

ESCROW ADVISORY COMMITTEE MEETING

December 5, 2023

10:00 AM – 12:00 PM

300 S. Spring St., 15th 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, Assistant Deputy Commissioner

Sultanna Wan, Special Administrator - Licensing

Gary Suzuki, Special Administrator – Regulatory

Milad Farag, Special Administrator – Regulatory

Committee Members:

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

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

Jason Watrous, Freedom Escrow / Chairperson EAFC **

Laura Padilla, Escrow Consultants-Century City / Vice Chairperson EAFC **

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 welcomed advisory committee members who attended the meeting either in person or virtually. Liang made a roll call and there was a quorum to continue the meeting. Advisory members briefly discussed the current state of the economy and how the independent escrow industry has not seen massive layoffs compared to other industries. Advisory members believe this is due to independent escrow companies' lean operation. Advisory members also shared concerns about limited employee candidate pool as more older escrow practitioners retired and not enough young practitioners enter into this profession. Many over 65 crowds are not willing to work through another downturn. Liang asked advisory members what the industry could do to entice the next generation of escrow practitioners to enter this profession. The DFPI would like to hear different thoughts and ideas.

2. Review and Approval of Minutes for 9/12/23 meeting

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

3. DFPI Updates

Liang introduced two new advisory members Jason Watrous of Freedom Escrow and Laura Padilla of Escrow Consultants-Century City as representatives of EAFC on the advisory committee. Liang also

introduced Milad Farag as the new escrow law program examination manager. Milad Farag and Gary Suzuki will manage the examination function of the escrow law program.

Liang stated the four vacant advisory positions were expected to be filled by commissioner's appointee soon. Those four positions are an attorney with escrow agent clients, representative for medium-sized companies, representative for company with other business ownership, and a representative for business with a specialization. The escrow program has submitted applications for these positions for commissioner's review and appointment. The escrow program expected appointments be made before the next advisory meeting. Liang thanks those who applied for these positions and their willingness to serve. The DFPI is grateful for their time and efforts to assist the commissioner to administer the escrow law.

Liang provided an update about the escrow law program's restructuring. This internal reorganization has been completed. The program has filled all except one vacant examiner position. Escrow licensees can expect to see some new examiners in the field in the upcoming months. If a licensee does not recognize our new examiner, the licensee may contact one of the managers to confirm the identity of our examiner. Part of the escrow program's restructuring and reorganization was to move the reviewing of annual audit report from the examination function to the licensing function. This process in the past has been handled by the examination team during the course of an examination. Separating annual report reviewing from examination will allow field examination teams to conduct exams faster and avoid examination backlog. Consequently, the billing of reviewing annual audit procedure by licensing examiner will be separated from licensee's examination bill.

A typical annual report review will take about two hours. Licensees can expect to see a small invoice for this review starting for the annual audit reports with a fiscal year end on December 31, 2023. The current examination rate is \$95 per hour. Licensee should budget for this expenditure accordingly. An annual report which contains concerning issues such as financial deficiencies or unresolved trust bank account reconciling items will take more time to review and resolve; therefore, costing more to licensees.

A member of the public questioned the department's statutory authority to bill annual report reviews. Liang stated the review has always been billed as part of regulatory examination. The only difference now is that this review will be handled and billed separately by escrow program's licensing team. The escrow program has consulted with DFPI legal division prior to separating this process and billing. The department's legal division approved this change. If anyone needs guidance from DFPI legal division, a request for legal interpretative opinion can be submitted to DFPI legal. One of the department's counsels will respond to the request timely and handle the request appropriately. A member of the public expressed concern about double billing for annual audit report reviews. Liang stated the department will not bill the review twice. Licensees may contact Liang if there are further questions, comments, or concerns regarding this change.

Liang shared with advisory members some concerning observations by escrow law program's licensing team. Recently, the department has identified a number of unconsented stock transfers. In one case, a company has had nine stock transfers without reporting and obtaining consent from the commissioner since the 1990s. In some cases, the escrow holder's attorney state bar license was either revoked or inactive due to retirement, and the stock certificates held in their possession were returned to the escrow company. Liang asked advisory members what the industry can do to help educate existing owners and new escrow company owners to prevent this type of issue from happening.

Garcia stated EIC has a quarterly newsletter for its members that can include a topic for this issue. Liang encouraged licensees to contact escrow program's licensing team if they plan to transfer shares

of the company. The department's licensing team can guide and assist them with compliance requirements. A member of the public commented that this unconsented stock transfer happened sometimes due to companies getting back advice from their legal counsel who are not familiar with escrow requirements. There are also people who lack the knowledge when there has been so much generational turnover. Watrous suggested to link reference materials for stock transfer on the annual liability report form on the DFPI portal. This will serve as a reminder for licensees to take certain actions when there is a change of ownership interest.

Garcia requested the program to provide a list of names for the examiners. EIC can help to confirm examiner's identity when its members reach out to EIC when being examined. Liang stated an updated list of examiners will be provided to advisory members before the next meeting.

4. Examination issues

This agenda item was not discussed because the meeting was running out of time.

5. Ad Hoc Committee progress

Garcia gave a brief update for the status on Ad Hoc committee's review of CPA auditing procedures.

6. Enforcement Actions and Licensing Update

Liang briefly went over enforcement cases in the current quarter and licensing statistics. It appears the number of licensed companies and licensed locations continued to increase comparing to the same period in the prior year. The industry grew in a slow pace.

7. Public comments

A member of the public asked if the escrow program will license crypto escrow service providers after the passing of Digital Financial Asset Law. Liang stated program would reach out to DFPI legal for guidance before responding to this question.

8. Closing remarks

Liang thanked everyone for their attendance and participation. The next meeting is scheduled for March 12, 2024, from 10:00 a.m. to noon at DFPI Los Angeles office. Meeting announcement will be posted on the department's website. At about 12:19 p.m., the meeting adjourned.