Program / Subprogram	Exam Revenue FY 2024-25 to FY 2027-28			Non-Exam Revenue FY 2024-25 to FY 2027-28		
	Projected Revenue	Projected Revenue w/ Adjustments	Proposed Cumulative Adjustment	Projected Revenue	Projected Revenue w/ Adjustments	Proposed Cumulative Adjustment
Banks	$0	$0	0%	$121,174,728	$142,719,087	18%
Industrial Banks	$0	$0	0%	$1,284,755	$1,284,755	0%
Student Loan Servicing	$725,053	$1,023,605	41%	$6,645,917	$6,645,917	0%
Public Banks	$0	$0	0%	$0	$0	0%
Program Total	**$725,053**	**$1,023,605**		**$129,105,400**	**$150,649,760**	

[26] Industrial Banks and Student Loan Servicing subprograms may need to reduce future assessments to more appropriately align revenues and expenditures.

The Banks subprogram requires $21.5 million in additional revenue through FY 2027-28. The Banks subprogram's needs can be met by increasing its assessment and fees by 18 percent, as shown in **Exhibit 24.** This fee increase excludes revenue from SMIF. This proposed fee adjustment would generate an additional $21.5 million in assessments, and minimal amounts from application and licensing fees.

The Banks subprogram's pro rata assessment accounts for 97 percent of its projected revenue from FY 2024-25 through FY 2027-28. The DFPI could consider only implementing an 18 percent increase to this assessment as an alternative to implementing a uniform increase to its assessment and all fees. For discussion purposes, Crowe provides alternative fee rates in *Section 5* based on these two adjustment methods.

Exhibit 24
Banking Program – Banks Subprogram
Proposed Revenue Adjustments by Fee/Assessment, FY 2024-25 to FY 2027-28

Subprogram Fee	Projected Revenue w/o Adjustments	Proposed Adjustments	Total Projected Revenue w/ Proposed Adjustments
Proposed Fee/Assessment Adjustment: 18%			
Assessment	$117,555,480	$21,505,736	$139,061,216
Application Fee	$191,636	$35,058	$226,694
Licensing Fee	$19,491	$3,566	$23,057
Other (SMIF)	$3,408,121	$0	$3,408,121
Total Adjustments		**$21,544,360**	

E. Money Transmitters Program Results

The analysis, summarized in **Exhibit 25,** indicates the Money Transmitters Program and subprogram requires $0.5 million through FY 2027-28.

The DFPI would need to implement the proposed cumulative adjustments, shown in **Exhibit 26,** to support the Money Transmitters Program's projected programmatic needs through FY 2027-28. The Money Transmitters subprogram does not require an adjustment to its fees/assessments. The 60 percent increase to the Money Transmitters exam fee to $120 per hour beginning in FY 2025-26 is sufficient to cover the $0.5 million programmatic need through FY 2027-28.

Exhibit 25
Money Transmitters Program
Projected Revenues, Operating Requirement, and Programmatic Needs, FY 2023-24 to 2027-28

Subprogram	Projected Revenues	Projected Operating Requirement Calculation				Projected Programmatic Needs
		Projected Expenditures	Fund Balance Allocation	Projected Surplus	Projected Operating Requirement	
Money Transmitters	$35,987,400	$36,474,985	$0	$0	$36,474,985	$487,584
Program Total	**$35,987,400**	**$36,474,985**	**$0**	**$0**	**$36,474,985**	**$487,584**

Exhibit 26
Money Transmitters Program
Proposed Cumulative Exam and Non-Exam Revenue Adjustments

Program / Subprogram	Exam Revenue FY 2025-26 to FY 2027-28			Non-Exam Revenue FY 2025-26 to FY 2027-28		
	Projected Revenue	Projected Revenue w/ Adjustments	Proposed Cumulative Adjustment	Projected Revenue	Projected Revenue w/ Adjustments	Proposed Cumulative Adjustment
Money Transmitters	$1,702,648	$2,724,238	60%	$19,855,466	$19,855,466	0%
Program Total	**$1,702,648**	**$2,724,238**		**$19,855,466**	**$19,855,466**	

F. New Program Results

DFPI is implementing three new programs: the California Consumer Financial Protection, Debt Collectors, and Digital Financial Assets programs. These new programs require allocations from the DFPI's fund balance to support startup costs in addition to implementing new fees and assessments. The DFPI requires $99.5 million through FY 2027-28 to support its new programs. The projected operating requirement will be met through fees established for each program.

1. California Consumer Financial Protection Program

The analysis, summarized in **Exhibit 27,** indicates the California Consumer Financial Protection Program requires $46.0 million through FY 2027-28. Of this amount, which includes a net $24.0 million allocation between fund balance and surplus allocations, the California Consumer Financial Protection subprogram requires $19.0 million, and the New Covered Persons subprogram requires $27.0 million.

Exhibit 27
California Consumer Financial Protection Program
Projected Revenues, Operating Requirement, and Programmatic Needs,
2023-24 to FY 2027-28

Subprogram	Projected Revenues	Projected Operating Requirement Calculation				Projected Programmatic Needs
		Projected Expenditures	Fund Balance Allocation	Surplus Allocation	Projected Operating Requirement	
New Covered Persons	$26,997,703	$33,590,482	$6,592,780	$0	$26,997,703	$0
California Consumer Financial Protection	$19,032,381	$36,409,300	$17,376,919	$0	$19,032,381	$0
Program Total	**$46,030,084**	**$69,999,782**	**$23,969,699**	**$0**	**$46,030,084**	**$0**

2. Debt Collectors Program

The analysis, summarized in **Exhibit 28,** indicates the Debt Collectors Program and subprogram requires $40.2 million through FY 2027-28, which includes a $25.4 million fund balance allocation.

Exhibit 28
Debt Collectors Program
Projected Revenues, Operating Requirement, and Programmatic Needs, 2023-24 to FY 2027-28[27]

Subprogram	Projected Revenues	Projected Operating Requirement Calculation				Projected Programmatic Needs
		Projected Expenditures	Fund Balance Allocation	Surplus Allocation	Projected Operating Requirement	
Debt Collectors	$40,244,587	$65,692,422	$25,447,835	$0	$40,244,587	$0
Program Total	**$40,244,587**	**$65,692,422**	**$25,447,835**	**$0**	**$40,244,587**	**$0**

3. Digital Financial Assets Program

The analysis, summarized in **Exhibit 29,** indicates the Digital Financial Assets Program and subprogram requires $26.6 million through FY 2027-28, which includes a $21.7 million allocation from fund balance.

Exhibit 29
Digital Financial Assets Program
Projected Revenues, Operating Requirement, and Programmatic Needs, 2024-25 to FY 2027-28

Subprogram	Projected Revenues	Projected Operating Requirement Calculation				Projected Programmatic Needs
		Projected Expenditures	Fund Balance Allocation	Surplus Allocation	Projected Operating Requirement	
Digital Financial Assets	$26,561,835	$48,294,099	$21,732,264	$0	$26,561,835	$0
Program Total	**$26,561,835**	**$48,294,099**	**$21,732,264**	**$0**	**$26,561,835**	$0

[27] The net fund balance allocation is the sum of the Fund Balance Allocation and the Surplus Allocation.

4. Recommendations

This section provides rationale to support Crowe's recommendations. Recommendations are based on the fiscal and cost allocation plan analysis results presented in *Section 3*. This section is organized as follows:

A. Summary of Recommendations

B. Supporting Rationale for the Investment Program Fee Adjustments

C. Supporting Rationale for the Lender-Fiduciary Program Fee/Assessment Adjustments

D. Supporting Rationale for the Banking Program Fee/Assessment Adjustments

E. Supporting Rationale for the Money Transmitters Program Fee/Assessment Adjustments

F. Supporting Rationale for New Programs Fee/Assessment Adjustments.

A. Summary of Recommendations

Based on the analysis, DFPI requires an additional $80.4 million through FY 2027-28 to support its programmatic needs for the Investment, Lender-Fiduciary, Banking, and Money Transmitters Programs. In addition, DFPI requires $112.8 million through FY 2027-28 to support its new programs, including the California Consumer Financial Protection, Debt Collectors, and Digital Financial Assets Programs.

<u>Established Programs</u>

To support its programmatic needs for established through FY 2027-28, Crowe recommends that DFPI do the following:

- Increase DFPI's hourly examination rate to at least $120 per hour in FY 2024-25 for subprograms within the Lender-Fiduciary Program and the Student Loan Servicing subprogram in the Banking Program, and in FY 2025-26 for subprograms within the Money Transmitters Program to consistently and appropriately cover the programmatic costs associated with examination related workload. The Money Transmitters Program will require a statutory change to implement the recommended examination rate.
- Increase non-exam revenues for the following subprograms within the Investment Program in FY 2025-26:
  - A 33 percent increase to non-exam revenues for the Broker-Dealer Investment Adviser subprogram
  - A 151 percent increase to non-exam revenues for the Franchise Investment subprogram.
- Increase non-exam revenues for the following subprograms within the Lender-Fiduciary Program in FY 2025-26:
  - A 158 percent increase to non-exam revenues for the Mortgage Bankers subprogram
  - A 24 percent increase to non-exam revenues for the California Finance Lenders subprogram
  - An 84 percent increase to non-exam revenues for the Escrow subprogram
  - A 65 percent increase to non-exam revenues for the Deferred Deposit Transaction subprogram.
- Increase current fees and/or assessments in the Banks subprogram by 18 percent in FY 2024-25; DFPI has the statutory authority for an immediate adjustment for this subprogram.

New Programs

To support its programmatic needs for new programs through FY 2027-28, Crowe recommends that DFPI:

- Set initial fees and/or assessments for the new California Consumer Financial Protection Program in FY 2024-25.
- Set initial fees and/or assessments for the new Debt Collectors Program in FY 2025-26.
- Set initial fees and/or assessments for the new Digital Financial Assets Program in FY 2026-27.

The remainder of this section provides supporting rationale for Crowe's recommendations. The rationale detailed in this section provides the condition, criteria, cause, and effect to support each recommendation.

B. Supporting Rationale for the Investment Program Fee / Assessment Adjustments

The analysis indicates the Investment Program requires an additional $25.0 million through FY 2027-28. Based on DFPI's authority, the Investment Program's subprogram fees can be adjusted beginning FY 2025-26 to support the program's needs. The Investment Program's needs through FY 2027-28 by subprogram include:

- Broker-Dealers Investment Advisers, $18.6 million
- Corporate Securities, N/A
- Franchise Investment, $6.4 million.

1. Broker-Dealers Investment Advisers

The Broker-Dealers Investment Advisers subprogram (BDIA) licenses and regulates broker-dealers, broker-dealer agents, investment advisers, investment adviser representatives, exempt reporting advisers, capital access companies, and Securities and Exchange Commission (SEC) investment adviser notice-filers. The BDIA strives to implement a four-year examination cycle for investment advisers, broker-dealer home offices, and broker-dealer branches.

Condition

Based on the analysis, the BDIA requires an additional $18.6 million, or a cumulative increase of 33 percent through FY 2027-28. The BDIA is primarily funded by initial and renewal fees set in statute and paid by regulated individuals and entities. Changes to the BDIA's fees must be done through the legislative process. The BDIA does not collect assessments for examination workload.

Criteria

The following codes support the DFPI's authority to finance the BDIA's programmatic needs:

- **Program Authority:** CA Corporations Code, Title 4, Division 1, Part 2, Chapter 5, Sections 25140 – 25151; Authority of commissioner to stop order, refuse permit, impose condition of qualification, postpone, or suspend effectiveness of any qualification, and other rights.
- **Funding Authority:** CA Corporations Code, Title 4, Division 1, Part 3, Chapter 2, Section 25221; Licensing of agents and broker dealers.
- **Examination Authority:** CA Corporations Code, Section 25241; Authority of commissioner to examine.

Cause

BDIA's programmatic needs are primarily driven by static fees and increased program costs. Many BDIA fees have remained unchanged for years or decades. For example, the annual renewal fee for broker dealer agents and investment adviser representatives increased from $25 to $35 in 2019 after being authorized in 2013 by Senate Bill 538, and the $125 fee for filing an investment adviser application has been unchanged since the Investment Adviser Registration Depository (IARD) system became operational in 2001.

Effect

The BDIA requires a 35 percent adjustment to its fees to support its programmatic needs through FY 2027-28. This adjustment excludes projected revenue from SMIF, penalties, and cost recovery.

2. Corporate Securities

The Corporate Securities subprogram administers the Corporate Securities Law of 1968. Securities offerings in this state must be qualified, exempt, or not subject to qualification. The Corporate Securities team of attorneys and examiners review the offers and sales of securities in California. This includes protecting the public from fraud, enabling Californians to participate in regulated capital markets through investment, and protecting the integrity of capital markets through review of securities offerings.

Condition

Based on the analysis, the Corporate Securities subprogram's needs are adequately covered by its fees through FY 2027-28. The Corporate Securities subprogram is primarily funded by securities filing fees set in statute and paid by regulated entities. Changes to the Corporate Securities subprogram's fees must be done through rulemaking or trailer bill language. The Corporate Securities subprogram does not collect assessments.

Criteria

- **Program Authority:** CA Corporations Code, Title 4, Division 1, Part 2, Chapter 5, Sections 25140 – 25151; Authority of commissioner to stop order, refuse permit, impose condition of qualification, postpone or suspend effectiveness of any qualification, and other rights.
- **Rate Authority:** CA Corporations Code, Title 4, Division 1, Part 7, Sections 25608 - 25608.1; Authority of commissioner to charge and collect fees.

Cause

The Corporate Securities subprogram's needs are adequately covered by its revenues through FY 2027-28.

Effect

This subprogram does not require an adjustment to support its programmatic needs through FY 2027-28.

3. Franchise Investment

The Franchise Investment subprogram regulates the offer and sale of franchises under the Franchise Investment Law (FIL). Before a franchisor can offer and sell a franchise in California, the Franchisor must first file a complete application with the appropriate filing fee and receive an effective registration or perfect an exemption by filing a notice form with appropriate filing fee. All applications and exemptions must be filed online on the Department's website. California is the largest of the 14 states that require registration before a franchise is offered or sold. The Federal Trade Commission (FTC) has concurrent jurisdiction with the registration states but does pre-empt them. The FTC Franchise Rule sets the minimum disclosure requirements and allows individual states to enact more investor protections. Because the FTC has not exercised its enforcement authority against a franchisor in the last decade, the franchise industry looks to the Department for investor protection.

Condition

Based on the analysis, the Franchise Investment subprogram requires an additional $6.4 million, or a cumulative increase of 151 percent, through FY 2027-28. The Franchise Investment subprogram is primarily funded by initial and renewal fees set in statute and paid by regulated entities. Changes to the Franchise Investment subprogram fees must be done through the legislative process. The Franchise Investment subprogram does not collect assessments for examination workload.

Criteria

- **Program Authority:** CA Corporations Code, Title 4, Division 5, Part 2, Chapter 2, Sections 31100 – 31158; Authorization of commissioner to examine registrant's records for the sale of franchise.
- **Rate Authority:** CA Corporations Code, Title 4, Division 5, Part 5, Sections 31500 – 31506; Authority of commissioner to charge and collect fees.

Cause

The Franchise Investment subprogram's needs are primarily due to static fees and increased program costs. The subprogram's application, exemption, and renewal fee rates in California Corporations Code section 31500 ($150, $450, and $675) have not been updated in over 30 years.

Effect

The Franchise Investment subprogram requires a 176 percent increase to its fees to support its programmatic needs through FY 2027-28. This adjustment excludes projected revenue from cost recovery.

C. Supporting Rationale for the Lender-Fiduciary Program Fee / Assessment Adjustments

The analysis indicates the Lender-Fiduciary Program requires an additional $33.3 million through FY 2027-28. Based on DFPI's authority, the Lender-Fiduciary Program can adjust its exam fees beginning FY 2024-25, and subprogram fees and assessments in FY 2025-26. The Lender-Fiduciary Program's needs through FY 2027-28 by subprogram include:

- Mortgage Bankers, $12.7 million
- Mortgage Loan Originators, N/A
- California Finance Lenders, $6.3 million
- Escrow, $11.2 million
- Deferred Deposit Transaction, $3.1 million
- Check Sellers, Bill Payers, and Proraters, N/A.

1. Mortgage Bankers

The Mortgage Bankers subprogram licenses and regulates residential mortgage lenders and servicers and mortgage loan originators under the California Residential Mortgage Lending Act (CRMLA). Pursuant to Financial Code Section 50302, the DFPI may examine CRMLA licensees to the extent the Commissioner deems necessary and appropriate, but in no case less frequently than once every four years. Individuals who hold a mortgage loan originator license and are employed by a CRMLA licensee are examined during the licensee's examination.

<u>Condition</u>

Based on the analysis, the Mortgage Bankers subprogram requires an additional $12.7 million, or a 158 percent cumulative increase through FY 2027-28. The Mortgage Bankers subprogram is primarily funded by pro rata assessments with minimum and maximums set in statute. Changes to the Mortgage Bankers subprogram minimum and maximum assessments must be done through the legislative process.

<u>Criteria</u>

- **Program Authority:** CA Financial Code, Division 20. California Residential Mortgage Lending Act, Chapter 1. General, Section 50000 – 50006; Authority of commissioner to provide license to engage in business of making residential mortgage loans or servicing residential mortgage loans.
- **Rate Authority:** CA Financial Code, Division 20. California Residential Mortgage Lending Act, Chapter 2. Licensing: Residential Mortgage Lender, Sections 50120 – 50129, Chapter 6. Assessments, Section 50401.

<u>Cause</u>

The Mortgage Banker's programmatic needs are primarily due to static fees and increased program costs. The $100 investigation fee and the $900 filing fee in California Financial Code section 50121(b), and the minimum and maximum pro rata assessment amounts of $1,000 and $5,000 in California Financial Code section 50401, took effect in 2009 and have not been changed since then.

<u>Effect</u>

The Mortgage Banker subprogram requires a 174 percent increase to its fees and assessments to support its programmatic needs through FY 2027-28. This excludes projected revenue from SMIF and cost recovery.

2. Mortgage Loan Originators

Mortgage Loan Originators (MLO) subprogram licenses individuals who, for compensation or gain, or in the expectation of compensation or gain, take a residential mortgage loan application or offer or negotiate terms of a residential mortgage loan. The MLO must also be employed by and sponsored by a DFPI licensee under the CRMLA or CFL.

Condition

Based on the analysis, the Mortgage Loan Originators subprogram's needs are adequately supported by its fees through FY 2027-28. The Mortgage Loan Originators subprogram is primarily funded by initial application fees and renewal fees set in statute and paid by regulated individuals and entities. Changes to the Mortgage Loan Originators subprogram's fees must be done through rulemaking or trailer bill language.

Criteria

- **Program Authority:** CA Financial Code, Division 20. California Residential Mortgage Lending Act, Chapter 3.5. Mortgage Loan Originators, Section 50140 – 50146; Application for license as mortgage loan originator; timelines, fees, and assessments; criminal history background checks.
- **Rate Authority**: CA Financial Code, Division 20. California Residential Mortgage Lending Act, Chapter 6. Assessments, Section 50400 – 50402; Authority of commissioner to levy assessments.

Cause

The Mortgage Loan Originator subprogram's needs are adequately supported by its fees through FY 2027-28.

Effect

The Mortgage Loan Originator subprogram does not require fee adjustments to support its programmatic needs through FY 2027-28.

3. California Finance Lenders

The California Finance Lenders subprogram licenses and regulates finance lenders and brokers making and brokering consumer and commercial loans, except as specified; prohibits misrepresentations, fraudulent and deceptive acts in connection with making and brokering of loans; and provides administrative, civil (injunction and ancillary relief) and criminal remedies for violations of the law.

Condition

Based on the analysis, the California Finance Lenders subprogram requires an additional $6.3 million, or a 24 percent cumulative increase through FY 2027-28. The California Finance Lenders subprogram is primarily funded by assessments set in statute and paid by regulated entities. Changes to the California Finance Lenders subprogram fees must be done through the legislative process, however, the commissioner has the authority to estimate the pro rata share so no legislative changes are required.

Criteria

- **Program Authority:** CA Financial Code, Division 9. California Financing Law, Chapter 1. General Provisions, Section 22100 – 22112; Authority of commissioner to provide license to engage in business of a finance lender or broker.
- **Rate Authority:** CA Financial Code, Division 9. California Financing Law, Chapter 1. General Provisions, Section 22107; Authority of commissioner to levy assessments.

Cause

California Finance Lenders' programmatic needs are primarily driven by increases in program costs and static fees. The program's $200 initial application fee, the $100 investigation fee, and the $250 minimum fee per location were all established via amendment in 2019.

Effect

This subprogram requires a 26 percent increase to its fees and assessments to support its programmatic needs through FY 2027-28. This excludes projected revenue from penalties, investigations, SMIF, and cost recovery.

4. Escrow

The Escrow subprogram licenses and regulates escrow agents, joint control agents, and Internet escrow agents in California. Pursuant to Financial Code section 17402, the DFPI may examine the business, accounts, and records of every person performing as an escrow agent, whether required to be licensed under the law or not, at any time. The DFPI may examine each licensed escrow agent as often as the Commissioner deems necessary and appropriate, but not less than once every 48 months. The Commissioner may examine any new licensee within one year of the issuance of the agent's license.

<u>Condition</u>

Based on the analysis, the Escrow subprogram requires an additional $11.2 million, or an 84 percent cumulative increase through FY 2027-28. The Escrow subprogram requires increases to its fees to address this deficit. The Escrow subprogram is primarily funded by assessments set in statute and paid by regulated individuals and entities. Changes to the Escrow subprogram assessments must be done through the legislative process.

<u>Criteria</u>

- **Program Authority:** CA Financial Code, Division 6. Escrow Agents, Chapter 2. License and Bond, Section 17200 – 17215; Various fees collected by the commissioner for filing an application for an escrow agent's license.
- **Rate Authority:** CA Financial Code, Division 6. Escrow Agents, Chapter 3. Escrow Regulations, Section 17400 – 17425; Authority of commissioner to provide license to become an escrow agent.

<u>Cause</u>

Escrow's programmatic needs are primarily driven by the following factor:

- Static fees. The annual license fee of $2,800 per location was implemented in 2005 by Senate Bill 408, with the special assessment of $1,000 per location implemented in 2009 by Senate Bill 204. The application and investigation fees were set at their current amounts in 2001 via Assembly Bill 459.

<u>Effect</u>

This subprogram requires an 88 percent increase to its fees and assessments to support its programmatic needs through FY 2027-28. This excludes projected revenue from SMIF and investigations.

5. Deferred Deposit Transaction

This program licenses and regulates deferred deposit originators, better known as payday lenders, pursuant to the California Deferred Deposit Transaction Law (CDDTL). In a payday loan transaction, the consumer provides the lender a personal check for $300 or less. Also called "cash advances" or "deferred deposits," the lender gives the consumer the money, minus an agreed upon fee. By law, the fee cannot exceed 15 percent of the amount of the personal check and the lender then defers depositing the consumer's check for a specific period, not to exceed 31 days. Starting in 2005, the Department began regulating payday loans to provide greater oversight and guarantee that consumers have the disclosures necessary to make informed decisions.

<u>Condition</u>

Based on the analysis, the Deferred Deposit Transaction subprogram requires an additional $3.1 million, or a 65 percent cumulative increase through FY 2027-28. The Deferred Deposit Transaction subprogram requires increases to its fees to address this deficit. The Deferred Deposit Transaction subprogram is primarily funded by assessments set in statute and paid by regulated entities. Changes to the Deferred Deposit Transaction subprogram assessments must be done through the legislative process.

<u>Criteria</u>

- **Program Authority:** FIN: Division 10, California Deferred Deposit Transaction Law, Chapter 1. General Provisions, Article 2. Licensing and Exemptions, Section 23005 – 23014; Deferred Deposit Transaction Licenses.
- **Rate Authority:** FIN: Division 10, California Deferred Deposit Transaction Law, Chapter 1. General Provisions, Article 3. Administration and Operations, Section 23015 – 23027; Deferred Deposit Transaction Administration and Operations.

<u>Cause</u>

Deferred Deposit Transaction's programmatic needs are primarily driven by the following factor:

- Misaligned assessment structure. Under the current assessment structure, which was enacted by Senate Bill 898 in 2002 and became effective in 2004, licensees are charged a pro rata assessment based on the number of physical locations they operate. However, the overall number of physical locations is declining as many licensees have added online operations which are not subject to the pro rata assessment.

<u>Effect</u>

This subprogram requires a 68 percent increase to its fees and assessments to support its programmatic needs through FY 2027-28. This excludes projected revenue from SMIF and investigations. As the subprogram is primarily funded through a pro rata assessment, the Department may want to consider delaying implementation of the 68 percent increase until pending legislation (AB 3148) is finalized. This legislation would account for the shift to online business models by assessing licensees on their pro rata share of the total dollar amount of deferred deposit transactions rather than their pro rata share of the number of physical locations.

6. Check Sellers, Bill Payers, and Proraters

The Check Sellers, Bill Payers, and Proraters subprogram licenses and regulates any individual or corporation engaged in the business of selling checks, drafts, or money orders, or receiving money as an agent of an obligor for the purpose of paying bills, invoices, or accounts of such obligor. Pursuant to Financial Code section 12106, the Commissioner may conduct investigations to determine whether any person has violated, or is about to violate, any provision of the Check Sellers, Bill Payers, and Proraters Law, or any rule or order under the law.

Condition

Based on the analysis, the Check Sellers, Bill Payers, and Proraters subprogram's assessments will adequately support its needs through FY 2027-28. The Check Sellers, Bill Payers, and Proraters subprogram is primarily funded by assessments set in statute and paid by regulated entities. Changes to the Check Sellers, Bill Payers, and Proraters subprogram assessments must be done through rulemaking or trailer bill language.

Criteria

- **Program Authority:** Financial Code, Division 3. Check Sellers, Bill Payers, and Proraters, Chapter 3, Licensing, Section 12200 – 12225; Licensing of Check Sellers, Bill Payers, and Proraters.
- **Rate Authority:** Financial Code, Division 3. Check Sellers, Bill Payers, and Proraters, Chapter 3, Licensing, Section 12214; Licensing Rates.

Cause

The Check Sellers, Bill Payers, and Proraters subprogram's needs are adequately covered by its projected revenues through FY 2027-28.

Effect

The Check Sellers, Bill Payers, and Proraters subprogram does not require assessment adjustments to support its programmatic needs through FY 2027-28.

D. Supporting Rationale for the Banking Program Fee / Assessment Adjustments

The analysis indicates the Banking Program requires $21.5 million through FY 2027-28. Based on DFPI's authority, the Bank Program's assessment rates can be adjusted beginning FY 2024-25. The Banking Program's needs through FY 2027-28 by subprogram include:

- Banks, $21.5 million
- Industrial Banks, N/A
- Student Loan Servicing, N/A.

1. Banks

The Banks subprogram oversees the integrity and stability of state-licensed banks and trust companies. This objective is achieved through the regulation, supervision, and examination of these institutions, which helps to provide their safe and sound operation and compliance with laws and regulations. This subprogram licenses and regulates trust companies and commercial, industrial, and foreign (other nation and other state) banks. Program staff examine California state-chartered banks and foreign banks operating in the state as often as the Commissioner deems advisable, but in no case less frequently than once every year. State-chartered trust companies are examined at least once every two years.

<u>Condition</u>

Based on the analysis, the Banks subprogram requires an additional $21.5 million, or an 18 percent cumulative increase, through FY 2027-28. The Banks subprogram is primarily funded by assessments set in statute and paid by regulated entities. Based on Financial Code section 405, changes to the Banks subprogram assessment up to the statutory maximum of $2.20 per $1,000 of assets can be implemented by the Department. Changes more than this amount must be done through the legislative process.

<u>Criteria</u>

- **Program Authority:** FIN; Division 1.1 Banking; Ch. 1 General Provisions; Section 1000 – 1008; Banking laws.
- **Rate Authority:** FIN; Division 1.1 Banking; Ch. 2 Application; Section 1020 – 1027; Authority of commissioners to levy fees.
- **Assessment Authority:** FIN; Division 1. Financial Institutions; Ch. 3 Department of Financial Protection and Innovation, Section 405; State Banking Account

<u>Cause</u>

The Banks subprogram's needs are primarily driven by a $4.3 million decrease in assessment revenues from FY 2022-23 to FY 2023-24 due to large bank closures, sales, and mergers (e.g., Silicon Valley Bank, First Republic Bank, and Bank of the West). Due to this significant decrease in revenues, future revenue projections reflect a lower amount of assessment revenues.

<u>Effect</u>

The Banks subprogram requires an 18 percent increase to its fees and assessments to support its programmatic needs through FY 2027-28. This excludes projected revenue from SMIF.

2. Industrial Banks

The Industrial Banks subprogram oversees banks which are primarily focused on providing consumer and commercial loans but do not accept demand deposits, e.g., checking accounts.

Condition

Based on the analysis, the Industrial Banks subprogram is adequately supported by its assessments through FY 2027-28. The Industrial Banks subprogram is primarily funded by assessments set in statute and paid by regulated entities. Changes to the Industrial Banks subprogram fees must be done through rulemaking or trailer bill language.

Criteria

- **Program Authority:** FIN; Division 1.1 Banking; Ch. 15 General Provisions; Section 1530 – 1533; Industrial banking laws.
- **Rate Authority:** FIN; Division 1.1 Banking; Ch. 15 Industrial Banks; Section 1533; Authority of commissioners to levy fees.

Cause

The Industrial Banks subprogram's needs are adequately supported by its assessments through FY 2027-28.

Effect

The Industrial Banks subprogram does not require an assessment adjustment to support its programmatic needs through FY 2027-28.

3. Student Loan Servicing

The Student Loan Servicing subprogram licenses and regulates student loan servicers doing business in California. Pursuant to Financial Code section 28152, the Commissioner may examine the books, records, directors, employees, or agents under oath regarding the licensee's operations. DFPI must conduct an examination of each licensed student loan servicers as often as the Commissioner deems necessary and appropriate, but not less than once every three years.

<u>Condition</u>

Based on the analysis, the Student Loan Servicing subprogram is adequately supported by its assessments through FY 2027-28. The Student Loan Servicing subprogram is primarily funded by assessments set in statute and paid by regulated entities. Changes to the Student Loan Servicing subprogram fees must be done through rulemaking or trailer bill language.

<u>Criteria</u>

- **Program Authority:** FIN; Division 12.5 Student Loan Servicing Act; Ch. 2 Licensing; Section 28106 – 28125.2; Authority of the commissioner to administer the provisions of this division and promulgate rules and regulations and issue orders consistent with that authority.
- **Rate Authority:** FIN; Division 12.5 Student Loan Servicing Act; Ch. 2 Licensing; Section 28106(b)(9); Authority of commissioners to levy fees, fines, and charges in an amount sufficient to cover the cost of the services performed in administering this division.

<u>Cause</u>

The Student Loan Servicing subprogram's needs are supported by its assessments through FY 2027-28.

<u>Effect</u>

The Student Loan Servicing subprogram does not require an assessment adjustment to support its programmatic needs through FY 2027-28.

E. Supporting Rationale for the Money Transmitters Program Fee / Assessment Adjustments

The analysis indicates the Money Transmitters Program requires $0.5 million through FY 2027-28. The Money Transmitters Program's needs should be covered by examination fees. An exam rate increase for the Money Transmitters Program may not be possible until FY 2025-26 due to statutory limitations. Should the exam rate increase be delayed until FY 2025-26, it is still projected to be sufficient to cover the Money Transmitter Program's $0.5 million programmatic need through FY 2027-28. If necessary, the Department can adjust the Money Transmitters Program's assessments to account for any shortfall.

1. Money Transmitters

The Money Transmitters Program promotes the integrity and stability of businesses that receive money for transmission and sell or issue payment instruments and stored value. This objective is achieved through the regulation, supervision, and examination of these institutions, which helps provide their safe and sound operation and compliance with laws and regulations. This program licenses and regulates money transmitters, issuers of payment instruments (money orders), traveler's checks, stored value cards, and insurance premium finance companies. Pursuant to Financial Code sections 2120 and 18390, program staff conduct regular on-site examinations of licensees and select agent locations.

Condition

Based on the analysis, the Money Transmitters subprogram requires an additional $0.5 million through FY 2027-28. The Money Transmitters subprogram does not require an adjustment to its fees/assessments. The 60 percent increase to the Money Transmitters exam fee to $120 per hour is projected to be sufficient to cover the $0.5 million need through FY 2027-28, regardless of whether the exam rate increase occurs in FY 2024-25 or FY 2025-26. The Money Transmitters subprogram is primarily funded by assessments set in statute and paid by regulated entities.

Criteria

- **Program Authority:** FIN; Division 1.2. Money Transmission Act; Ch. 1. General Provisions; Section 2000 – 2003; Establishes the Money Transmission Act.
- **Rate Authority:** FIN; Division 1.2. Money Transmission Act; Ch. 3. Licenses; Section 2030 – 2043; Authority of commissioners to levy assessments.

Cause

The Money Transmitters' programmatic needs will be fully covered by the revenue it generates, assuming an hourly exam rate increase from $75 to at least $120.

Effect

The Money Transmitters Program does not require an adjustment to its fees/assessments to support its programmatic needs through FY 2027-28. The Money Transmitters Program's programmatic needs are projected to be covered by increased examination fees.

F. Supporting Rationale for New Programs Fee/Assessment Adjustments

The DFPI requires $112.8 million through FY 2027-28 to support its new programs, including the California Consumer Financial Protection, Debt Collectors, and Digital Financial Assets Programs. Below is a summary of each program's needs through FY 2027-28:

- The California Consumer Financial Protection Program's needs total $46.0 million.
- The Debt Collectors Program's needs total $40.2 million.
- The Digital Financial Assets Program's needs total $26.6 million.

1. California Consumer Financial Protection

The California Consumer Financial Protection Program will examine, investigate, and supervise unregulated financial products to protect California consumers from illegal, deceptive, or unscrupulous practices. This program encourages innovative financial products. This program plans and manages financial industry research projects, including project planning and development, topic identification, sourcing data, data collection, data validation, and data development. It develops relationships and partnerships with deferral and state government entities, industry, universities, and research partnerships. Additionally, it identifies areas where partner data can be utilized, and other areas where DFPI's original research would contribute to consumer protection. The program has played an instrumental role in the Department's efforts to enhance its consumer complaint handling and reporting**.**

<u>Condition</u>

Based on the analysis, the California Consumer Financial Protection Program requires $46.0 million through FY 2027-28. The California Consumer Financial Protection Program's exam fees and fees/assessments could be implemented in FY 2024-25 to address its programmatic need.

<u>Criteria</u>

- **Program Authority:** FIN; Division 24. California Consumer Financial Protection Law; Ch. 6. Administration; Section 90006 – 90007; Authority of Department to exercise oversight and enforcement.
- **Rate Authority:** FIN; Division 24. California Consumer Financial Protection Law; Ch. 6. Administration; Section 90007(b) - 90009.5; Collection, deposit, and use of funds.

<u>Cause</u>

The CCFPL (AB 1864) went into effect on January 1, 2021. The CCFPL established the DFPI's regulatory authority for the California Consumer Financial Protection Program. The DFPI will use the Financial Protection Fund's balance to support the California Consumer Financial Protection Program's startup costs. The California Consumer Financial Protection Program has the authority to collect fees from regulated entities, including examination fees, and will start doing so in FY 2024-25.

<u>Effect</u>

This program requires implementation of exam fees and fee/assessments in FY 2024-25 to address its five-year programmatic needs. The California Consumer Financial Protection Program is projected to be self-sufficient between FY 2024-25 and FY 2027-28.

2. Debt Collectors

The Debt Collectors Program protects consumers and ensures transparency of the debt collector industry through strong government oversight and data collection. This objective is achieved through the regulation, supervision, and examination of debt collectors, which helps provide compliance with laws and regulations. This program licenses, regulates, and will examine debt collectors as authorized by SB 908, the Debt Collector Licensing Act. Pursuant to Financial Code 100000 – 100025, the Commissioner may license, examine, and take enforcement actions against California debt collectors. Debt collector applicants began submitting applications in September 2021. The FBI denied the Department's access to criminal history record checks required by the law, resulting in a delay in licensing and the need for conditional licensing based on a future check. Conditional licensing began on January 1, 2023, and the program is currently using the NMLS platform as a channeling agent for criminal background checks as allowed by statute. An Advisory Committee has been created to advise the Commissioner on matters relating to debt collection or the debt collection business.

<u>Condition</u>

Based on the analysis, the Debt Collectors Program requires $40.2 million through FY 2027-28. The Debt Collectors Program's exam fees and fees/assessments could be implemented in FY 2024-25 to address its programmatic need.

<u>Criteria</u>

- **Program Authority:** FIN; Division 25. Debt Collection Licensing Act; Ch. 2. Licensing; Article 1. Commissioner on Financial Protection and Innovation; Section 100003 - 100006.5; Lists the functions, powers, and duties of the commissioner.
- **Rate Authority:** FIN; Division 25. Debt Collection Licensing Act; Ch. 2. Licensing; Article 2. Application for Licensure; Section 100007 – 100014; Establishes fees for application and investigation.
- **Rate Authority:** FIN; Division 25. Debt Collection Licensing Act; Ch. 3. Licensee Duties; Section 100020(a) and (c); Payment of pro rata share of costs and expenses in administration of division; notification of annual fee schedule.

<u>Cause</u>

The Debt Collectors Licensing Act (SB 908) went into effect on January 1, 2022. This law established the DFPI's regulatory authority for the Debt Collectors Program. The DFPI will use the Financial Protection Fund's balance to support the Debt Collectors Program's startup costs. The Debt Collectors Program will start to perform examinations in FY 2024-25 and collect assessments from regulated entities in FY 2025-26.

<u>Effect</u>

This program requires implementation of exam fees in FY 2024-25 and assessments in FY 2025-26 to address its five-year programmatic needs. The Debt Collectors Program is projected to be self-sufficient between FY 2025-26 and FY 2027-28.

3. Digital Financial Assets

The Digital Financial Assets Program's objective is to implement the requirements of the Digital Financial Assets Law (DFAL), enabling DFPI to responsibly oversee digital asset activities in California. The DFAL program creates a clear and comprehensive approach to regulating the digital assets market, with strong consumer and investor protections. Beginning July 1, 2025,[28] the DFAL program will create a licensing system for persons that (1) exchange, hold, or transfer digital financial assets for California residents, or (2) issue redeemable stablecoins for use by California residents. Further, the DFAL Program will implement specific requirements for kiosk operators in California. The DFAL program will prohibit a person from engaging in digital financial asset business activity unless the person is licensed with the DFPI or has an application that is awaiting approval or denial, as prescribed. This law will require persons who (1) exchange, hold, or transfer digital financial assets for California residents or (2) issue redeemable stablecoins for use by California residents to apply for a license from the Department by July 1, 2025.

Condition

Based on the analysis, the Digital Financial Assets Program requires $26.6 million through FY 2027-28. The Digital Financial Assets Program's assessments could be implemented in FY 2026-27 to address its programmatic need.

Criteria

- **Program Authority:** FIN; Division 1.25. Digital Financial Assets Businesses; Ch. 1. General Provisions; Section 3103; To establish the division's authority over digital financial asset business activity.
- **Rate Authority:** FIN; Division 1.25. Digital Financial Assets Businesses; Ch. 2. Licensure; Section 3201 – 3225; Requirements for licensure application; investigation; notice of decision; effective date of license (non-refundable).
- **Exam Authority:** FIN; Division 1.25. Digital Financial Assets Businesses; Ch. 3. Examination; Section 3301 – 3311; Gives authority to the Department to examine if the business is being conducted in a lawful manner and whether all digital financial asset business activity is properly accounted for.

Cause

The Digital Financial Assets Law, 2023 (AB 39 and SB 401) provides DFPI's regulatory authority for the Digital Financial Assets Program. The DFPI will use the Financial Protection Fund's balance to support the Digital Financial Assets Program's startup costs. The Digital Financial Assets Program will start to collect fees from regulated entities in FY 2026-27.

Effect

This program requires implementation of exam fees and fee/assessments in FY 2026-27 to address its five-year programmatic needs. The Digital Financial Assets Program is projected to be self-sufficient between FY 2026-27 and FY 2027-28.

[28] Pending legislation (AB 1934) which would postpone all existing July 1, 2025 deadlines in the law by one year, moving them to July 1, 2026. If enacted, this legislation would not affect expenses, but would delay revenue collection by one year.

5. Proposed Implementation Plan

This subsection provides a proposed plan to support the implementation of Crowe's recommendations, which in some cases would require changes in program law. This proposed plan assumes DFPI will make final decisions, in consultation with its partners and stakeholders, on how to implement the recommendations. This section is organized as follows:

A. Proposed Timeline
B. Implementation of Recommended Department-wide Exam Fee
C. Implementation of Banking Program Assessment
D. Implementation of Recommended Program Fees
E. Implementation of Recommended Program Assessments.

A. Proposed Timeline

Exhibit 30 provides a proposed timeline, including the following five (5) milestones:

- **Implement Recommended Department-wide Exam Fee:** In FY 2024-25, increase exam fee rates to $120 per hour for programs with statutory authority; and, in FY 2025-26, for the Money Transmitters Programs.
- **Implement Banks Subprogram Assessment:** In FY 2024-25, increase the Banks subprogram assessment rate to meet projected needs through FY 2027-28.
- **Implement Recommended Program Fees:** In FY 2025-26, increase fee rates for subprograms to meet projected needs through FY 2027-28.
- **Implement Recommended Program Assessments:** In FY 2025-26, increase assessment rates for subprograms to meet projected needs through FY 2027-28.
- **Conduct Annual Monitoring:** As conditions can change, conduct annual evaluation of fees and assessment levels to determine whether additional adjustments are needed to support DFPI's programs.

Exhibit 30
Milestones and Proposed Implementation Timeline

Milestone	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Implement Recommended Department-wide Exam Fee		●	●		
Implement Banks Subprogram Assessment		●			
Implement Recommended Program Fees			●		
Implement Recommended Program Assessments			●		
Conduct Annual Monitoring	●				

● *Proposed Implementation*

B. Implementation of Recommended Department-wide Exam Fee

Crowe recommends increasing DFPI's hourly examination fee to at least $120 per hour in FY 2024-25 for subprograms within the Lender-Fiduciary Program and the Student Loan Servicing subprogram in the Banking Program, and in FY 2025-26 for subprograms within the Money Transmitters Program. As part of the analysis, Crowe validated that the $120 per hour rate would consistently and appropriately cover the Department's costs associated with performing examination workload. The recommended examination hourly rate would cover $100 per hour for direct salary and benefits for the Department's financial examiners and $20 per hour for overhead.

Exhibit 31 provides a summary of the proposed examination hourly rates compared to current rates for impacted programs.[29] The Department has the authority to implement the proposed department-wide examination rate of $120 per hour in FY 2024-25 and in FY 2025-26 for the Money Transmitters Program.

Exhibit 31
Proposed Examination Fee (rate per hour), FY 2024-25 and FY 2025-26 Implementation

Program / Subprogram	Current Rate	Proposed Rate	% Adjustment
Lender-Fiduciary Program			
Mortgage Bankers	$80	**$120**	50%
California Finance Lenders	$80	**$120**	50%
Escrow	$95	**$120**	26%
Deferred Deposit Transaction	$80	**$120**	50%
Banking Program			
Student Loan Servicing	$85	**$120**	41%
Money Transmitters Program			
Money Transmitters	$75	**$120**	60%

[29] The Department has the authority to charge licensees for examination workload performed by other programs not shown in Exhibit 31, including the Banks subprogram within the Banking Program, Credit Unions and Local Agency Security Programs. There are limited instances when these other programs can charge licensees for examination workload. For example, the Credit Unions Program does not charge licensees for initial exams, only for follow-up exams.

C. Implementation of Banking Program Assessment

The Department should consider implementing proposed Banking Program (Banks subprogram) assessment rates in FY 2024-25 to support the program needs identified in this report. **Exhibit 32** provides a summary of the proposed Banking Program assessment rates compared to current rates for impacted programs. The proposed rate is below the assessment cap of $2.20 per $1,000 of assets.

Exhibit 32
Proposed Banking Program Assessment, FY 2024-25 Implementation

Program / Subprogram	Current Rate	Proposed Rate
Banking Program: 18% Increase		
Banks	$1.76 per $1,000 of assets	**$2.08** **per $1,000 of assets**

D. Implementation of Recommended Program Fees

The Department should consider implementing proposed fees in FY 2025-26 to support the program needs identified in this report. The Department may need to act through legislative or rulemaking processes to address existing fee caps defined in program law. For Lender-Fiduciary and Banking Programs, the Department may opt to leave current fees unchanged and generate all additional revenue needed through increases to its assessments.

<u>Investment Program</u>

Exhibit 33 provides a summary of proposed options compared to current rates for the Investment Program. The proposed fee rates are rounded to the nearest five dollars. Alternative implementation options may include:

- **Option 1:** Implement a uniform 35 percent increase across all fees.
- **Option 2:** Implement a 44 percent increase to BDIA's renewal fees for broker dealer agents and investment adviser representatives. The 44 percent increase would result in a $50 renewal fee rate for broker dealer agent and investment adviser representatives and no changes to other fees. Option 2 does not apply to the Franchise Investment

<u>Lender-Fiduciary Program</u>

Exhibit 34 provides a summary of proposed fee rates compared to current rates for the Lender-Fiduciary Program. The proposed fee rates are rounded to the nearest five dollars. Alternative implementation options may include:

- **Option 1:** Implement subprogram-specific percent increases to fees listed in Exhibit 34 and assessments.
- **Option 2**: Implement an alternative assessment option (listed in Exhibit 36) for each subprogram. No changes to fees listed in Exhibit 34.

<u>Banking Program</u>

Exhibit 35 provides a summary of proposed fee rates compared to current rates for the Banking Program.

Exhibit 33
Proposed Investment Program Fee Rates, FY 2025-26 Implementation

Program / Subprogram	Current Rate	Option 1	Option 2
Investment Program			
Broker Dealer			
Initial Application Fee	$300	**$405**	$300
Renewal Fee	$75	**$100**	$75
Finder's Fee (Initial)	$300	**$405**	$300
Finder's Fee (Renewal)	$275	**$370**	$275
Agent Renewal Fees	$35	**$45**	**$50**
Investment Advisers			
Initial Application Fee	$125	**$170**	$125
Renewal Fee	$125	**$170**	$125
SEC Notice Filing (Application)	$125	**$170**	$125
SEC Notice Filing (Renewal)	$125	**$170**	$125
Exempt Reporting Adviser Fee	$125	**$170**	$125
Representative Renewal Fees	$35	**$45**	**$50**
Agent Monitoring			
Initial Application Fee	$25	**$35**	$25
Franchise Investment			
Initial Application Fee	$675	**$1,865**	N/A
Exemption Fee	$450	**$1,245**	N/A
Renewal Fee (Initial Application)	$450	**$1,245**	N/A
Renewal Fee (Exemption Filing)	$150	**$415**	N/A

Exhibit 34
Proposed Lender-Fiduciary Program Fee Rates, FY 2025-26 Implementation

Program / Subprogram	Current Rate	Proposed Rate
Lender-Fiduciary Program		
Mortgage Bankers: 174% Increase		
Application Fee	$900	**$2,470**
Fingerprint Fee	$20	**$55**
California Finance Lenders: 26% Increase		
Application Fee	$200	**$250**
Fingerprint Fee	$20	**$25**
Escrow: 88% Increase		
Application Fee	$625	**$1,175**
Fingerprint Fee	$10	**$20**
Deferred Deposit Transaction: 68% Increase		
Application Fee	$200	**$335**
Fingerprint Fee	$20	**$35**

Exhibit 35
Proposed Banking Program Fee Rates, FY 2025-26 Implementation

Program	Current Rate	Proposed Rate
Banking Program		
Banks: 18% Increase[30]		
Application Fee	$5,000	**$5,915**
Licensing Fee	$25	**$30**

[30] The Department could consider implementing an 18 percent increase to the Banks subprogram's pro rata assessment as an alternative to implementing a uniform percent increase across all Banks fees. The Department will not need to change other fees if it implements this alternative option because almost all Banks revenue comes from the pro rata assessment.

E. Implementation of Recommended Program Assessments

The Department should consider implementing proposed program assessments in FY 2025-26 for the Mortgage Bankers, California Finance Lenders, Escrow, and Deferred Deposit Transaction subprograms within the Lender-Fiduciary Program. **Exhibit 36** provides proposed options to meet the programmatic needs of each subprogram. The Department will not need to implement fee adjustments if it implements one of these proposed options for each subprogram.

Exhibit 36
Proposed Assessment Rates, FY 2024-25 and 2025-26 Implementation

Program / Subprogram	Current Assessment Methodology	Proposed Options
Mortgage Bankers	Pro rata with $1,000 minimum; $5,000 maximum	• **Option 1:** Increase minimum from $1,000 to $3,000 and maximum from $5,000 to $15,000 • **Option 2:** Keep the $1,000 minimum, remove the $5,000 maximum
California Finance Lenders	Pro rata with $250 minimum	• No changes to existing pro rata assessment; adjust assessment amount as needed to meet programmatic needs[31]
Escrow	$3,800 per location ($2,800 license fee + $1,000 special assessment)	• **Option 1:** Increase license fee from $2,800 to $7,215 • **Option 2:** Increase all fees and assessments by 88 percent
Deferred Deposit Transaction	Cost of Program / Number of Locations	• **Option 1:** Change pro rata assessment basis[32] • **Option 2:** Increase pro rata assessment by 68 percent from $2,208 to $3,710 per location

1. Mortgage Bankers

The current assessment methodology uses a pro rata with a $1,000 minimum and $5,000 maximum. Below are assessment implementation options to meet the Mortgage Bankers subprogram's programmatic needs:

- **Option 1** – Change the minimum and maximum assessment amounts, e.g., increase both the minimum and maximum assessment by a factor of three, from $1,000 and $5,000 to $3,000 and $15,000 respectively.
- **Option 2** – Remove the maximum amount from the regular pro rata assessment.

[31] The Department has the authority to adjust the California Finance Lenders subprogram's assessment beginning in FY 2024-25.

[32] The Department will need to go through the legislative process to adjust the Deferred Deposit Transaction subprogram's assessment structure.

2. <u>California Finance Lenders</u>

The current assessment methodology uses a pro rata with a $250 minimum. One assessment implementation option is described below to meet the California Finance Lenders subprogram's programmatic needs:

- No changes are recommended to the existing pro rata mechanism as defined in program law. The analysis indicates that the DFPI should adjust the pro rata basis, or the total amount assessed to all licensees annually, to account for the projected deficit and any MLO surplus reallocations.

3. <u>Escrow</u>

The current assessment methodology uses a rate of up to $3,800 ($2,800 per location + $1,000 special assessment). Below are assessment implementation options to meet the Escrow subprogram's programmatic needs:

- **Option 1** – Increase the maximum amount of the annual license fee by 158 percent (from $2,800 to $7,215). No changes to the special assessment or other fees. The special assessment would only be levied as needed.
- **Option 2** – Increase all fees and assessments by 88 percent. This includes increasing the combined annual license fee and special assessment (total of $3,800) by $4,355 dollars (from $3,800 to $7,155).

4. <u>Deferred Deposit Transaction</u>

The current assessment methodology is calculated as program cost divided by the number of licensee locations. Options are listed below to meet the Deferred Deposit Transaction subprogram's programmatic needs:

- **Option 1** – Seek to change the pro rata basis from the number of locations to the total dollar amount of deferred deposit transactions.[33]
- **Option 2** – Implement a 68% increase[34] in the assessment rate in FY 2025-26 to meet the $3 million need through FY 2027-28; after FY 2025-26, the assessment rate would increase from $2,208 to $3,710 per location (assuming the number of locations is constant; if it changes, the increase will need to be adjusted accordingly). However, the Department may want to consider delaying assessment changes until pending legislation (AB 3148) is finalized.

[33] Pending legislation (AB 3148) will likely address the Deferred Deposit Transaction subprogram's assessment revenue needs by changing the pro rata basis from physical locations to aggregate total dollar amount of deferred deposit transactions made by all licensees.

[34] The Department could consider implementing a 68 percent increase to the Deferred Deposit Transaction subprogram's pro rata assessment as an alternative to implementing a uniform percent increase across all Deferred Deposit Transaction fees. The Department will not need to change other fees if it implements this alternative option because almost all Deferred Deposit Transaction revenue comes from the pro rata assessment.

