

ESCROW ADVISORY COMMITTEE MEETING

March 14, 2023

10:00 AM – 12:00 PM

320 West 4th Street, 7th floor conference room, Los Angeles, CA 90013

Or via. Microsoft Team

Department of Financial Protection and Innovation Represented by:

Sheila Oliver, Deputy Commissioner

Paul Liang, Portfolio Manager

Gary Suzuki, Special Administrator – Regulatory

Committee Members:

Claire Bartos, Las Brisas Escrow, Inc. / Immediate Past Chairperson EIC *

Heidi Cassel, Solaris Escrow, Inc. / Medium Sized Escrow Company

Juliana Tu, Viva Escrow! Inc. / Business Specialization

Larry Black via phone, Diamond Country Escrow, Inc. / Small Business

Patricia J. (P.J.) Garcia, Beach Pacific Escrow, Inc./Chairperson EIC *

* Escrow Institute of California

** Escrow Agents' Fidelity Corporation

1. Welcome, Opening Remarks

Paul Liang welcome advisory committee members who attend the meeting either in person or virtually

2. Review and Approval of Minutes for 3/14/23 meeting

Advisory members were provided the last meeting minutes prior to the current meeting. Advisory members do not have any corrections or comments for the minutes. PJ Garcia made a motion to approve the minutes. Heidi Cassel seconded the motion. The minutes was approved.

3. DFPI Escrow Program restructure

Liang stated DFPI Escrow Law program is being restructured for organizational alignment to provide regulatory support and supervision to the industry. In the past, the escrow program had only one special administrator who managed licensing, examination, and administrative functions. As both the industry and the program grew during the past ten years, the program divided up the above three functions to have one licensing special administrator to manage both licensing and administrative functions, and one regulatory special administrator to manage the exam functions. The DFPI will divide up the duties and responsibilities for the licensing special administrator and assign them to two managers. One will be managing the licensing function. And the other will be managing the program administrative functions such as assessment, liability reports filing, data collection and survey, industry liaison, etc.

This restructure will take non-examination, and non-licensing tasks away from the regulatory and licensing special administrators to allow them solely to focus on managing licensing and examination functions as issues in both areas are getting more complex. Liang has taken the position as a portfolio manager to manage the administrative function of the escrow law program. Currently, the program is

recruiting for a licensing special administrator. Until the position is filled, Liang will continue to manage both licensing and administrative functions.

A member of the public questioned how the positions would impact the program's budget. Liang stated the addition of this position is absorbable by the program. The current year's budget is not available because the DFPI closes its books after June 30 fiscal year. The member of public requested a copy of the escrow program's prior year budget. Liang provided information about submitting a request for public records through the DFPI's online submission portal.

Another member of the public voiced concerns that the DFPI was recruiting for a management position but not examiners who would be providing immediate relief to both examination and licensing functions. Liang stated that this organizational realignment started from top down. In order for both licensing and examination functions to absorb additional staff, the program's management team needs to be set up to support such a structure. If there is no solid framework to support these functions, it would be problematic in the long run.

Another member of the public asked if DFPI would be seeking candidates to fill the licensing special administrator position internally or externally. Liang stated anyone who qualifies may apply. State hiring is an open and competitive process.

4. Escrow Crypto Exposure Survey

Liang shared the results of a crypto exposure survey the DFPI conducted for the independent escrow industry in February. The DFPI received about 400 survey responses. The purpose of the survey was to understand the independent escrow industry's exposure to crypto related escrow transactions and crypto assets. The survey result showed that two escrow companies handled crypto escrow transactions in the year 2022. The escrow program has inquired about those transactions by the two companies. The survey also showed that one company has crypto booked as its assets. The escrow program was looking into the valuation of this type of asset and how it attributed to meeting the financial requirements. Liang asked advisory members for comments and feedback. Advisory members were not aware of many escrow companies that handled crypto escrow transactions. Some advisory members commented that for companies to include a crypto asset on its balance sheet, they had to review the valuation of those crypto assets daily to monitor their financial compliance unless those companies had general funds set aside for meeting its financial requirements purposes in a CD or a money market account.

In addition to sharing the crypto survey results, Liang also surveyed advisory members whether any industry representatives were aware of escrow companies having a trust account opened with Silicon Valley Bank. Industry representatives were not aware of any escrow companies affected by the bank run at Silicon Valley Bank. Advisory members and members of the public discussed FDIC insurance limit and how the escrow industry worked with the FDIC in the 90s after FDIC took Guardian Bank under receivership.

5. Field Examinations

Suzuki informed the advisory members that the escrow law program will conduct more physical examinations starting the second quarter of 2023. During the pandemic, escrow examinations were mainly conducted remotely. The Governor announced that the state of emergency for COVID-19 is over. As the state of economy gradually reverts to pre pandemic, the escrow law program expects its business process to mirror the change to revert back to conduct in-person examinations. Some examinations may be conducted in a hybrid method partially in-person and partially remote

depending on various factors such as the condition of licensees' books and record, the type of violations found, licensees' cooperation, etc. Suzuki asked licensees to expect examiners' presence out in the field in the upcoming months.

Suzuki also addressed some licensees' concerns about their examination billings. Suzuki clarified that licensees should forward their questions and concerns about examination bills to examination supervisor Kristie Jaynes. Some members of the public expressed concern about the examination invoices lacking detailed information. Some advisory members suggested providing descriptions of examination activities for the hours incurred. Suzuki stated the lack of visibility and communication during a remote examination may cause confusions for some licensees on how their examination hours were incurred. During pre-pandemic physical examinations, the escrow program did not have as many inquiries about examination hours because licensees saw their examiners working at their office and interacted with their examiners frequently to understand the examination progress and issues.

6. Ad Hoc Committee progress

Garcia provided an update about the ad hoc committee for remote work. Garcia stated EIC sponsored a bill SB 484 to allow remote work for the industry. Liang stated the DFPI legal counsels received a copy of the bill, and it was under review by counsel. The DFPI did not have a position on this proposed bill.

Garcia provided an update about the ad hoc committee for CPA audit procedures. Garcia stated the CPA community disengaged from this committee due to tax filing deadlines and engagements. The rest of ad hoc committee members will continue the committee work and engage CPA community at appropriate time.

7. Enforcement Actions and Licensing Update

Liang provided an update about enforcement actions during the first quarter. The DFPI issued one accusation to bar a person for making unauthorized disbursements. Liang also provided an update about licensing stats. As of February 28, 2023, there were 726 licensed escrow companies at 1,077 licensed locations. The number of licensed companies increased by nine from the same period a year ago. The number of licensed locations increased by 20 from the same period a year ago. The number of licensed companies and licensed locations continued to trend upward. As of March 10, 2023, there were 24 licenses pending surrender and 43 license applications pending approval.

8. Public comments

Members of the public and advisory members asked if the next meeting would be held in DFPI's Los Angeles office or an office in Northern California. Oliver suggested the second quarter advisory meeting be held in the DFPI Los Angeles office. She will invite the commissioner to the third quarter advisory meeting in either DFPI San Francisco or Sacramento office depending on commissioner's availability.

9. Closing remarks

Liang thanked everyone for their attendance and participation. The next meeting is scheduled for June 13, 2023, from 10:00 a.m. to noon at DFPI Los Angeles office. Meeting announcement will be posted on the department's website. At about 12:15 p.m., the meeting adjourned.