Texas
Department of Banking

Strategic Plan
2015-2019

THE STATE OF TEXAS
DEPARTMENT OF BANKING

TEXAS DEPARTMENT OF BANKING
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AGENCY STRATEGIC PLAN
FOR FISCAL YEARS 2015 – 2019

BY THE

TEXAS DEPARTMENT OF BANKING

Finance Commission of Texas

Commission Member	End of Term	Hometown
William J. (Bill) White, Chair	February 1, 2016	Georgetown
Susan H. Burton	February 1, 2016	Addison
Victor E. Leal	February 1, 2018	Amarillo
Stacy G. London, CMC	February 1, 2020	Houston
William M. (Will) Lucas	February 1, 2018	Center
Cindy F. Lyons, CPA	February 1, 2016	El Paso
Lori B. McCool	February 1, 2020	Boerne
Jonathan Bennett Newton	February 1, 2016	Houston
Larry Patton	February 1, 2020	El Paso
Paul Plunket, Vice Chair	February 1, 2020	Dallas
Hilliard (Jay) Shands, III	February 1, 2018	Lufkin

Submitted June 2014

Signed: ______________________

Charles G. Cooper
Banking Commissioner

Approved: ______________________

W. J. (Bill) White, Chairman
Finance Commission

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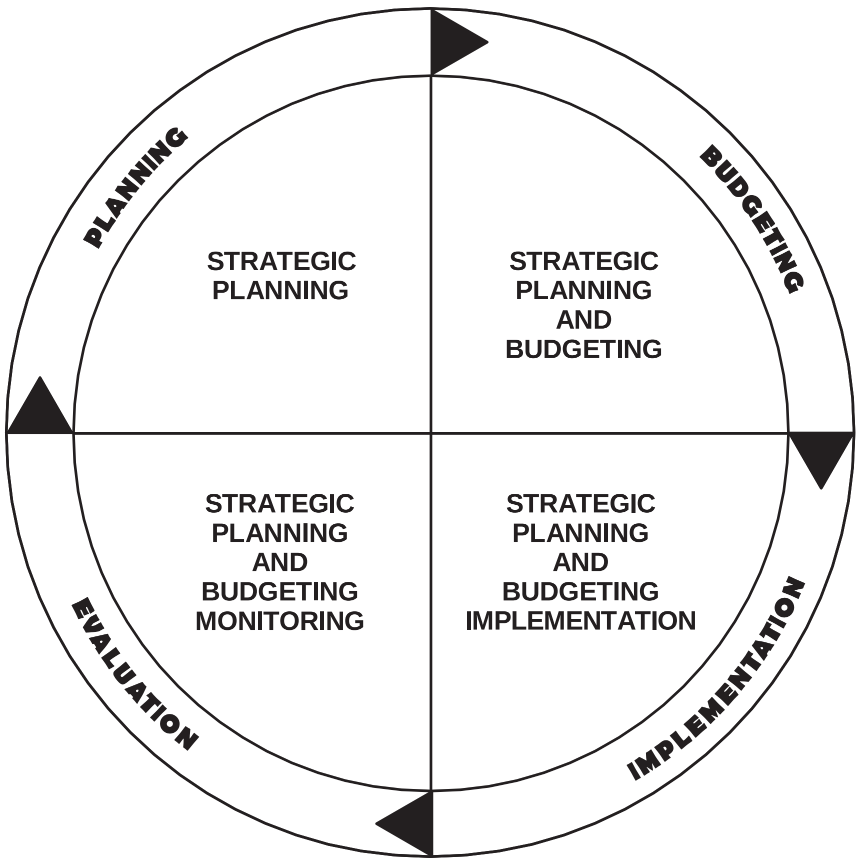
The process of developing the strategic plan enhances decision-making and identifies the agency's long-term goals. It also identifies factors affecting the agency and improves agency communication. Strategic planning guides the budget preparation and establishes a basis for measuring success. The planning relies on careful consideration of an agency's capabilities and environment and can lead to priority-based allocation of fiscal, human, technological, capital, and other resources.



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STRENGTHENING OUR PROSPERITY

VISION --

"Since the last round of strategic planning began in March 2012, our nation's economic challenges have persisted, but Texas' commitment to an efficient and limited government has kept us on the pathway to prosperity. Our flourishing economic climate and thriving jobs market continue to receive national attention and are not by accident. Texas has demonstrated the importance of fiscal discipline, setting priorities and demanding accountability and efficiency in state government. We have built and prudently managed important reserves in our state's "Rainy Day Fund," cut taxes on small business, balanced the state budget without raising taxes, protected essential services and prioritized a stable and predictable regulatory climate to help make the Lone Star State the best place to build a business and raise a family.

Over the last several years, families across this state and nation have tightened their belts to live within their means, and Texas followed suit. Unlike people in Washington, D.C., here in Texas we believe government should function no differently than the families and employers it serves. As we begin this next round in our strategic planning process, we must continue to critically examine the role of state government by identifying the core programs and activities necessary for the long-term economic health of our state, while eliminating outdated and inefficient functions. We must continue to adhere to the priorities that have made Texas a national economic leader:

- ensuring the economic competitiveness of our state by adhering to principles of fiscal discipline, setting clear budget priorities, living within our means and limiting the growth of government;
- investing in critical water, energy and transportation infrastructure needs to meet the demands of our rapidly growing state;
- ensuring excellence and accountability in public schools and institutions of higher education as we invest in the future of this state and ensure Texans are prepared to compete in the global marketplace;
- defending Texans by safeguarding our neighborhoods and protecting our international border; and
- increasing transparency and efficiency at all levels of government to guard against waste, fraud and abuse, ensuring that Texas taxpayers keep more of their hard-earned money to keep our economy and our families strong.

I am confident we can address the priorities of our citizens with the limited government principles and responsible governance they demand. I know you share my commitment to ensuring that this state continues to shine as a bright star for opportunity and prosperity for all Texans. I appreciate your dedication to excellence in public service and look forward to working with all of you as we continue charting a strong course for our great state."

Rick Perry, Governor

MISSION --

Texas state government must be limited, efficient, and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

Aim high...we are not here to achieve inconsequential things!

PHILOSOPHY --

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise, we will promote the following core principles:

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics or individual recognition.
- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.
- Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local government closest to their communities.
- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. Just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future and the future of those they love.
- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.
- State government has responsibility to safeguard taxpayer dollars by eliminating waste and abuse and providing efficient and honest government.
- Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

PRIORITY GOALS

The following statewide priority goal and related benchmark are particularly relevant and provide guidance to the Texas Department of Banking in establishing its goals and objectives:

GOAL: REGULATORY

"To ensure Texans are effectively and efficiently served by high-quality professionals and businesses by:

- Implementing clear standards;
- Ensuring compliance;
- Establishing market-based solutions; and,
- Reducing the regulatory burden on people and business."

BENCHMARK:

- Percent of state financial institutions and credit providers rated "safe and sound" and / or in compliance with state requirements.

MISSION –

To ensure Texas has a safe, sound and competitive financial services system.

PHILOSOPHY –

In fulfilling our mission, we will:

- Adhere to the highest ethical and professional standards;
- Be statutorily accountable and responsible;
- Anticipate and respond to a dynamic environment;
- Identify and promote innovative practices;
- Operate efficiently and maintain consistent and prudent regulatory standards;
- Communicate effectively;
- Foster teamwork while encouraging individual excellence and career development;
- Provide a desirable work environment that values cultural and individual differences;
- Seek input from and be responsive to the public, our supervised entities, and State leadership; and
- Adhere to the principle of "Tough but Fair" regulatory oversight.

OVERVIEW AND KEY RESPONSIBILITIES

The Department of Banking (Department) is entrusted with ensuring the safety of the public's money held by businesses that provide financial services. Providers of financial products and services to Texas consumers and under the supervision of the Department primarily include banks, trust companies, money services businesses, perpetual care cemeteries, preneed funeral contract providers, cemetery brokers, and private child support enforcement agencies. As of December 31, 2013, there were over 1,132 financial service providers with financial assets of approximately $447 billion under the supervision of the Department. The Department's authority is granted under various provisions of the Texas Finance Code (Finance Code), Texas Health and Safety Code, and the Texas Administrative Code.

The Department does not license and regulate all financial service providers in Texas. Entities that are chartered or licensed by the Department and subject to examinations to ensure they are operating in a safe and sound manner and in compliance with state and federal laws are shown in Table 1. Entities which are required to register with the Department but not subject to examination are shown in Table 2. Effective January 1, 2014, cemetery brokers, defined as third parties who resell plot burial rights, are required to register with the Department. This requirement was mandated by the 83rd Legislature as provided in new statutes in the Health and Safety Code.

The Finance Commission of Texas (Commission) is an eleven member governing body responsible for overseeing and coordinating the activities of three state agencies: the Department of Banking; the Department of Savings and Mortgage Lending; and the Office of Consumer Credit Commissioner. The Commission appoints the Banking Commissioner, who is charged with carrying out the mission of the agency. An organizational chart is provided in Appendix B.

As a Self-Directed, Semi-Independent (SDSI) agency, the Department does not receive general revenue funds. The agency's entire operating funds are generated from fees assessed on the entities supervised by the Department. The Department matches revenues with expenditures to ensure that the licensed entities are not charged more than is required to maintain the agency's operations and meet its statutory mandates. The Commission is responsible for annually reviewing the agency budget and setting the spending authority or limits for the agency. Pursuant to Chapter 31.106 of the Finance Code, the Commissioner is authorized to impose and collect fees to cover only the cost of examination, the equitable or proportionate cost of maintenance and operation of the Department, and the cost of enforcement.

Total expenditures for the fiscal year ending August 31, 2013, were $22.8 million. Approximately 93% of these expenses were related to salary, employee benefits and travel. For fiscal year 2014, the Department used the baseline for the prior year's approved expenditures and adjusted for deferred maintenance costs for the building, employee training, travel, and projected retirements. The agency's final budget for fiscal 2014, approved by the Commission, was $25.0 million in expenditures. Further discussion of the agency's SDSI status and budget process can be found under the Internal Factors section of this plan.

Total approved staffing for the agency is 200 full-time equivalent (FTE) employees. Approximately 60% of the agency's staff are financial examiners who perform on-site examinations of chartered or licensed entities under the Department's jurisdiction. A significant percentage of the agency's budget supports this staff and the examination function.

In situations where an unlicensed or noncompliant business is discovered, the Department has statutory authority to take enforcement action. Consumers may file complaints with the Department regarding chartered, licensed, and registered entities or entities engaged in unlicensed activity under our jurisdiction. The Department does not have authority to resolve complaints with check verification companies. Disputes are investigated by Department personnel and every attempt is made to bring about a fair resolution. State leadership and other interested parties are routinely provided information about our regulated industries, and the associated laws, rules, policies, and practices of the agency.

Table 1: Chartered or Licensed Entities Subject to Examinations as of December 31, 2013

Financial Service Provider	No. of Entities / Assets Under Administration (In Millions)	Applicable Laws with Examination and / or Licensing Authority
State-Chartered Banks[1]	283 $216,554	Chapter 31 of the Texas Finance Code (TFC) requires an examination annually or more often as necessary to safeguard the interests of depositors, creditors, shareholders, participants and participant-transferees. Under certain circumstances, the timeframe between examinations may be extended to 18 months.
Trust Companies	21 Nonexempt $39,495 19 Exempt[2]	Chapter 181 of the TFC requires an examination annually or more often as necessary to safeguard the interests of clients, creditors, shareholders, participants and participant-transferees. The banking commissioner may defer an examination for not more than six months if the deferment is considered necessary.
Offices of Foreign Bank Agencies (FBAs)	10 $91,079 15 Representative Offices[3]	Chapter 204 of the TFC requires an examination of each Texas state branch, agency or representative office of a foreign bank annually or more often as necessary to determine if the office is operated in a safe and sound manner.
Money Services Businesses[4] (MSBs)	137 $96,144	Chapter 151 of the TFC requires an examination annually or at other times as the Commissioner may reasonably require necessary to protect and safeguard customer funds and prevent money laundering and funding of terrorist activities.
Prepaid Funeral Contract Sellers (PFCs)	387 $3,334	Chapter 154 of the TFC requires an examination of records at least once every eighteen months or more frequently under certain circumstances and as considered necessary to protect the prepaid funds and to assure that the contracted services and merchandise are provided at the time of death.
Perpetual Care Cemeteries (PCCs)	243 $280	Chapter 712 of the Texas Health and Safety Code requires an examination on a periodic basis as the Commissioner considers necessary to protect the interest of plot owners and safeguard the perpetual care trust funds and to assure that the fund income is used to maintain and support cemetery maintenance.

[1] *Source: FDIC.*
[2] *Assets under administration not available.*
[3] *Assets not reported.*
[4] *Includes currency exchange, transmission and transportation businesses, gift cards, prepaid access card, money order sellers, and companies that deal in travelers' checks, drafts, and bill payments. The Department does not license companies that cash checks, authorized delegates of licensed businesses, or companies that issue stored value cards in a "closed" system. Authorized delegates are, however, subject to examination.*

Table 2: Other Registered Entities Not Subject to Examination as of March 31, 2014

Financial Service Provider	No. of Entities	Applicable Law and Enforcement Authority
Private Child Support Enforcement Agencies (PCSEAs)	12	Chapter 396 of the Texas Finance Code requires registration and investigation of consumer complaints.
Cemetery Brokers	3	Chapter 711 of the Health and Safety Code requires registration and investigation of consumer complaints.
Check Verification Entities (CVEs)	3	Chapter 11 of the Texas Finance Code requires registration only. Once registered, CVEs may receive notice of closed account information from financial institutions through a secure electronic notification system.

Organization

We accomplish our mission primarily by examination of the licensed entities under our supervision. Agency staff is divided into several divisions which report to one of the Department's two deputy commissioners. Examination staff, which represents approximately 60% of all staff, are primarily assigned to the Bank and Trust Supervision Division and the Special Audits Division. An organizational chart is provided in Appendix B.

Bank and Trust Supervision

As of April 30, 2014, the Bank and Trust Supervision Division accounted for 64% of the agency's employees. Field examiners make up 80% of the Division's total staffing. Assessments on commercial banks, foreign banks and trust companies provide the revenue for this area.

Special Audits

As of April 30, 2014, the Special Audits Division accounted for 11% of the agency's employees. Field examiners make up 80% of the Division's total staffing. The Division supervises the activities of money services businesses (MSBs), prepaid funeral contract sellers (PFCs), and perpetual care cemeteries (PCCs). Assessments on these licensed entities provide the revenue for this area.

Sunset Review

Section 12.109 of the Finance Code addresses the sunset provision for the Department. The 83rd Legislature amended this statute and extended the existence of the Commission and the agencies over which it has jurisdiction until September 1, 2019.

Interacting with Industry Organizations, Trade Groups, and State and Federal Agencies

In order to accomplish its mission, the agency must be knowledgeable of regulatory changes and emerging trends and monitor both state and national conditions. To stay informed of important matters affecting regulated entities as well as provide input when possible, the Department works closely with various organizations, trade groups, and various state and federal agencies.

ORGANIZATIONS AND TRADE GROUPS

Conference of State Bank Supervisors (CSBS)

CSBS is a national organization dedicated to advancing the quality and effectiveness of regulation and supervision of state banking and financial services. CSBS provides insight on changes in federal banking regulations and offers training on current and emerging issues for the agency's examination staff. Membership includes state banking regulators and state-chartered banks. CSBS was responsible for all 50 state banking departments signing the 1997 Nationwide Cooperative Agreement and Nationwide State-Federal Agreement, allowing for the coordinated supervision of multi-state, state-chartered banks. CSBS serves as the central communication channel of state regulators with Congress and federal policymakers. Departmental staff actively serves on a variety of committees, workgroups and task forces on subjects relating to legislative and regulatory matters. Commissioner Charles G. Cooper serves as Vice Chairman of the Board of Directors; Vice Chair of the Executive Committee, Chairman of the Finance, Compensation & Benefits Committee, and is an active member of the Legislative Committee; Regulatory Committee, Audit Committee, Community Banking Committee, the MSB Taskforce, and the Emerging Payments Task Force.

Independent Bankers Association of Texas (IBAT) and Texas Bankers Association (TBA)

Both IBAT and TBA keep Department staff informed of legislative initiatives and other important matters relating to their membership. The Department works closely with IBAT and TBA in both rule-making and policy development and in providing financial education information to our supervised entities and other trade group members. Department staff frequently consults with IBAT and TBA on matters relating to issues dealing with bank operations, consumer complaints, and emerging industry concerns.

Money Transmitter Regulators Association (MTRA)

The MTRA is an organization comprised of state regulatory authorities dedicated to the efficient and effective regulation of the MSB industry in the U.S. Through MTRA states have developed standardized examination procedures, uniform ratings, and training courses for examiners. The agency provides instructors for these classes. Deputy Commissioner Stephanie Newberg serves as President of MTRA until October 2015.

Multi-State MSB Examination Taskforce (MMET)

MMET was formed to promote a nationwide framework for cooperation and coordination among MSB State Regulators that have concurrent jurisdiction over a multi-state MSB regulated entity. The taskforce conserves regulatory resources and minimizes the regulatory burden on supervised entities, consistent with each state's attaining its supervisory objectives. The group is comprised of 10 state MSB regulators appointed by the MTRA and CSBS boards. Review Examiner Jesse Saucillo serves on this taskforce.

North American Death Care Regulatory Association (NADCRA)

The NADCRA provides a forum for discussion on the efficiency and effectiveness of regulation of the death care industry in the U.S. and Canada. NADCRA members work to provide uniformity in legislation, policies, forms and other matters relating to cemetery and death care regulation. Membership consists of state and province regulatory authorities from the U.S. and Canada in charge of regulating perpetual care and endowment care cemeteries and preneed funeral contract providers.

STATE AND FEDERAL AGENCIES

Federal Deposit Insurance Corporation (FDIC) and Federal Reserve Bank (FRB)

The Department participates in cooperative examination arrangements with the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank (FRB). These comprehensive agreements foster close supervisory cooperation between the agencies and provide a seamless system of supervision for state banks in Texas. The Department works closely with the FDIC and FRB to ensure effective and non-burdensome supervision, consistency in policy, and efficiency of administration of state-chartered banks. Coordinated activities are practiced in the areas of training and planning, scheduling, on-site supervision, off-site monitoring, board/management meetings, and developing/administering appropriate regulatory responses.

The Department's Financial Education Coordinator works closely with both the FDIC and FRB to provide financial education to consumers, non-profit organizations, educations and other interested groups by hosting conferences and webinars. Through this cooperative arrangement, Department staff also provides financial education tools for bankers to educate their communities.

Financial Crimes Enforcement Network (FinCEN)

The Department cooperates with FinCEN and numerous other federal agencies to monitor compliance with the Bank Secrecy Act (BSA) and anti-money laundering (AML) laws governing our regulated entities. Commissioner Cooper is a member of the BSA Advisory Group.

The Department also serves on a Suspicious Activity Report (SAR) Review Team. The team, comprised of representatives from various state and federal agencies, reviews SARs filed by banks and MSBs in Texas.

Internal Revenue Service (IRS)

The Department works with the IRS in fulfilling its regulatory responsibilities in the MSB area. The relationships with FinCEN and the IRS allow for open discussions on proposed federal rules affecting MSBs, prosecution of illegal activities, and conducting joint examinations.

Texas Funeral Service Commission (TFSC) and Texas Department of Insurance (TDI)

The Department's PFC examination staff actively participates in regulatory activities with both the TFSC and the TDI on matters affecting licensed insurance-funded PFC sellers and on matters regarding funeral directors who have failed to adhere to applicable laws regarding prepaid funeral benefit sales. This cooperative arrangement has been essential to our supervision and regulation of PFC sellers and the efforts to reduce defalcation and unlicensed activity.

Texas Office of Homeland Security

The Department partners with the Texas Office of Homeland Security in their coordination and planning of critical infrastructure protection for Texas Specific Sectors. The agency is co-leading the Banking and Financial Services Sector and is involved in the identification and protection of critical infrastructure and key resources (CIKR) for Texas. The primary goal of this partnership is to provide a strategy for working collaboratively with public and private partners to:

- Identify critical infrastructure;
- Reduce CIKR vulnerability;
- Promote the continued operation and resiliency of CIKR in the face of natural disasters, technological failures and deliberate attacks; and
- Enhance understanding of CIKR and develop, share and disseminate information to support prevention of attacks and response/recovery following attacks and disasters.

State and Federal Agency Task Forces

Texas Bankers Electronic Crimes Task Force (ECTF)

The ECTF develops recommendations to assist the industry in mitigating the risks of emerging electronic crimes. The ECTF was formed by the Texas Banking Commissioner in cooperation with the U.S. Secret Service. It consists of senior bank officers with technology oversight from a diverse group of banks in terms of size, complexity, and market environment, and representatives from IBAT, TBA, and the Southwestern Automated Clearing House Association (SWACHA), which is the regional electronic payments association. The Department's Director of IT Security Examinations is also a member of the ECTF.

Residential Mortgage Fraud Task Force

The Department is a member of the Residential Mortgage Fraud Task Force, which was established by the Texas Attorney General in an effort to improve the collaboration between state and federal regulators, and local law enforcement agencies in tracking and reducing residential mortgage fraud in Texas. As a result, the Department's examination process was expanded to include a review of bank practices in this area. Suspected mortgage fraud complaints received through the Department's consumer assistance area are routinely submitted to the Attorney General for review by the taskforce.

THE TEXAS BANKING INDUSTRY

THE CONDITION OF STATE BANKS AND THE TEXAS ECONOMY

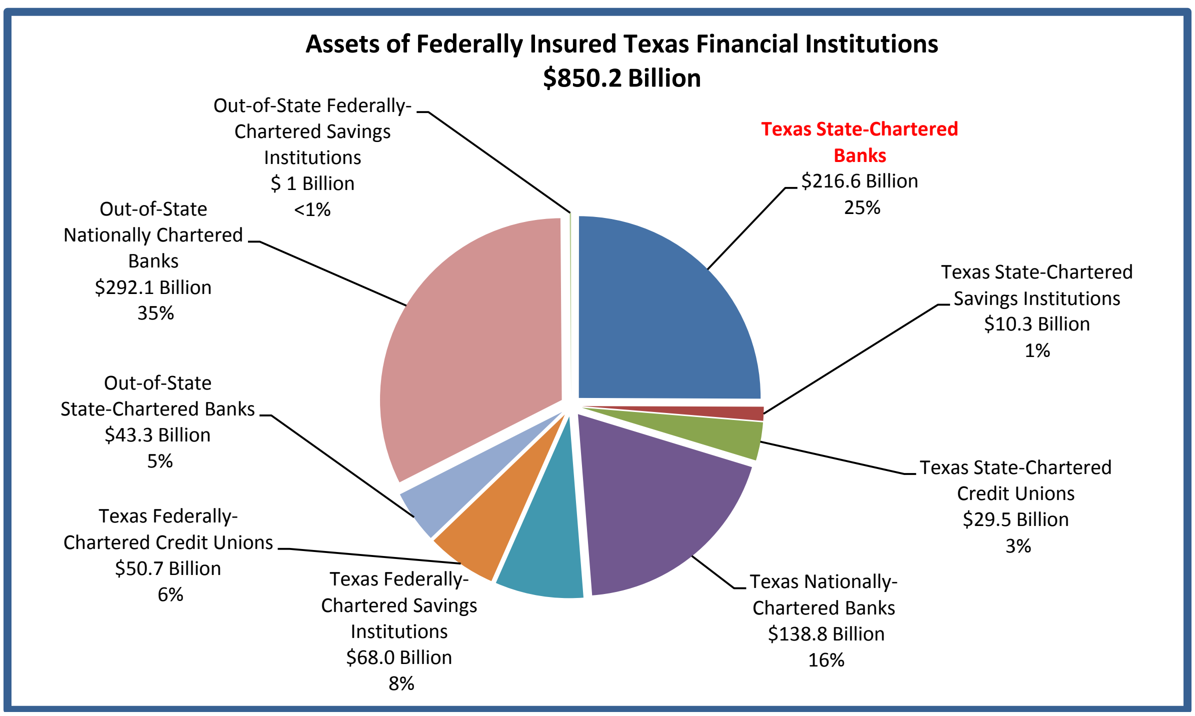
The condition and performance of Texas state-chartered banks continues to strengthen. Bank balance sheets are reflecting improved asset quality, lower credit losses and stronger liquidity and capital positions. The number of problem banks continues to decline to a pre-financial crisis level. Although there were two bank failures in Texas in 2013, these were nationally chartered banks. The positive trends seen in the condition of state-chartered banks is expected to continue as bank management continues to improve and strengthen their operations despite the challenges of new regulations, the persistent drought, and the low interest rate environment. In Texas, state-chartered banks are also healthier than institutions in many other parts of the nation, due in part to the stability in the Texas economy.

The Texas economy has shown moderate growth and continues to outperform the national economy. The energy industry is the leading economic sector in the state. Employment growth in the oil and gas industry has helped to ease the unemployment rate, which is well below the national average. Conversely, there are significant concerns around the persistent drought and its impact on the agricultural and oil and gas industries. The Department and financial institutions will continue to monitor these conditions, the impact on the state's economy, and the effect on local communities.

THE COMPOSITION OF THE TEXAS BANKING INDUSTRY

The Texas banking industry is comprised of federally insured financial institutions holding $850.2 billion in total assets, as of December 31, 2013, as shown in Figure 1. The 283 Texas state-chartered banks and their 2,269 branches represent 25% of this total, or $216.6 billion. Since the previous fiscal year, total assets of Texas state-chartered banks have increased $11.0 billion. The Department anticipates that the growth in total assets of Texas state-chartered banks will continue to increase over the next five years due to mergers, acquisitions and charter conversions.

Figure 1



FDIC data as of December 31, 2013

The number and size of banking institutions under the Department's supervisory authority is illustrated in Table 3. The most significant change is the decline in the number of institutions with total assets under $250 million. This shift towards larger institutions began in early 2009 as the number of mergers and consolidations increased.

Table 3: State-Chartered Banks by Asset Size

Size of Institution	Number of Banks		
	12/31/2009	12/31/2011	12/31/2013
$100 million or less	136	105	84
$100-$250 million	100	101	91
$250-$500 million	45	47	55
$500-$1 billion	21	30	26
Over $1 billion	16	19	27
Total	**318**	**302**	**283**

Source: Texas Department of Banking

MERGER ACTIVITY

Merger activity is expected to continue for the next five years as some banks look for growth and seek economies of scale to improve profitability. The Department further anticipates a modest number of mergers will occur due to regulatory burn out as bank boards and management adjust to new regulations and the increasing costs of compliance stemming from the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank).

The majority of the merger activity is expected to be concentrated in state-chartered banks with total assets under $100 million. The changing regulatory environment with the number of new regulations and the related compliance costs, as well as thin net interest margins and weak loan demand has significantly impacted the earnings capacity of smaller community banks. Small rural, family-owned banks are also finding it increasingly difficult to recruit successors interested in operating a bank in a rural area. Banks in this category may see a merger or acquisition as an opportunity to continue serving the community and incorporate the benefits of economies of scale to remain a viable institution.

Slowing the decline in the number of state banks is the increasing level of interest in conversions from national to state banking charters. Between July and December of 2013, four national banks and one federal savings bank converted to a state charter. In addition, interest in acquiring small or troubled institutions by investor groups to gain access to a Texas bank charter is also expected to continue. This may pose a challenge for those banks wanting to be acquired as the state's vibrant economy may offer more attractive investment alternatives than investing in a bank. The pace of the economic recovery does however make Texas banks more attractive to banks located in other states. The Department will continue to monitor staffing levels needed to accommodate sizable new entries into the state banking system.

Table 4 illustrates the Department's projected growth in state-chartered banks for fiscal years 2014-2019. Over the next five years, a wave of bank mergers and consolidations is projected, reducing the number of state-chartered banks at an average annualized rate of 3.7%. As the strong Texas economy continues, however, assets of state-chartered banks are expected to grow between 4% and 6% annually.

Table 4: Asset Growth Projections for the Next Five Years

Year Ending	Number of Banks At 4.5% Net Attrition Rate	Number of Banks At 3% Net Attrition Rate	Assets ($B) AT 6% Annual Growth Rate	Assets ($B) AT 4% Annual Growth Rate
12/31/2013	283	283	$217	$217
12/31/2014	270	275	$230	$226
12/31/2015	258	266	$244	$235
12/31/2016	246	258	$258	$244
12/31/2017	235	251	$274	$254
12/31/2018	228	243	$290	$264

TRUST INDUSTRY CHALLENGES

The Department is responsible for the oversight of 42 active trust departments of state-chartered banks, 21 state-chartered public trust companies, and 19 state-chartered family-owned trust companies as reflected in Table 5.

Table 5: Trust Industry

Supervised Entities	Number of Entities		Fiduciary Assets (In Billions)	
	2011	2013	2011	2013
Banks with Active Trust Departments	41	**42**	$105	**$160**
Trust Companies	22	**21**	$20	**$39**
Family Trust Companies	20	**19**	N/A	**N/A**

Data as of December 31, 2011 and December 31, 2013

Trust Departments

As of December 31, 2013, assets administered by trust departments totaled $160 billion, a significant increase from $105 billion in 2011. This growth in assets is primarily due to one institution converting from a national charter during this time period as well as growth in several of the larger existing bank trust departments.

Public Trust Companies

Texas state-chartered non-deposit trust companies doing business with the public also report favorable growth in assets under administration. While the number of these companies has declined by one over the last two years, trust assets have almost doubled from $20 billion at year-end 2011 to $39 billion at year-end 2013. The majority of this increase is from one large trust company.

Family Trust Companies

Assets under administration of exempt non-deposit trust companies doing business solely with family members are not reported due to the confidential nature of these charters. The number of state-chartered trust companies, both public and family, is expected to continue to decline slightly over the next several years as some very small entities may surrender their charters or convert to a Texas corporation without trust powers.

The sizable growth in trust assets is representative of the strength of the industry, improvement in capital markets, and the continued growth in institutional/retirement assets. There continues to be a concern in the industry regarding the potential volatility in the stock market, which makes managing investments very challenging. The ability to achieve both reasonable income and capital appreciation under current economic conditions requires considerable investment management expertise. The trust industry will remain a very challenging area of business, especially considering the economic uncertainties and potential market volatility. These factors heighten the risk of potential or actual litigation. The Department recognizes these challenges and the importance of maintaining a qualified staff of examination personnel that is trained and knowledgeable about current market conditions and risks.

The costs of maintaining a qualified staff of experienced trust examiners have increased substantially over the last ten years, while the specialty examination fees did not change. Travel costs including airfare, mileage, lodging, and meals have increased substantially over the last decade as well. Consequently, trust examination fees increased from $75 to $110 per examiner hour plus travel related expenses, effective January 1, 2014. The industry was supportive of this rate increase to maintain a high quality examination force.

MONEY SERVICES BUSINESSES (MSB)

THE EVOLVING MSB INDUSTRY

The pace of technological advances and their global impact on the MSB industry creates many challenges. Traditional brick and mortar MSBs have given way to entities that can provide consumers the ability to conduct transactions online, maintain mobile wallets and/or mobile payment systems through the use of smartphones, and issue prepaid access card products. Third-party service providers may also be considered MSBs when they act as intermediaries who accept payments from consumers and ultimately remit the funds to the merchants. However, the methods utilized by third-party service providers vary and each one must be analyzed to determine if licensure is required. As new MSB products and methods of conducting commerce are introduced, the Department must analyze and understand each unique product to determine whether licensure is required under Chapter 151 of the Finance Code. It is vital to the Department to ensure that staff is knowledgeable of current MSB products and understand the related risks.

Expanding Regulations and Guidance

- The Department has taken the position that internet or foreign-located MSBs with no physical presence in Texas, who offer services or activities regulated under the Finance Code to persons located in Texas, must obtain a license under Chapter 151. The Department issued Supervisory Memorandum 1035 for this purpose and is in line with a FinCEN rule issued in 2011 which states that MSBs offering services in the U.S. are subject to BSA rules.

- The rise in popularity of virtual or digital currencies has the attention of federal and state regulators for many reasons including money laundering concerns.

    - FinCEN issued guidance which labels certain digital currency entities as money transmitters and requires them to implement AML programs. In August 2013, a U.S. District Court found that Bitcoins, a type of digital currency, are money and should be regulated under securities laws.

    - In April of 2014, the Department issued Supervisory Memorandum 1037 regarding the regulatory treatment of virtual currencies under the Texas Money Services Act. The Memorandum discusses which virtual currency business activities require a license under current law and which do not. A determination must be made whether to expand money services regulation to include digital currency exchange or other digital currency activities, and if so, in what manner.

- Regulatory changes required by Dodd-Frank amended Regulation E, which implements the Electronic Fund Transfer Act, by adding subpart B, the Remittance Transfer Rule. The remittance rules went into effect in October of 2013 and are overseen by the Consumer Financial Protection Bureau (CFPB). The new regulations provide for disclosure requirements, error resolution, and cancellation rights to consumers sending remittance transfers. In order to ensure licensed MSBs are in compliance, work programs were revised to include compliance review with the Remittance Transfer Rule.

Regulation of MSBs

The Special Audits Division issues licenses and performs examinations of MSBs providing the following services or activities:

- *currency exchange*
- *money transmission*
- *transportation of funds*
- *gift cards*
- *prepaid access cards*
- *money orders*
- *travelers' checks*
- *bill payments*

Texas check cashers and companies that issue prepaid access in a closed system are not regulated by the Department.

Technology Risks

As technology advances are made in the MSB arena, regulators must ensure that policies and procedures are in place to help prevent criminals from hacking computer information systems, infrastructures, and/or computer networks containing valuable customer information. The Department has adopted the recently issued MTRA Information Technology (IT) work program designed to aid examiners in ensuring basic safeguards are in place. It is vital to the Department that examination personnel gain the knowledge and expertise needed to understand information security risks and to ensure licensed MSBs have implemented adequate cybersecurity protocols.

Participating in examinations with other state and federal agencies such as FinCEN and the IRS as well as maintaining an active role with industry groups such as MTRA and the MMET is a priority for the Department. Working with other regulators and industry groups helps the Department provide MSBs with clear and consistent guidance and allows examination personnel to stay abreast of current and emerging issues.

Over the next several years, the Department will continue to face challenges in identifying non-licensed entities and fraudulent activities. Educating the industry and the public on how to prevent illegal activities will be crucial.

Prepaid Funeral Contract and Perpetual Care Cemetery Industries (PFC/PCC)

Challenges for PFCs/PCCs

Trust-funded and insurance-funded PFC sellers and PCC operators have felt the impact of the low interest rate environment reducing earnings on trust funds and policy growth. The industry is experiencing an increase in mergers and consolidations in order to maintain profitability.

Factors Affecting Profitability

- **Increase in the cremation rate.** The Cremation Association of North America estimates that in 2013, the cremation rate in Texas was approximately 35%. This rate is expected to increase to at least 40% by 2016. Although monetary costs is a primary factor in individuals opting for cremations, the increase in cremation memorialization options made available by the funeral industry is another factor. The increase in cremation rate is having a profound impact on the Department's licensed funeral industry. PFC sellers and PCC operators have experienced reduced profit margins as the estimated national funeral cost average is approximately $8,500 compared to less than $3,000 for cremation services. Funeral homes have expanded their cremation services and products to help offset the difference in revenue.
- **Low interest rate environment.** Due to low interest rates, returns on trust-funded accounts are minimal and do not offset the rising costs associated with servicing PFCs upon maturity and/or providing adequate maintenance and care for PCCs. The increased number of cremation services coupled with record low interest rates has required PFCs/PCCs to revise their business models to remain profitable. This trend is causing some funeral homes to rethink the price guarantee associated with a PFC and to consider a pure final expense option for the consumer. In general, this means the consumer is offered a small face amount life insurance policy to offset at-need funeral expenses but it is not tied to a PFC or specific merchandise and services. This defeats the primary advantage of a PFC which locks in the funeral cost at today's prices. To ensure the PFC/PCC industry remains viable and can meet its ongoing obligations to the public, the Department reviews PFC/PCC financial statements during on-site examinations and at each renewal. The Department has seen continued financial problems with small PCCs and receivership proceedings are expected to increase.

"The increased number of cremation services coupled with record low interest rates has required PFCs/PCCs to revise their business models to remain profitable."

Mergers and Consolidations

In late 2013, Service Corporation International, Houston, Texas, the largest funeral-care provider in North America, acquired its largest competitor, Stewart Enterprises, Inc., Jefferson, Louisiana. Both entities are licensed by the Department and provide PFC and PCC services to Texas consumers. The Federal Trade Commission is currently in the process of finalizing the review of the acquisition and has proposed an order to require both entities to divest several groupings of funeral homes and cemeteries, which includes six locations in Texas. The Department will closely monitor this acquisition and the impact it could have on the examination process.

OTHER EXTERNAL FACTORS AFFECTING REGULATED INDUSTRIES

TECHNOLOGY RISKS AND FINANCIAL CRIMES

Financial crimes continue to evolve, with technology playing a key role. Through the internet and advances in technology, banks and MSBs continually change the way they interact with their customers. Services such as online banking, money transmission via mobile devices, and remote deposit capture provide customers with fast and convenient ways to transact business. However, this increased reliance on IT poses new challenges in managing the associated risks. Financial records and monetary transmission systems are increasingly vulnerable to unauthorized access from hackers, terrorists or other cybercriminals. Losses can be incurred not only from this criminal activity, but also from system failures. Banks and MSBs are challenged to properly manage technology risks to ensure that personal private information is protected and maintained as confidential, thereby guaranteeing the security of the funds held or transmitted.

As banks and MSBs continually change how they conduct business, cybercriminals are continually changing their techniques as well. Spyware, malicious codes, viruses, worms, and malware are common tools used to commit fraud, scams, identity theft and other crimes through the internet. More recently, criminals have implemented attacks which focus on the destruction of computerized data and disruption of online banking services. The U.S. government has the resources to pursue financial criminals and the framework to force financial institutions and businesses into compliance with a wide range of laws, such as the BSA/AML and USA PATRIOT Act.

Electronic Crimes

There are numerous types of electronic crimes that target the financial industry including:

- *Account Takeover*
- *Unlimited ATM Cash Out Attack*
- *Distributed Denial of Service (DDoS)*
- *Ransomware*

Types of Electronic Financial Crimes

Account Takeovers

Cyber thieves gain access to a business computer system to steal confidential banking information in an effort to impersonate the business and conduct unauthorized electronic transactions. The Department has been proactive in educating bankers on the risks of corporate account takeover by adopting the ECTF recommendations outlined in “Best Practices for Reducing the Risks of Corporate Account Takeover;” and issuing a Supervisory Memorandum applicable to state-chartered banks requiring banks to implement minimum standards for a risk management program to specifically reduce the risks of corporate account takeovers. More recently, these types of thefts have begun to spread to any account holder with large deposits, not just corporate deposit accounts. As a result, the Department’s examination practices have broadened to include account takeover risk.

ATM Cash Out Attacks

Thieves compromise the computer systems that control how automated teller machines (ATMs) process debit cards. The system is modified so there is no dollar limit on transactions or the amount of cash that can be withdrawn in a single day.

Distributed Denial of Service (DDoS)

Distributed Denial of Service (DDoS) attacks are designed to make online services inaccessible to users by “flooding” the network with countless access requests that lead to a server overload. DDoS attacks were launched against several major U.S. banks in early 2013 that prevented customers from accessing their online banking services for hours at a time. These types of attacks usually act as a diversion while financial thefts are attempted in other areas of the bank. DDoS attacks have occurred primarily at large banks but are spreading to smaller banks.

Ransomware

Ransomware infects a company's computer system and restricts access to electronic data, locking computers from a remote location. Criminals contact the victim company and offer to provide the secret code to unencrypt or unlock the data for a price (ransom). In some cases when the ransom is paid, the secret code is not provided.

The Department recognizes the importance of the technology risks facing the financial industry as well as the challenges these create from a regulatory standpoint. The Department's Director of IT Security Examinations is a member of the Federal Financial Institutions Examination Council (FFIEC) Cybersecurity and Critical Infrastructure Working Group which was formed in 2013 to help provide timely insight to federal and state regulators on cybersecurity issues facing the banking industry. The Department recently launched a joint initiative with the U.S. Secret Service, IBAT, TBA, and SWACHA to focus on the role of executive leadership in elevating the importance of cybersecurity risks in their banks. The initiative, known as the Executive Leadership of Cybersecurity (ELOC), is working with a group of community bank chief executive officers to develop recommendations based on the premise that cyber threats target all banks, not just large banks, and cybersecurity must be a standard part of a bank's risk management process.

The significant changes and growth in electronic financial crimes is expected to escalate over the next five years. It is essential that the confidentiality of consumer information in the possession of financial service providers is maintained and the security of the funds held or transmitted is guaranteed. Working with federal and state regulators, industry groups, and law enforcement representatives to mitigate the increasing risks is vital. Having a knowledgeable and fully trained examination staff that understands cyber risk and how it can be managed is essential. The reputational risk from these growing threats can impact confidence in the financial system.

DOMESTIC EVENTS

The operations of financial service providers can occasionally be affected by external events such as economic downturns, modifications to regulations, and environmental disasters. The Department strives to keep staff and our regulated entities abreast of the issues/events that could impact the normal course of business. To accomplish this, regular publications and Department-issued guidance and policies are communicated using multiple channels such as our website, internal communication systems, and other traditional media outlets.

Events that can challenge the activities of the Department and regulated entities include:

- **Economic conditions directly affect the business strategies of financial service providers.** A financial institution's lending and funding strategies are influenced by interest rates, unemployment, and changes in the business cycle for industries such as agriculture, mortgage lending, commercial real estate, and energy. The current low interest rate environment has compressed net interest margins for financial institutions. The Texas drought has impacted the profits of farmers and ranchers, while the oil and gas boom has strengthened the state's economy. Many banks are looking to new non-interest income sources to generate revenue, such as new product offerings or entry into new markets. The Department must monitor bank activities to ensure that institutions are managing the risks associated with these endeavors.
- **The drought in Texas covers approximately 91% of the state with 56% of the state at a "severe" or worse level, as of May 13, 2014.** A new study from Stanford University indicates that there is a 76% chance of the El Niño weather pattern in 2014 which would bring more rainfall to the state and ease drought conditions. The drought has caused substantial losses for many industries and approximately 24% of communities are under water restrictions as state reservoirs are only 64.1% full. The drought, which started in 2010, has cost farmers and ranchers almost $8 billion. With crop outputs falling and profits down, some farmers and ranchers are leasing parts of their land to recreational hunters to make up the difference or planting other crops such as cotton. Ranchers are selling off their herds as the price of hay has increased by 200%. Rice farmers are

facing their third season without irrigation water. The oil and gas industry, which is the largest economic sector in Texas, faces water challenges as millions of gallons of water are required in the hydraulic fracturing of a single well. The state's electric grid is strained as nuclear, coal, and natural gas energy production all require large amounts of fresh water to cool equipment. High energy usage and high summer heat could result in the closure of some power plants. These threats to the power grid and water supply raise awareness of the need for financial service providers and the Department to develop and test contingency plans.

- **Financial Service providers faced with the burden of additional regulatory compliance**. In this more stringent regulatory environment, financial institutions are struggling with how to generate more revenue while challenged to comply with the regulatory requirements of Basel III (an international regulatory standard on bank capital adequacy, stress testing and market liquidity risk), Dodd-Frank, and the CFPB. These regulatory demands require many financial service providers to modify their operational approaches to capital, investments, mortgage lending, and consumer compliance. Additionally, it is not clear how the Affordable Care Act will impact financial service providers, small businesses and consumers.

REGULATORY REFORM AND GOVERNMENT-MANDATED CHANGES

Dodd-Frank significantly changed the financial landscape and the regulation of domestic and foreign financial institutions. Dodd-Frank relies heavily on rulemaking and interpretation by federal regulatory agencies to implement many of its provisions regarding regulatory improvements. The Department has been closely monitoring the impact of Dodd-Frank and, as of January 2, 2014, the reform rules that most affect community banks have largely been completed.

The most recent rule to impact state-chartered banks is known as the Volcker Rule. The Volcker Rule is intended to prevent financial institutions from undertaking risky investments with their own funds, exposing taxpayers to the possibility of future bailouts in the event of catastrophic losses. On December 10, 2013, the five federal agencies with rulemaking responsibility for the Volcker Rule jointly issued a final rule.

One unexpected provision in the final rule threatened to force community banks to take millions of dollars in write-offs in 2013, despite repeated assurances from the federal agencies that the Volcker Rule would not significantly affect smaller institutions. Community banks and their trade group representatives rallied together, filing a lawsuit to stop the Volcker Rule from going into effect. Subsequently, on January 14, 2014, federal agencies issued an interim final rule to permit banking entities to retain interests in certain collateralized debt obligations backed primarily by trust-preferred securities from the investment prohibitions of the Volcker Rule.

The Department will continue to monitor regulatory changes at both the federal and state level.

FEDERAL SUPERVISORY POLICIES AND AGENCY RESOURCES

The Department participates in an alternating examination program in cooperation with the FDIC and the FRB in an effort to reduce regulatory burden and improve examination efficiency. The general practice of the agencies is to alternate on-site examinations between the Department and the FDIC or the FRB, if the institution is a member of the FRB. This program works well, given the resources available to each agency. In times of crisis, however, federal regulators have shifted resources to other examination areas or other states, impacting the Department's resources. When federal resources are shifted, the Department is still required to meet examination mandates. To meet these mandates, the Department would make adjustments to examination activities in order to make up for the shortfall in resources. These adjustments could include completing more limited or highly risk-focused examinations for historically well managed institutions, completing more examination work off-site, and temporarily reducing staff training. If needed, the Department would consider mobilizing review examiners to participate in on-site examinations. In the past, the agency has hired experienced bankers and former regulators as limited term employees to assist when resources are stretched. This worked well during the recent financial crisis and if necessary, this option would be used again.

The Department also conducts specialty examinations which include foreign banks, trust, and IT. Foreign bank examinations, for instance, are conducted jointly with the FRB. If the FRB decides to reallocate resources to other banking issues not related to foreign banks, the Department would still be responsible for conducting these examinations. Shifts in resources for IT and trust examinations can also impact the Department. With the advances in technology and the increase in electronic crimes, federal regulators could focus more resources on IT examinations to address these new risks. A shift in specialty resources from the federal regulators would impact the Department as examination mandates for these specialty examinations would still need to be met. Since the Department's specialty examination staffing level is much lower than for the federal agencies, meeting these examination requirements would be a challenge and would require modifications to risk focused examination procedures. Cross training examination staff with specialty examination staff would provide additional resources should they be needed.

Resource requirements for monitoring compliance with BSA/AML regulations for both MSBs and banks have increased with the rise in financial crimes and the technological advances in the payments arena. As FinCEN issues more guidance to address current issues, additional resources may be needed to ensure our regulated entities comply with these regulations. Information sharing agreements with the IRS and FinCEN have placed further requirements for monitoring and reporting on the Department's resources. The Department will staff accordingly to meet these demands.

DEMOGRAPHICS

Texas is one of the fastest growing states in the nation. With this growth comes an increase in diversity. According to the 2010 Census, Hispanics represent approximately 38% of the state's population. That percentage is expected to increase. These changing demographics and the potential language barriers that may be created can reduce communication effectiveness and the quality of services provided to the general public. The Department currently offers consumer complaint assistance, financial education, and various prepaid funeral contract forms in Spanish. The Department's website now contains a feature which allows the user to change the information presented on the site to a language other than English, with Spanish being one of the language options. As a regulatory agency that has oversight over industries that provide services aimed at the Hispanic population, multilingual training and information is an increasing necessity to conduct business. Employing staff who can communicate with consumers in multiple languages is vital to this agency.

According to the FDIC's most recent nationwide survey of unbanked and underbanked households, more than one in four households are either unbanked or underbanked, conducting some or all of their financial transactions outside of the mainstream banking system. These households are a diverse group. The highest unbanked and underbanked rates are found among non-Asian minorities, lower-income households, younger households, and unemployed households. Financial education continues to be a priority at the Department as Texas has one of the highest number of unbanked or underbanked households in the nation. The Department will continue to work with financial institutions, various federal and state agencies, and community organizations to promote financial education among various demographic groups.

SELF-DIRECTED, SEMI-INDEPENDENT (SDSI) AGENCY

As a SDSI agency, the Department develops a budget annually that is evaluated and reviewed by the Commission. The Commission must approve the budget before any expenditure can be made. The Department, which is self-funding and self-leveling, is responsible for all costs as no resources are appropriated from the General Revenue Fund. All revenues for operations are derived from assessments paid by regulated entities. The assessments are placed in a separate account at the Texas Treasury Safekeeping Trust Company and not in the General Revenue Fund.

Biennial reporting to the Legislature and Governor regarding agency activities, financials, and audits are mandated. The Department is also required to provide annual reports on salaries, travel expenses for employees and Commission members, revenue, and the operating plan and annual budget to the Governor's Office, the House Appropriations Committee, the Senate Finance Committee, and the Legislative Budget Board.

Although the SDSI agency designation releases the Department from compliance with certain state requirements, the Department continues to report and comply with state rules and standards related to:

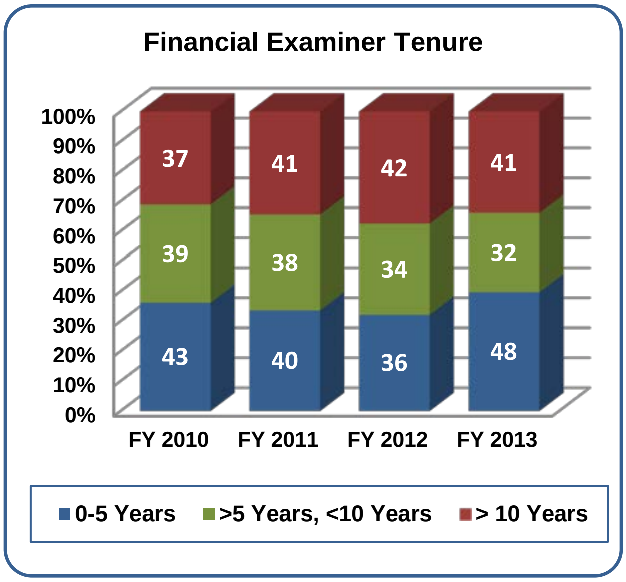
- Payroll, travel, purchasing and procurement rules and standards for all agency expenditures;
- Quarterly reporting of agency financial statements and budget variance analysis, to the Commission for review and approval;
- Quarterly reporting of performance measures to the Commission for review; and,
- Coordinating with the Texas Facilities Commission for office lease spaces.

The agency focuses on transparency and accountability by providing opportunities for public participation in the budgeting process through an annual public hearing. The budgeting process for fiscal year 2015 will begin in the summer of 2014, with a public hearing to be held at the end of July. The final budget will be presented to the Commission at its August 2014 meeting. It is anticipated that the assessment structure will be reviewed to ensure revenues are sufficient to meet expected expenditures.

RETAINING QUALIFIED STAFF

Retaining qualified staff at all levels is a priority for the Department. Employee turnover has historically been high among the financial examination staff, specifically those employed for five years or less, due to disparity in salary with federal counterparts and high travel demands. The SDSI status provides the agency with the ability to adjust salaries to attract and retain qualified personnel. Due to the availability of information and close working relationship with the FDIC, the Department has developed a salary administration program that benchmarks off the FDIC's salary structure for financial examiners and related supervisors. While financial examiner and related supervisor salary levels are not equal to those of the FDIC, the Department strives to offer an overall competitive salary program.

Figure 2 Tenure of all Financial Examiners



Consequently retention rates have improved for financial examiners employed five years or less as well as for those employed over 10 years as shown in Figure 2. The chart shown in Figure 3 comparing the percentage of Commission and Non-Commissioned Examiners in the Bank and Trust Supervision

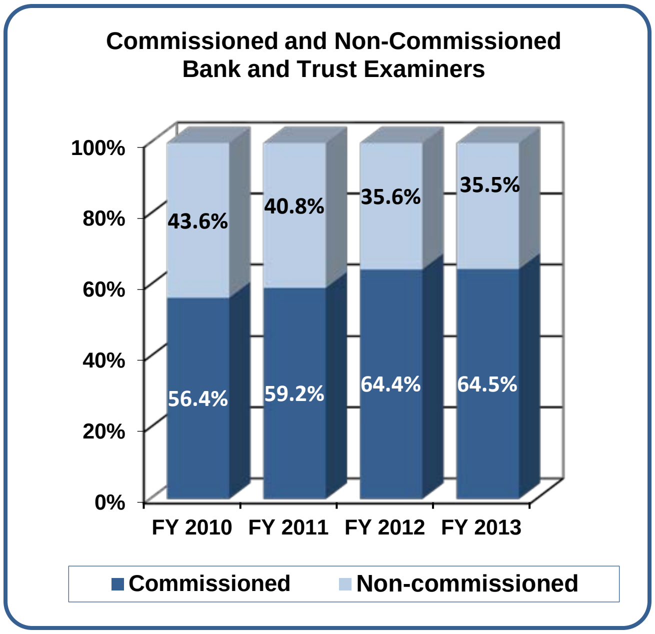
Division reflects the improving trend in retaining experienced staff as the number of commissioned examiners has increased. Examiners are generally commissioned within five to six years of employment. The commissioning process is discussed later in this plan.

In order to retain more examiners with five to nine years of experience, the agency must continue to sustain competitive salaries and look for opportunities to reduce overnight travel. Over the next five years, retention of experienced financial examiner staff will be particularly crucial as staff with over 10 years of experience become eligible to retire.

The travel demands on a financial examiner are high and the department has worked to find ways to reduce the amount of overnight travel for staff by:

- Allowing examiners to work flexible schedules such as four 10-hour work days;
- Utilizing technology to allow examiners more time to review examination information in the office or at a regulated entity's local branch; and
- Implementing more streamlined and risk-focused examinations for well run, low risk entities to reduce the amount of time spent at the entities' locations.

Figure 3 Percent of Commissioned Examiners



Providing rewards and incentives to staff have also contributed to retaining qualified employees. These include:

- Work-at-home and flexible work schedules;
- Paid leave awards for performance;
- One-time performance based merits; and
- Travel stipends, if funds are available.

Management believes that employees take the above benefits into consideration when evaluating their job and overall satisfaction in working for the Department. As described in the Appendix F, the Department's Employee Advisory Council (EAC) has been an effective resource in identifying the rewards and incentives valued by staff.

With the turnover rate among administrative staff being historically low, this group has become highly tenured and very knowledgeable of the agency's operations. In the past year, turnover increased for this group; however, it was primarily related to retirements. The Department closely monitors this staff's salary structure to remain competitive with similar positions at other state agencies. The potential for turnover among administrative staff is a concern since career advancement opportunities are limited.

MAINTAINING PROFESSIONAL SERVICE

The Department carries out its mission through professionalism, technology, legal services, communication and administrative services. This is accomplished by continually striving to attract and retain an experienced and qualified professional staff.

Commissioning Process

The Department has designed a career employment program that facilitates the professional advancement of qualified Bank and Trust Supervision examiners. Assistant examiners in the FE I – FE III series attend formal classes sponsored by the Department, CSBS, FDIC, FRB or FFIEC in preparation for the agency's commissioning test known as the Bank Examination Testing System (BETS). The commissioning process determines when Bank and Trust Supervision assistant examiners are prepared to assume the increased responsibilities of being an Examiner-in-Charge and be certified as a commissioned examiner. The BETS consists of four phases which must be completed within seven years from the date of employment as an assistant examiner. Typically, an assistant examiner becomes commissioned within five to six years.

CSBS Certificate of Accreditation

The CSBS Accreditation Program is a national standard of excellence among state financial regulators. The Department must maintain its accreditation in order to participate in supervision of interstate banking, and maintain credibility among federal regulators. The Accreditation Program involves a comprehensive review of the Department's operations including, administration and finance, personnel, training, examination, supervision, and legislative powers. The review is conducted every five years. The Department received its fifth certificate of accreditation in October of 2013 for maintaining the highest standards and practices in state banking supervision set by the CSBS Accreditation Program. The Department highly values the CSBS Accreditation Program and will continue to strive for excellence in all regulatory practices.

STAFFING NEEDS

The agency's staffing plan for fiscal year 2014 allows for 200 full time equivalent (FTE) positions, with 183.25 FTE positions filled as of April 30, 2014. The gap in staffing is primarily concentrated in the specialty areas of the financial examiner positions. Currently, the staffing plan allows for 109 Bank and Trust Supervision field examiners, including specialty examiners, and 16 Special Audits field examiners, totaling 125 examiner FTEs. As of April 30, 2014, there were 110.25 FTEs in field examiner positions. Filling vacant positions with candidates who have regulatory or specialty examination experience can be challenging. The Department has had some success in recruiting experienced examination staff from other regulatory agencies and has benefited from having the ability to rehire retirees who want to return to work in a reduced capacity to assist in examination and training. While this program has been successful, it is not likely that all retiring employees will want to take on the workload and travel requirement of active staff. In the past, the Department has also contracted with experienced bankers and retired regulators to perform examination related tasks. This is another staffing option that could be considered in the future.

The Department will need to be vigilant in maintaining staffing levels in order to be prepared for the increasing complexity of examinations, the increase in mergers and acquisitions, and the beginning of the next downturn in the financial markets. Staffing needs may change over the next five years due to the following:

- An additional MSB examiner will likely be required as the overall number of licensees increase, the complexity of new products and services provided by licensed MSBs increases, and the review of IT risks is incorporated into more examinations.
- Additional staffing may be needed in the Corporate Activities Division due to the resources required by MSB applications. In recent years, the volume of MSB applications and complexity of these applications have placed greater demands on the Corporate Application Division's resources. Should the rate of changes in the MSB arena further accelerate, staffing resources will need to be reviewed.
- Over the next five years, as the programming and LAN management demands on the IT Division grow and the number of experienced staff eligible to retire increases, there may be a need for

additional staffing. Advances in technology require upgrades or additions to internally developed programs. Hiring an additional programmer with the desired programming language skills may be needed as the Department continues to enhance current programs. Also, as part of succession planning for the IT Division, an additional employee skilled in managing a LAN network will be needed.

- The CFPB is finalizing compliance standards and has begun conducting examinations on the larger regulated entities. The Department anticipates sending examination staff to assist in the CFPB examinations, on a case-by-case basis, while considering the merits of becoming more involved in compliance examinations. Entering into compliance examinations will require the hiring of financial examiners with compliance related experience.
- The Department currently has one contract employee dedicated to investigating fraud. If the occurrence of fraudulent and illegal activities increases, the Department will need to add a second fraud investigator.

As the need for more staffing arises, the Department will present its needs and justification for these positions to the Commission. Adding staff will require coordination to ensure productivity is not disrupted and funds are available to cover the costs for training and salary.

EFFECTS OF RETIREMENTS

In the next five years, 33% of the agency's staff will be eligible to retire, with the majority of this group eligible in 2014, as shown in Table 6. Eleven members of the senior management team are eligible to retire in 2014. The anticipated loss of knowledge and expertise from such a large number of potential retirees is a primary concern for the Department. This loss of retiring employees could have a significant impact on the agency should the timing of these departures be concentrated. Legislative changes to state benefits can often influence when an eligible retiree decides to exit the workforce.

Table 6: Retirement Eligibility as of April 30, 2014

Fiscal Year	Number of Staff Eligible to Retire	% of Current Employees
FY 2014	**41**	**22%**
FY 2015-2019	**20**	**11%**
Total	**61**	**33%**

Impending retirements will significantly affect not only the largest division in the agency but several other divisions including Administrative Services, Legal, and IT, as reflected in Table 7. In the Bank and Trust Supervision Division, a substantial number of more tenured examination staff is becoming eligible for retirement with the majority in the specialty examination areas. The Department relies upon experienced employees to take the lead in the more complicated examinations while, at the same time, training the large number of less tenured employees. An early loss of even a few of these highly tenured and specialized employees will leave a significant void in the agency's expertise and ability to train staff. The Special Audits Division is faced with a similar scenario, as almost 30% of its experienced examination staff can retire in the next five years. The potential impact of examiner retirements in the Bank and Trust and Special Audits Divisions is shown in Table 7.

In light of the potential number of retirements, the agency is focusing on recruiting, retaining, and developing staff. Job applicants who are being considered for employment in a financial examiner position are required to complete a work style profile. The purpose of this recruitment tool is to ensure that the agency is selecting candidates for employment who are well suited for the position, thereby improving employee retention. Noted previously, as an SDSI agency, the agency has greater ability to adjust salaries to retain and attract qualified personnel. Flexible work schedules are also offered to staff to reduce the amount of overnight travel.

Table 7: Retirement Eligibility by Division

% of Division Eligible to Retire within 5 Years (as of April 30, 2014)	
Administrative Division	
Administrative Services	60%
Bank and Trust Supervision- HQ and Support Staff	43%
Corporate Activities	25%
Executive	80%
Legal	67%
IT	67%
Special Audits – HQ and Support Staff	40%
Strategic Support	22%
Bank and Trust Field Staff	
Arlington Region	23%
Houston Region	25%
Lubbock Region	11%
San Antonio Region	10%
Specialists	50%
Special Audits Field Staff	
MSB	33%
PFC/PCC	22%

As part of the agency's management succession plan, staff members beginning with Financial Examiner (FE) VI series have attended or will attend courses sponsored by the Governor's Center for Management Development, and are also provided other educational opportunities to expand their management skills. Cross-training staff to become more familiar with other aspects of the agency has also been implemented as the exchange of knowledge vertically, as opposed to laterally, may create interest in senior management positions. The Department is also exploring new strategies to meet staffing needs. One strategy may be to over-staff in critical areas in order to increase the "bench-strength" of the Department. A cost/benefit analysis of this strategy will need to be analyzed. It is critical to identify the skills, knowledge, and abilities needed to maintain organizational excellence and to strengthen those skills for up-and-coming staff.

Balancing Productivity Objectives with Training and Development Needs

At the end of fiscal year 2013, there were no past due commercial bank examinations and the division's performance measure for examining at least 95% of commercial banks was met. For fiscal year-end 2014, the Bank and Trust Supervision Division anticipates only a few commercial bank examinations being past due; however, performance goals are still expected to be met.

At the end of fiscal year 2013, the Special Audits Division was not able to perform all of the required examinations due. However, the Division met its performance measures for examining at least 90% of the PFC, PCC, and MSB licensees. For fiscal 2014, the Special Audits Division anticipates meeting its performance measures for all three types of licensees.

Performing the most technical examination procedures, handling administrative responsibilities, and providing training to less tenured employees are duties of the most experienced staff. It is vital that our assistant examiners receive this training and transfer of knowledge from our more tenured staff members to ensure the Department can effectively supervise its regulated entities. Staffing changes due to retirements and newly hired assistant examiners will impact the agency's ability to meet its examination priorities and training needs.

The agency's general training policy for examiners includes a succession of formal schools, on-the-job training (OJT), staff meetings and conferences. A core curriculum for each level of the financial examiner positions identifies the formal schools necessary for job progression. Examiners attend approximately two weeks of formal training each year. In addition to the core curriculum, other specialty training is offered as the need arises. Internal examiner training courses may be offered depending on developmental needs, agency resources, and other circumstances. Internal schools are typically taught by the more experienced staff and impact examination scheduling and resources. Training existing staff to supervise larger more complex financial institutions is also a priority, requiring additional staffing resources.

Estimated direct and indirect costs of training a new Bank and Trust Supervision examiner through the In the future, the cost of providing training for new examiners, who may also be replacing retirees, will impact training costs as more external sources of training will be utilized. Training costs for one single Bank and Trust Supervision financial examiner is high; therefore, it is vital to retain these employees. Turnover among the less tenured examiners directly affects productivity and results in a financial loss to the agency since a significant amount of agency time and resources are invested in properly training each examiner. first several years of employment are identified in Table 8.

Table 8: Cost of Training a New Bank and Trust Supervision Financial Examiner - As of April 2014

Direct Costs (In Thousands)	After Year 1	After Year 2	After Year 3	After Year 4
Trainee - *Salary Expense*	**$47**	**$54**	**$61**	**$72**
- Travel Expense	**$13**	**$13**	**$13**	**$13**
Percent Attributed to OJT	*80%*	*60%*	*40%*	*20%*
Net OJT Costs	**$48**	**$40**	**$30**	**$17**
Training Costs – *Schools – Travel and Classroom*	**$4**	**$4**	**$5**	**$5**
Estimated Direct Costs	**$52**	**$44**	**$35**	**$22**

Indirect Costs (In Thousands)				
Trainers - *Salary Expense*	**$101**	**$101**	**$101**	**$101**
- Travel Expense	**$13**	**$13**	**$13**	**$13**
Percent Attributed to OJT	*40%*	*30%*	*35%*	*20%*
Estimated Indirect Costs	**$46**	**$34**	**$40**	**$23**

Estimated Total Costs	**$98**	**$78**	**$75**	**$45**
Cumulative Costs	**$98**	**$176**	**$251**	**$296**

USING TECHNOLOGY TO IMPROVE EFFICIENCY AND COMMUNICATION

The Department utilizes technology to streamline processes throughout the agency, resulting in more efficient operations which benefit staff, regulatory counterparts, and regulated entities. The Department utilizes:

- Secure electronic mailbox system to communicate with regulated entities;
- Secure web portal for applicants and regulated entities transmitting corporate application documents;
- Online license renewal system for PFC and PCC licensees;
- Online filing of annual reports by MSB licensees;

- Secure document web portal for examination documents to be fully implemented in mid-2014; and,
- Mobile Wi-Fi Hotspots to provide examination staff in the field with access to email, examination tools on the Department's web server, and the internet.

The examination process continues to evolve with more reliance on technology. Examination procedures are completed electronically and supporting documentation is retained electronically in a document management system. Off-site reviews of credit files and other documents required during an examination are possible depending upon the imaging methods used by the institution or other licensed entities.

Bank and Trust Supervision examination staff uses several electronic examination tools throughout the examination process:

ETS ALERT (Automated Loan Examination Review Tool)
Examiners performing the loan review function use this application, developed by the FDIC, during the examination for loan analysis and review. This program allows for the electronic storage of data and the electronic submission of completed loan review line sheets.

GENESYS (General Examination System)

This examination report generation program was also developed by the FDIC. GENESYS provides examiners ready access to financial data and other historical information and generates pages for the report of examination. This is expected to be phased out in early 2015.

SAGE (Supervisory Application Generating Exams)

The FDIC developed this program to replace GENESYS. This application is expected to become available in early 2015. Enhancements include the ability to customize examination report pages, share electronic work papers, and automatically update changes to the Call Report.

The ability to image files and other documents has allowed the Department's efficiency to improve as examination information is more easily accessible to staff. All historical examination reports have been imaged, no longer requiring the Department to store files at the state's records retention center. Gathering information for public record requests has also been improved as a result of having a centralized location for agency files. The FDIC's document imaging program, known as Regional Automated Document Distribution and Imaging System or RADD, was created to improve workflow distribution. Correspondence and other documentation is sent electronically, rather than handling, copying, and mailing physical information. The dissemination of imaged documents in an electronic transmission from the FDIC regional offices has improved communication efforts and reduced the amount of time it takes Department staff to image a document internally, by importing electronic files directly into our imaging system. In accordance with the retention schedule requirement, documents are destroyed once the retention period is met.

The Department will continue to devote resources to explore new technologies to improve efficiency and create a better work environment for employees.

OPPORTUNITIES FOR INPUT ON AGENCY SERVICES

The Department utilizes many different methods to seek feedback from regulated entities and consumers filing complaints.

The input received is used to make improvements in the agency's services offered to stakeholders. Survey results are made available to the public in the *Customer Service Report* found on the Publications page of the Department's website. The agency's survey process and results are fully detailed in this report.

Another source for input on the Department's services is through the CSBS Accreditation Program, which was discussed earlier in this plan. Maintaining a CSBS accreditation certificate in good standing is one of the Department's goals as described in Appendix D.

The Department also relies upon the results of external audits to provide feedback on the procedures and processes in place for each operating area. Improvements are made to the Department practices based on recommendations from external auditors.

Sources for Feedback

- *Annual Online Survey for Regulated Entities*
- *Post Examination Survey*
- *Economic Survey*
- *Customer Service Survey*
- *CSBS Re-Accreditation Review*
- *External Audits*

EFFICIENCY IN ADMINISTRATION

The Department shares resources, when possible, with the other two Commission agencies in an effort to eliminate unnecessary processes and maximize efficiency and productivity. Building maintenance and receptionist duties are currently shared between the three agencies.

Examination procedures are risk focused and are continually reviewed and modified to further streamline the bank examination process. In an effort to reduce travel costs and the amount of time examiners spend on-site, the Department utilizes a pre-examination program. Documents are requested and reviewed off-site prior to the start of the examination. These documents are often provided electronically and, beginning in mid-2014, a secure online document portal will be available to all banks and Special Audit licensees for uploading requested items more easily and efficiently. These processes are aimed at reducing overall costs and increasing off-site training opportunities. This will be especially useful for reducing travel costs for out-of-state examinations.

As mentioned previously, the Special Audits Division utilizes an online renewal service for the PFC and PCC entities. This online process automatically populates internal databases with applicant information and streamlines the renewal process. Cost savings initiatives are always being evaluated to reduce the regulatory burden and associated costs while maintaining adequate regulation. The Corporate Activities Division utilizes an online application system which allows applicants to upload documents securely and creates a log of application information.

The Department's website was redesigned and reorganized in early 2014 and features more information, easier navigation, expanded search capabilities, and improved accessibility. Users now have the ability to download fillable forms, submit questions via a web form and view the site in several languages. The website also includes a data exchange portal to communicate and share documents securely with entities regulated by the Department, as previously mentioned.

Additional opportunities to improve efficiencies continue to be evaluated and implemented when feasible. Enhancements to the current web portal and application systems will be made over the next five years.

OFFICE SPACE AND PARKING NEEDS

The Department is based in Austin and has four regional offices located in Arlington, Houston, Lubbock, and San Antonio. Examination staff are primarily assigned to the regional offices.

The Department is headquartered in a 36,499-square foot, three-story, office building located at 2601 N. Lamar Boulevard in Austin. The Department was the sole occupant of this space from December 1974 to April 1984, when the other two Commission agencies, the Office of Consumer Credit Commissioner and the Department of Savings and Mortgage Lending, relocated to the building. The original two-story building, which is situated on a 2.1-acre site, was constructed in 1968 and a third floor was added in 1984 to accommodate this growth. While the property includes a combination of surface and below building parking, the parking ratio is well below normal standards.

Over the years, each Commission agency has seen its staffing grow along with the needs of their respective regulated industries. The agencies have utilized as much space as possible to accommodate increased staff. In October 2009, to help alleviate the overcrowding and improve the parking issues, the Department leased extra space in a neighboring building known as the Nob Hill complex. The other Commission agencies have sought out additional office and parking space as well. The additional leased space has not completely resolved the parking and office space issues. Regulated entities visiting the Austin headquarters have voiced their concerns regarding the inconveniences and challenges related to limited parking.

Due to these space constraints, a collective decision was made by all three agencies and the Commission to sell the building and purchase another property that fits the needs of the agencies. The Department is currently in discussion with the Texas Facilities Commission and the master planner for the Capitol complex, to discuss the feasibility of building near the Capitol. Cash reserves have been set aside to cover the future expenses related to a new building and relocation.

In recent years, office space has increased for most regions to accommodate staffing levels. Additional space for the Lubbock regional staff is expected to be leased in fiscal year 2015. Should staffing levels increase significantly, additional square footage may be needed.

AGENCY USAGE OF HISTORICALLY UNDERUTILIZED BUSINESSES (HUBS)

The Department has limited opportunities to award contracts; however, whenever possible and practical, the agency purchases from HUB vendors regardless of dollar value.

The Department has adopted a policy to achieve the proportional HUB expenditure targets established by the Texas Comptroller of Public Accounts and monitors its progress toward achieving these goals. Over the last several years, the Department has exceeded its HUB targets in the categories of Professional Services and Commodities Contracts as shown in Table 9. Beginning in 2010, Dell (non-HUB) took over the contract for Microsoft products from SHI (HUB). Therefore, purchases made from Dell in fiscal year 2010 and 2011 raised the agency's non-HUB numbers and lowered the HUB numbers.

Table 9: Statewide HUB Goals and Departmental Achievements by Fiscal Year

Statewide HUB Goals for Procurement Categories *Pursuant to 34 TAC §20.13*					
Procurement	**State**	**Department of Banking**			
		FY 2010	**FY 2011**	**FY 2012**	**FY 2013**
Professional Services Contracts	**23.6%**	**100%**	**100%**	**100%**	**100%**
Commodities Contracts	**21%**	**66.2%**	**64.2%**	**62%**	**61.7%**

ACRONYMS USED IN THIS STRATEGIC PLAN

AML	Anti-money laundering
ATM	Automated Teller Machine
BETS	Bank Examination Testing System
BSA	Bank Secrecy Act
CFPB	Consumer Finance Protection Board
CSBS	Conference of State Bank Supervisors
DDoS	Distributed Denial of Service
ECTF	Texas Bankers Electronic Crimes Task Force
FinCEN	Financial Crimes Enforcement Agency
FDIC	Federal Deposit Insurance Corporation
FE	Financial Examiner
FFIEC	Federal Financial Institutions Examination Council
FRB	Federal Reserve Bank
FTE	Full Time Equivalent
IBAT	Independent Bankers Association
IRS	Internal Revenue Service
IT	Information technology
MSB	Money Services Businesses
MTRA	Money Transmitter Regulators Association
MMET	Multi-State MSB Examination Taskforce
NADCRA	North American Death Care Regulatory Association
OJT	On-the-job Training
PCC	Perpetual Care Cemeteries
PFC	Prepaid Funeral Contract
SDSI	Self-Directed, Semi-Independent
SWACHA	Southwestern Automated Clearing House Association
TBA	Texas Bankers Association
TDI	Texas Department of Insurance
TFSC	Texas Funeral Service Commission

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GOAL: EFFECTIVE REGULATION

To ensure timely, fair, and effective supervision and regulation of the financial institutions and other licensees under our jurisdiction in order to promote a stable banking and financial services environment and provide the public with convenient, safe, and competitive financial services.

OBJECTIVE

A-1 Quality Bank Regulation: To provide quality regulation and maintain the credibility of the Department with the public, industries we regulate, federal banking regulators and other government agencies by striving that through 2019:

- ★ Examinations of regulated entities will be performed when due;
- ★ Correction-oriented enforcement action will be taken against regulated entities that demonstrate higher than normal weakness or risk;
- ★ Accreditation status by the Conference of State Bank Supervisors (CSBS) is maintained; and
- ★ Agency will strive to attract and retain qualified employees.

STRATEGY

A-1.1 Bank Examination: Conduct commercial bank, trust company, foreign bank agency, and foreign representative office examinations, in cooperation with federal regulatory entities, in conformance with the Department's examination priority schedule. Maintain national accreditation. Maintain contact with, and monitor the condition of, regulated entities between examinations. Optimize efficiencies in the examination process, including automating examination procedures and reference materials. Research and report on changing industry and economic conditions. Provide the industry with electronic access to regulatory and supervisory information through the website. Monitor industry status and activities through an off-site monitoring system and engage in regular communication with federal regulators.

A-1.2 FDIC / Industry Deterioration / Federal Regulatory Consolidation Contingency Plan: Maintain a contingency plan to provide additional regulatory resources in the event of further industry deterioration or systemic industry problems, the reallocation of federal regulatory resources, a significant increase in the regulated asset base or a substantial loss of examiners.

OUTCOME MEASURES

- ★ Percentage of banks receiving examinations when due. 01-01.01
- ★ Percentage of foreign bank agencies receiving examinations when due. 01-01.02
- ★ Percentage of trust companies receiving examinations when due. 01-01.03
- ★ Percentage of problem institutions with appropriate supervisory actions in place. 01- 01.04
- ★ Certificate of accreditation by CSBS maintained in good standing. 01-01.05

OUTPUT MEASURES

- ★ Number of bank and foreign bank examinations performed. 01-01.06
- ★ Number of trust company, trust department and information technology examinations or certifications and other specialized reviews performed. 01-01.07

EXPLANATORY MEASURES

- ★ Percentage of banks classified safe and sound. 01-01.10
- ★ Number of state-chartered banks in Texas. 01-01.11
- ★ Total assets (dollars in billions) in state-chartered banks in Texas. 01-01.12

EFFICIENCY MEASURES

- ★ Average cost per bank examination. 01-01.08
- ★ Assets examined per examiner day (in millions). 01-01.09

GOAL: EFFECTIVE REGULATION

To ensure timely, fair, and effective supervision and regulation of the financial institutions and other licensees under our jurisdiction in order to promote a stable banking and financial services environment and provide the public with convenient, safe, and competitive financial services.

OBJECTIVE

A-2 Quality Non-bank Regulation: To provide quality regulation and maintain the credibility of the Department with the public, the industries we regulate, and other government agencies by striving that through 2019:

- ★ Examinations of regulated entities will be performed when due; and,
- ★ Correction-oriented enforcement action will be taken against regulated entities that demonstrate higher than normal weakness or risk.

STRATEGY

A-2.1 Non-bank Examination: Conduct PCC, PFC and MSB examinations, in cooperation with federal and other state regulatory entities, in conformance with the Department's examination priority schedule. Maintain contact with, and monitor the condition of regulated entities between examinations. Optimize efficiencies in the examination process, including automating examination procedures and reference materials. Research and report on changing industry and economic conditions. Ensure proper enforcement actions are taken against unlicensed entities.

OUTCOME MEASURES

- ★ Percentage of MSB licensees examined by Special Audits when due. 01-02.01
- ★ Percentage of PFC licensees examined by Special Audits when due. 01-02.02
- ★ Percentage of PCC licensees examined by Special Audits when due. 01-02.03
- ★ Percentage of PCC and PFC applications completed within statutory period. 01-02.04

OUTPUT MEASURES

- ★ Number of Special Audits licensees examined. 01-02.05
- ★ Number of Special Audits licensees. 01-02.06

EXPLANATORY MEASURE

- ★ Dollar amount (billions) of PFC in force. 01-02.08

EFFICIENCY MEASURE

- ★ Average direct cost per PFC and PCC licensee examination. 01-02.07

GOAL: EFFECTIVE REGULATION

To ensure timely, fair, and effective supervision and regulation of the financial institutions and other licensees under our jurisdiction in order to promote a stable banking and financial services environment and provide the public with convenient, safe, and competitive financial services.

OBJECTIVE

A-3 Corporate Activities: To provide convenient and competitive financial services and protect the public by striving through 2019, that all applications receive a timely and thorough review resulting in knowledgeable and competent recommendations.

STRATEGY

A-3.1 Application Processing: Enhance current systems through the automation of applications and request processing by the efficient utilization of computer resources and programs. Process applications and information requests timely and thoroughly, resulting in knowledgeable and competent recommendations.

OUTCOME MEASURE

- ★ Percentage of bank and trust, MSB, check verification company and private child support enforcement agency registration and renewal applications and cemetery broker registrations completed within statutory time periods. 01-03.01

OUTPUT MEASURE

- ★ Number of bank and trust applications, notices, and filings, MSB license, check verification company and private child support enforcement agency registration and renewal applications and cemetery broker registrations completed. 01-03.02

EXPLANATORY MEASURE

- ★ Number of requests for information received. 01-03.03

Initiative #1	
1. Initiative Name: Name of the current or planned technology initiative.	
Maintain an up-to-date computer system and network.	
2. Initiative Description: Brief description of the technology initiative.	
The Department will continue to provide superior service and maintain the agency's technology systems in a manner that allows maximum efficiency and minimum down time. To accomplish this, the Department will continue to upgrade old equipment, invest in a new network infrastructure and provide new web services to our customers and the public.	
3. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.	
Name	**Status**
Replace outdated computers and servers	Ongoing
Provide additional web based services to customers	Ongoing
Website re-design	Completed
4. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
To meet the Department's objectives to provide quality regulation, maintain the Department's credibility and to ensure timely, fair, and effective supervision and regulation, it is important to maintain up-to-date computer technology. Computers are necessary tools that allow staff to meet their responsibilities successfully. Maintaining proven and functional hardware and software that is up-to-date allows Department staff to conduct business efficiently.	
5. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any. • Security and Privacy • Cloud Services • Legacy Applications • Business Continuity • Enterprise Planning and Collaboration • IT Workforce • Virtualization • Data Management • Mobility • Network	
Security and Privacy Business Continuity Enterprise Planning and Collaboration Data Management Mobility Network	
6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include: • Operational efficiencies (time, cost, productivity) • Citizen/customer satisfaction (service delivery quality, cycle time) • Security improvements • Foundation for future operational improvements • Compliance (required by State/Federal laws or regulations)	
Maintaining up-to-date computer systems keeps our employees productive. A large number of staff conducts work in remote locations and the need for fast, reliable equipment is paramount. Slow computers and networks waste valuable time. By replacing old and outdated equipment, employees spend more time on their duties and less time waiting.	
7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.	

The primary barrier is the cost of replacing computers and adding other technologies and a loss of revenue through industry consolidation and/or loss of one or more of our larger regulated entities.

Initiative #2	
1. Initiative Name: Name of the current or planned technology initiative.	
Implement FDIC's Examination Tools Suite (ETS) system.	
2. Initiative Description: Brief description of the technology initiative.	
The ETS program is a substantial modernization initiative for bank examination applications. The program is a collaborative effort between the FDIC and the State Banking Departments to replace legacy exam systems. The ETS system has new features including enhanced security, increased accuracy checking, and improved collaboration of findings among examination staff and review examiners.	
3. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.	
Name	**Status**
Replacement of outdated laptops.	Ongoing
Upgrading existing laptops with new software to support the new system.	Ongoing
4. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
The FDIC's ETS systems will support the Agency's objectives of Quality Bank Regulation and Corporate Activities. The Department works closely with the FDIC, including conducting joint examinations. Using a common examination tool, ETS, enables the Department to easily share information in the examination process. Another benefit of using ETS is the program's flexibility in allowing the Department to customize certain components while not incurring high costs to maintain the core program.	
5. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any. • Security and Privacy • Cloud Services • Legacy Applications • Business Continuity • Enterprise Planning and Collaboration	• IT Workforce • Virtualization • Data Management • Mobility • Network
Security and Privacy Legacy Applications Business Continuity Enterprise Planning and Collaboration	Data Management Mobility Network
6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include: • Operational efficiencies (time, cost, productivity) • Citizen/customer satisfaction (service delivery quality, cycle time) • Security improvements • Foundation for future operational improvements • Compliance (required by State/Federal laws or regulations)	

The Department will benefit greatly by using the FDIC's ETS system. By using ETS, the Department saves development cost and examiner time by automating tasks that are currently done manually. Other benefits include enhanced sharing of data, improved ease of access and reporting, enhanced data security, and reduced risk of technological obsolescence.
7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.
The Department is working closely with the FDIC in the design and testing phase. By being included in the design phase, the Department ensures the requirements of the Department are included in the system.

Initiative #3	
1. Initiative Name: Name of the current or planned technology initiative.	
Add a dedicated Information Security Officer to staff.	
2. Initiative Description: Brief description of the technology initiative.	
The Department will continue to provide required network security and data integrity on the agency's technology systems in a manner that allows for sufficient permissions for agency personnel to perform their duties yet maintain a level of information confidentiality. To accomplish this, the Department will deploy controls to prevent unauthorized or inappropriate access as well as develop training programs to educate employees in regards to information security.	
3. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.	
Name	**Status**
Hire an Information Security Officer	Completed
Information security and training	Ongoing
4. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
Using the Gartner security review as well as the DIR penetration test as benchmarks to achieve, the department will review and identify areas where data controls need to be improved or enhanced to prevent unauthorized or inappropriate access. The department will review regulation and procedure that need to be improved to enforce appropriate controls and training of employees to reduce data security risk.	
5. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any. • Security and Privacy • Cloud Services • Legacy Applications • Business Continuity • Enterprise Planning and Collaboration • IT Workforce • Virtualization • Data Management • Mobility • Network	
Security and Privacy	

6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include: • Operational efficiencies (time, cost, productivity) • Citizen/customer satisfaction (service delivery quality, cycle time) • Security improvements • Foundation for future operational improvements • Compliance (required by State/Federal laws or regulations)
Hiring an Information Security Officer and providing security training will allow the Department to protect information and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction.
7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.
The Department has hired an Information Security Officer who brings the experience necessary to fulfill this initiative. A barrier to this project is the time needed for the Information Security Officer to accomplish everything we want done and the cost associated with some of the security measures needed.

Initiative #4	
1. Initiative Name: Name of the current or planned technology initiative.	
Update server environment.	
2. Initiative Description: Brief description of the technology initiative.	
The Department will continue to provide superior service and maintain the agency's technology systems in a manner that allows maximum efficiency and minimum down time. To accomplish this, the Department will begin moving to virtual servers to better use existing resource improve network uptime.	
3. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.	
Name	**Status**
Virtual Machine implementation	Ongoing
4. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
To meet the Department's objectives to provide quality regulation, maintain the Department's credibility and to ensure timely, fair, and effective supervision and regulation, it is important to maintain up-to-date computer technology. Computers are necessary tools that allow staff to meet their responsibilities successfully. Maintaining proven and functional hardware and software that is up-to-date allows Department staff to conduct business efficiently.	
5. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any. • Security and Privacy • IT Workforce • Cloud Services • Virtualization • Legacy Applications • Data Management • Business Continuity • Mobility • Enterprise Planning and Collaboration • Network	
Business Continuity Enterprise Planning and Collaboration Virtualization	Data Management Mobility

6. Anticipated Benefit(s): Identify the benefits that are expected to be gained through the technology initiative. Types of benefits include: • Operational efficiencies (time, cost, productivity) • Citizen/customer satisfaction (service delivery quality, cycle time) • Security improvements • Foundation for future operational improvements • Compliance (required by State/Federal laws or regulations)
Virtualizing the Department servers will reduce the total cost of ownership and improve server utilization, security, availability and uptime, and backup and data protection.
7. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.
The Department has hired a new Information Security Officer who has experience in server virtualization. His experience will make the implementation easier. A barrier to this project is the cost of implementing this technology.

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APPENDICES

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APPENDIX A
Strategic Planning Process

The Texas Department of Banking is committed to the principles of establishing clearly defined objectives, goals, and strategies. This strategic plan, which helps to communicate these important ideas to our customers, employees, Finance Commission members, and state leadership, could only be made possible with the insightful contributions of the Strategic Planning Task Force. Great care is taken to ensure that all agency employees are given the opportunity to voice their opinions about the future direction of the organization, its mission, goals and priorities. Feedback is solicited through each division, and every division selects a representative to voice common concerns or ideas to the Strategic Planning Task Force. Special thanks go to the following members of the Strategic Planning Task Force and industry representatives for their invaluable assistance:

2014 Strategic Planning Task Force

Jeff Anderson	Financial Examiner – Lubbock
Bob Bacon	Deputy Commissioner
Lea Booker	Assistant Financial Examiner – Houston
Sami Chadli	Director of Administrative Services – Headquarters
Elizabeth Cogwin	Accounting – Headquarters
Charles G. Cooper	Commissioner
Larry Filer, Jr.	IT Financial Examiner – San Antonio
Dan Frasier	Director of Corporate Activities – Headquarters
Emily Hayes	Assistant Financial Examiner – Arlington
Nelson Jones	Perpetual Care Cemeteries – Arlington
Phil Lena	Financial Analyst – Headquarters
Debbie Loomis	Deputy General Counsel – Headquarters
Denise Martinez	Assistant Financial Examiner – San Antonio
Tanya Miller	Review Examiner – Lubbock
Stephanie Newberg	Deputy Commissioner
Kurt Purdom	Director of Bank and Trust Supervision – Headquarters
Jesse Saucillo	Review Examiner – Headquarters
Wendy Rodriguez	Director of Strategic Support – Headquarters
Mark Sims	Financial Examiner – Arlington
Anita Villarreal	Legal – Headquarters
Larry Walker	Regional Director – Arlington
Barbara Winters	Financial Examiner - Headquarters
Lori Wright	Human Resources Officer – Headquarters
Jim Yarbro	Chief Trust Examiner – Lubbock

Special thanks to Finance Commission Strategic Planning Committee Members:

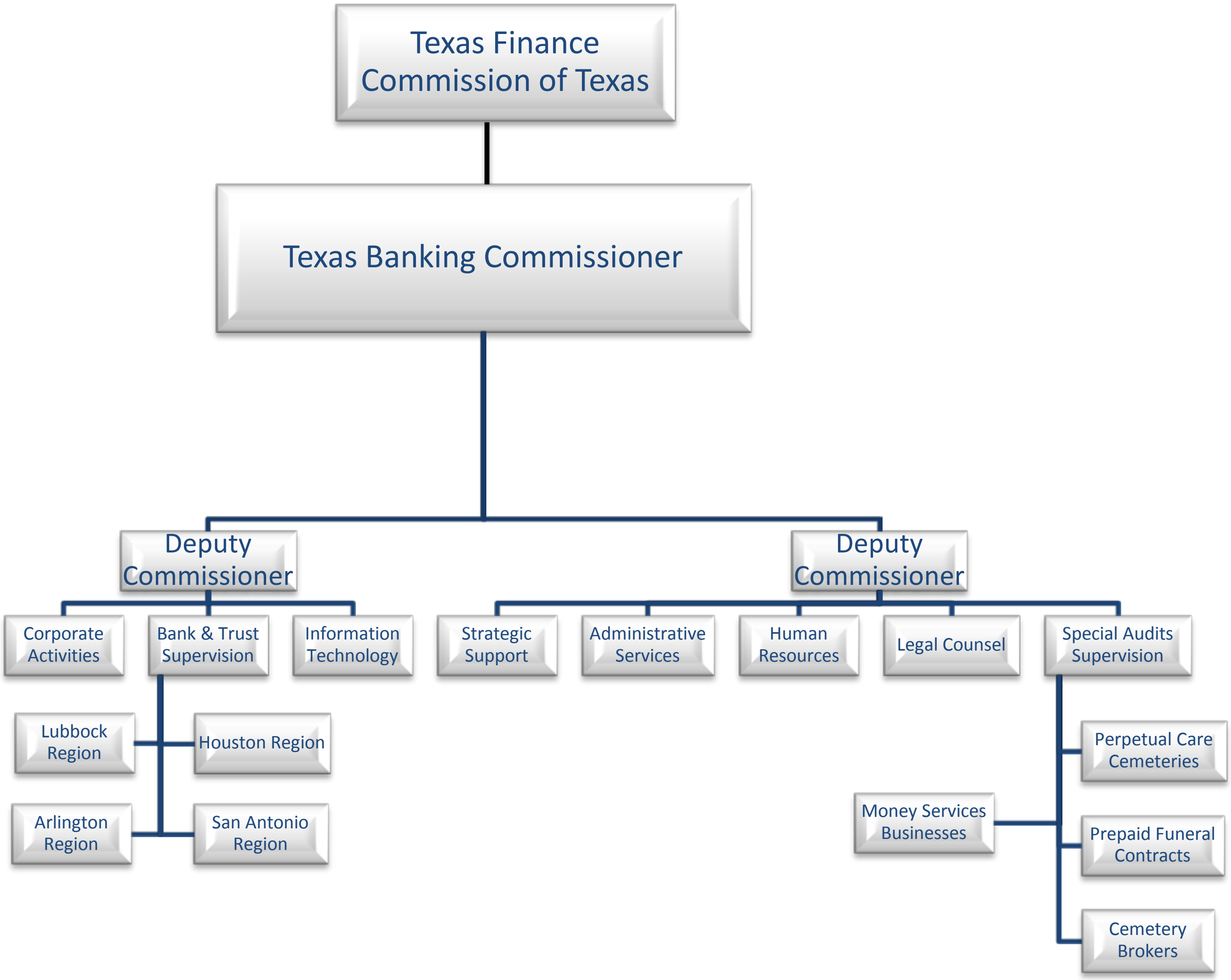
Stacy London Mortgage Member Houston	Jonathan Newton Public Member Houston	Larry Patton Banking Member El Paso

Special thanks to Industry Representatives:

Michael O'Rourke, TIB The Independent BankersBank
Moises Jaimes, Bancomer Transfer Services, Inc.
Mike Rittman, Homesteaders Life Company
Jim Cooper, Conference of State Bank Supervisors
Eric Sandberg and Celeste Embrey, Texas Bankers Association
Shannon Phillips, Independent Bankers Association of Texas

Strategic Planning Process	
Date	Action
December 9, 2013	Commissioner sends information out to all employees describing the strategic planning process. He requests that employees review the strategic plan, discuss it with coworkers, and be prepared to provide input about it during planned division meeting.
January 30, 2014	Deadline for divisions to hold meetings with their employees to discuss and seek feedback about the agency's strategic plan.
January 31, 2014	Deadline for divisions to submit names of division representatives and summaries of the ideas discussed at the regional or division meetings.
February 24-25, 2014	First meeting of Strategic Planning Task Force. This task force, which is made up of representatives from each division, will discuss the recommendations received from the divisions and begin the process of drafting the strategic plan. Finance Commission and industry members will be invited to attend the meeting and provide input.
March 7, 2014	Deadline to seek input from industry representatives.
May 9, 2014	Deadline for the first draft of the revised strategic plan to be submitted to task force and industry representatives for review.
May 15, 2014	Deadline for first draft of Information Resources, Workforce Plans and Customer Satisfaction Sections.
May 19, 2014	Second meeting for Strategic Planning Task Force.
May 22, 2014	Second draft of strategic plan submitted to the task force and industry representatives.
May 29, 2014	Deadline for comments about revised strategic plan.
June 9, 2014	Strategic Plan is submitted to Finance Commission for approval at their upcoming meeting.
June 20, 2014	Finance Commission Meeting.
June 23, 2014	Submission of final plan to state leadership.

APPENDIX B
Organizational Chart



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APPENDIX C
Outcome Measures

OUTCOME MEASURE	FY'14	FY'15	FY'16	FY'17	FY'18
Percentage of banks receiving examinations when due	82.5%	85%	87.5%	90%	90%
Percentage of foreign bank agencies receiving examinations when due	95%	95%	95%	95%	95%
Percentage of trust companies receiving examinations when due	90%	90%	90%	90%	90%
Percentage of problem institutions with appropriate supervisory actions in place	100%	100%	100%	100%	100%
Certificate of accreditation by CSBS maintained in good standing	Yes	Yes	Yes	Yes	Yes
Percentage of money service business licensees examined when due	90%	90%	90%	90%	90%
Percentage of prepaid funeral contract licensees examined by Special Audits when due	90%	90%	90%	90%	90%
Percentage of perpetual care cemetery licensees examined by Special Audits when due	90%	90%	90%	90%	90%
Percentage of bank and trust, money service business, check verification company and private child support enforcement agency applications completed within statutory time periods	95%	95%	95%	95%	95%

APPENDIX C
Outcome Measures

Each percentage used in the Outcome Measures table is based on the agency's evaluation of risk and existing resources. The risk analysis for each strategy is detailed below.

Bank and Trust Supervision Strategies:

At 90%[8] and 95% for banks and foreign banks, respectively, receiving examinations when due:

- The risk of not timely identifying a material problem due to a short delay in beginning an on-site examination is considered minimal.
- Off-site monitoring is used to identify and prioritize potential problems.
- If a bank is not examined when due, the Department's goal is to examine those within 60 days.

At 90% for trust companies receiving examinations when due:

- The risk of not timely identifying a material problem due to a short delay in beginning an on-site examination is considered minimal.
- Trust examinations that are delayed are on trust companies with Uniform Interagency Trust Composite ratings of 1 or 2, meaning that they are not troubled companies.
- Very few trust companies are rated as problem institutions.
- Due to the small number of trust companies, even a few past due examinations can result in performance outside of the 90% target.
- If a trust company is not examined when due, the Department's goal is to examine those within 60 days.

Special Audits Strategies:

At 90% for MSBs, PFCs, and PCCs receiving examinations when due:

- The risk of not timely identifying a problem MSB, PFC, or PCC due to a short delay in beginning an examination is minimal.
- Examinations that are delayed are on MSBs, PFC, or PCCs with ratings of 1 or 2, meaning that they are not troubled entities.
- Less than satisfactorily rated entities are examined within the statutory period.
- By statute, examination frequency can be set at the discretion of the Commissioner for MSBs PCCs, and PFCs.
- Delinquent examinations are approximately 39 days past due as of February 28, 2014.
- If an examination is past due, the Department's goal is to examine those within 60 days.

Corporate Strategies:

The statutes and rules related to corporate notice filings and applications generally require that we accept for processing or return the original submission within 15 days of receipt and approve or deny the filing/application within 30-60 days after the date all required documents have been submitted.

At 95% target for processing filing within timeframes established by statute or rule:

- Many of the applications not processed within established timelines are due to conscious decisions to take additional time to make sure that the Department has fully evaluated and acknowledges the risk in more complex or riskier type applications.
- For those applications not completed within the statutory timeframes, the Department's goal is to complete the processing within 60 days.

[8] *The performance measure method of calculation for banks changed and 90% should be attained over the five-year period. See Appendix D for the method of calculation.*

01-01.01 Percentage of Banks Receiving Examinations When Due

Short Definition: The number of banks due for examination per the examination priority schedule (described in Supervisory Memorandum 1003) and examinations started by the Department of Banking, FDIC, or Federal Reserve Bank over the 12-month period preceding the cut-off prior to the reporting date, divided by the number of banks required to be examined under the Department's examination priority schedule as of the cut-off date, less banks in liquidation or forfeiture of charter. An examination is the process by on-site or off-site review, to review and evaluate the records of a regulated entity to the extent necessary to determine compliance with applicable laws.

Purpose/Importance: The Department is under a statutory mandate regarding examination frequency. This measure indicates how well the agency is meeting its mandate.

Source/Collection of Data: Division staff enters into the Department's Examination Division Information System on the Network (EDISON) all commercial examinations started and completed by the Department of Banking, FDIC or Federal Reserve Bank. Data is maintained on the total number of banks due for examinations per examination priority schedule. The number of examinations in the numerator and denominator includes banks examined by the Department of Banking and federal agencies, whether joint or independent. Past due banks include those banks with examinations held in abeyance pending their exit from the state system.

Method of Calculation: Total number of examinations started of banks when due divided by the number of examinations due during the reporting period (as determine by Administrative Memorandum 2041 plus a 30 day extension).

Data Limitations: The number of banks receiving an examination when due could significantly decrease in the event of:

- Material deterioration in the overall condition of the state's financial institutions which would require a more frequent examination schedule;
- An inability of the federal banking authorities to meet their examination responsibilities due to a reallocation of personnel to other priorities; and
- A significant increase in the number of new bank charters.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-01.02 Percentage of Foreign Bank Agencies Receiving Examinations When Due

Short Definition: Number of foreign bank agencies due examinations per examination priority schedule and examinations started by the Department of Banking, FDIC, or Federal Reserve Bank over the 12-month period preceding the cut-off prior to the reporting date, divided by the number of foreign bank agencies required to be examined under the Department's examination priority schedule as of the cut-off date. An examination is the process by on-site or off-site review, to review and evaluate the records of a regulated entity to the extent necessary to determine compliance with applicable laws.

Purpose/Importance: The Department is under a statutory mandate regarding examination frequency. This measure indicates how well the agency is meeting its mandate.

Source/Collection of Data: Division staff enters into the Department's database (EDISON) all foreign bank agencies examinations performed by the Department of Banking or federal agencies, whether joint or independent. Data is maintained on the total number of foreign bank agencies due for examinations per examination priority schedule and includes all agencies examined by the Department or the federal agencies.

Method of Calculation: To calculate the percentage of foreign bank agencies receiving examinations when due, divide the total foreign bank agencies examined during the 12-months preceding the fiscal quarter-end by the number of foreign bank agencies examined during the 12-months preceding the fiscal quarter-end plus agencies past due at fiscal quarter-end.

Data Limitations: The number of foreign bank agencies receiving an examination when due could significantly decrease in the event of:

- Material deterioration in the overall condition of the state's financial institutions which would require a more frequent examination schedule;
- An inability of the federal banking authorities to meet their examination responsibilities due to a reallocation of personnel to other priorities; and
- A significant increase in the number of new foreign bank agency entities.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-01.03 Percentage of Trust Companies Receiving Examinations When Due

Short Definition: Number of trust companies due examinations per examination priority schedule (described in Supervisory Memorandum 1004) and examinations started by the Department of Banking, FDIC, or Federal Reserve Bank over the 12-month period preceding the cut-off prior to the reporting date, divided by the number of trust companies required to be examined under the Department's examination priority schedule as of the cut-off date, less trust companies in liquidation or forfeiture of charter. An examination is the process by on-site or off-site review, to review and evaluate the records of a regulated entity to the extent necessary to determine compliance with applicable laws.

Purpose/Importance: The Department is under a statutory mandate regarding examination frequency. This measure indicates how well the agency is meeting its mandate.

Source/Collection of Data: Division staff enters into the Department's database (EDISON) all trust companies examinations performed by the Department of Banking or federal agencies, whether joint or independent. Data is maintained on the total number of trust companies due for examinations per examination priority schedule and includes all trust companies examined by the Department or the federal agencies.

Method of Calculation: Total number of examinations started of trust companies when due divided by the number of examinations due during the reporting period (as determine by Administrative Memorandum 2041 plus a 30 day extension).

Data Limitations: The number of trust companies receiving an examination when due could significantly decrease in the event of:

- Material deterioration in the overall condition of the state's trust companies which would require a more frequent examination schedule; and
- A significant increase in the number of new trust companies.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-01.04 Percentage of Problem Institutions with Appropriate Supervisory Actions in Place

Short Definition: Number of banks with a composite CAMELS (Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity) rating of 3, 4, or 5 with Cease & Desist Orders, Determination Letters, Memorandums of Understanding, Commitment Letters, Board Resolutions, or Letters of Agreement in effect at the time of the cut-off date for the reporting period, divided by number of banks with a composite CAMELS rating of 3, 4, or 5 as of the cut-off date.

Purpose/Importance: It is the Department's policy to impose a supervisory action on an institution which is not operating safely and soundly, to encourage and assist the institution in taking corrective action to improve its condition.

Source/Collection of Data: Agency headquarters staff enters into the Department's database (EDISON) rating information about the condition of each bank after an examination is completed by the Department of Banking, FDIC, or the Federal Reserve Bank. Data is maintained on the CAMELS rating of each institution.

Method of Calculation: To calculate the percentage of problem institutions with appropriate supervisory actions, divide the number of 3, 4, or 5 rated banks with one of the administrative actions shown above either open or pending as of the fiscal quarter end by the total number of banks rated a composite 3, 4, or 5 as of the same fiscal quarter end date.

Data Limitations: This number could naturally increase if there were a substantial deterioration in the condition of the banking industry.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Meet target

01-01.05 Certificate of Accreditation by CSBS Maintained in Good Standing

Short Definition: Department is accredited by the Conference of State Bank Supervisors (CSBS) as of the end of the reporting period. 100% - Department is accredited. 0% - Department is not accredited.

Purpose/Importance: CSBS accreditation is a national standard of excellence among financial regulators. The Department must maintain its accreditation in order to participate in supervision of interstate banking, and maintain credibility among federal regulators and the national Congress.

Source/Collection of Data: A certificate of accreditation is awarded to the Department. This is displayed in the reception area of the agency's headquarters building.

Method of Calculation: Determine if the annual CSBS accreditation is in good standing. If so, answer "YES."

Data Limitations: None

Calculation Type: Noncumulative

New Measure: No

Target Attainment: To remain accredited

01-01.06 Number of Bank and Foreign Bank Examinations Performed

Short Definition: Number of regular, limited, abbreviated, joint, and concurrent examinations of banks and offices of foreign bank corporations by the Department of Banking started during the reporting period. An examination is the process by on-site or off-site review, to review and evaluate the records of a regulated entity to the extent necessary to determine compliance with applicable laws.

Purpose/Importance: This measure is an indication of the volume of examination activity. It consists of the number of commercial examinations performed by the Department including joint examinations with a federal agency during the fiscal quarter. Foreign bank agency examinations and representative office examinations are included in this measure.

Source/Collection of Data: Division staff enters into the Department's database (EDISON) all bank and foreign bank examinations conducted by the Department of Banking, FDIC, or the Federal Reserve Bank. Data is maintained on the total number of banks examined within any given time period.

Method of Calculation: The measure is obtained by counting all independent Department of Banking and joint examinations performed during the fiscal quarter from the exam started reports for commercial, foreign bank branch, foreign bank agency, and foreign bank representative office examinations.

Data Limitations: Consolidation from mergers and acquisitions within these entities could significantly reduce the number of institutions and therefore reduce the number of examinations performed.

Calculation Type: Cumulative

New Measure: No

Target Attainment: Higher than target

01-01.07 Number of Trust Company, Trust Department, and Information Technology Examinations or Certifications and Other Specialized Reviews Performed

Short Definition: Number of trust company, trust department, and Information Technology (IT) examinations or certifications and other specialized reviews by the Department of Banking started during the reporting period. This measure includes joint examinations with a federal agency and the annual review of financial statements submitted by exempt trust companies.

Purpose/Importance: This measure is an indication of the volume of examination activity.

Source/Collection of Data: Division staff enters into the Department's database (EDISON) all trust company, trust department, and IT examinations conducted by the Department of Banking, FDIC, or the Federal Reserve Bank. Data is maintained on the total number of banks examined within any given time period.

Method of Calculation: The total number is obtained by counting all independent Department of Banking examinations and joint examinations from the exam started reports for trust companies, trust departments, and IT examinations. The number of annual financial statements received for review is also included in this measure.

Data Limitations: The number of trust company, trust department, and IT examinations could significantly decrease in the event of:

- Material deterioration in the overall condition of these entities, which would require more field office time to investigate the safety and soundness concerns;
- A significant change in services or powers that could necessitate expanded examination time periods in order to fully investigate these new activities;
- An inability of the federal banking authorities to meet their examination responsibilities due to a reallocation of personnel to other priorities (applicable to trust departments only); and
- Consolidation of regulated entities through mergers and acquisitions.

On the other hand, the number of trust company, trust department, and IT examinations could increase in the event of a significant influx of new charters.

Calculation Type: Cumulative

New Measure: No

Target Attainment: Higher than target

01-01.08 Average Cost per Bank Examination

Short Definition: Total direct bank examination costs, expressed as a ratio of the number of examinations performed over the reporting period.

Purpose/Importance: To assist in review of the efficiency of the Department's examinations, and to benchmark against other regulators.

Source/Collection of Data: Field personnel prepare detailed time and expense reports about their duties. Monthly, this information is transferred into a Departmental database that is maintained by the Information Technology Division of the agency.

Method of Calculation: The total bank and trust regional office expenses for the fiscal quarter. Divide the total expenses for the regional offices by the number of exams performed.

Data Limitations: Legislative increases in allowable travel expenses or statewide merit increase could increase this measure.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Lower than target

01-01.09 Assets Examined per Examiner Day (in millions)

Short Definition: Total assets examined by the Department over the reporting period, divided by the days (hours divided by 8) related to those specific bank examinations.

Purpose/Importance: To assist in review of the efficiency of the Department's examinations, and to benchmark against other regulators.

Source/Collection of Data: Bank financial information is obtained during each examination and is uploaded into the Department's database.

Method of Calculation: To calculate the assets examined per examiner day, run the Exams Completed Report for the appropriate fiscal quarter. Divide the sum of the total assets examined by the total exam hours and again divided by eight.

Data Limitations: This number could change dramatically if mergers and consolidation increase the asset size of a majority of our regulated entities. Further, the need to train examiners in new issues or an increase in the risk profile of institutions requiring more oversight could also affect this calculation.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-01.10 Percentage of Banks Classified Safe and Sound

Short Definition: The total number of state-chartered banks with a composite CAMELS rating of 1 or 2 and non-rated (new charters), divided by the total number of state-chartered banks as of the most recent calendar-quarter-end data available preceding the reporting period cut-off date.

Purpose/Importance: This measure is indicative of the condition of the state banking system.

Source/Collection of Data: Agency headquarters' staff enters into the Department's database, EDISON, rating information about the condition of each bank after an examination is completed by the Department of Banking, FDIC, or the Federal Reserve Bank. Data is maintained on the CAMELS rating of each institution.

Method of Calculation: Divide the total number of state-chartered banks rated 1 or 2 and non-rated (new charters) by the total number of state-chartered banks at the end of the reporting period. It should be further noted that new banks who have not yet been examined are considered safe and sound and/or in compliance with state requirements for calculation of this measure.

Data Limitations: The overall condition of a material number of institutions could deteriorate due to adverse economic conditions and substantially increase the percentage of banks not classified as safe and sound.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-01.11 Number of State-Chartered Banks in Texas

Short Definition: The total number of state-chartered banks as of reporting period cut-off date.

Purpose/Importance: This measure is indicative of the volume of banks under the agency's supervision.

Source/Collection of Data: The Entity Count Report on agency's EDISON database.

Method of Calculation: Run the Entity Count Report as of the last day of the appropriate fiscal quarter. Take the figure shown for state banks and subtract any limited banking associations limited to trust powers.

Data Limitations: The number of state chartered banks in Texas could materially increase with an influx of new charter or conversion activity and substantially decrease due to significant merger and acquisition activity.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-01.12 Total Assets (Dollars in Billions) in State-Chartered Banks in Texas

Short Definition: Total assets of all state-chartered banks as of the calendar-quarter-end immediately preceding the reporting period cut-off date.

Purpose/Importance: This measure is indicative of the volume of bank assets under the agency's supervision.

Source/Collection of Data: The *All State Banking Activity in Texas Report* produced by the Strategic Support Division as found on the agency's website.

Method of Calculation: The performance measure is the subtotal in the total asset column of the *All State Banking Activity in Texas Report* for total Texas state bank activity. This incorporates banks chartered by other states with branches in Texas.

Data Limitations: Total assets of state chartered banks in Texas could materially increase with an influx of new charter or conversion activity or substantially decrease due to significant merger and acquisition activity with national banks.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-02.01 Percentage of Money Service Business Licensees Examined by Special Audits When Due

Short Definition: The Department has 12-month and 18-month examination cycles. The number of Money Service Businesses (MSB) license holders with examinations started by the Department of Banking, another state agency, the federal government, or an independent accounting firm over the 12-month period preceding the cut-off prior to the reporting date, divided by the number of MSB license holders required to be statutorily examined as of the cut-off date. An examination is the process by on-site or off-site review to review and evaluate the records of a licensee that relate to the regulated activity to the extent necessary to determine compliance with applicable laws.

Purpose/Importance: This measure provides information regarding the extent to which the Department is adhering to the statutory requirements regarding examination frequency and demonstrates the effectiveness of the Department.

Source/Collection of Data: Examination data is provided to staff at Headquarters who enter this information into a customized Oracle database. The Oracle database produces customized reports that: (1) lists all examinations started during the 12-month period preceding the cut-off prior to the reporting date and (2) lists the MSB license holders MSBs required to be examined as of the cut-off date.

Method of Calculation: The percentage is calculated by dividing the examinations started during the 12-month period preceding the cut-off prior to the reporting date (Report 1 above) by the number of MSBs required to be statutorily examined as of the cut-off date (Report 2 above).

Data Limitations: Standards have been established in statute and by rule to ensure that examinations are performed within acceptable timeframes; however, the level of experience and efficiency of each examiner, along with retaining and hiring qualified examiners, can be limiting factors. This measure would also be affected by a significant increase or decrease in licensees.

Calculation Method: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-02.02 Percentage of Prepaid Funeral Contract Licensees Examined by Special Audits When Due

Short definition: The Department has 12-month and 18-month examination cycles. The number of prepaid funeral contract (PFC) license holders with examinations started by the Department of Banking over the 12-month period preceding the cut-off prior to the reporting date, divided by the number of PFC license holders required to be statutorily examined as of the cut-off date. An examination is the process by on-site or off-site review, by which the Department reviews and evaluates the records of a licensee that related to the regulated activity to the extent necessary to determine compliance with applicable laws.

Purpose/Importance: This measure provides information regarding the extent to which the Department is adhering to the statutory requirements regarding examination frequency and demonstrates the effectiveness of the Department.

Source/Collection of Data: Examination data is provided to staff at Headquarters who enter this information into a customized Oracle database. The Oracle database produces customized reports that: (1) lists all examinations started during the 12-month period preceding the cut-off prior to the reporting date and (2) lists the PFCs license holders required to be examined as of the cut-off date.

Method of Calculation: The percentage is calculated by dividing the examinations started during the 12-month period preceding the cut-off prior to the reporting date (Report 1 above) by the number of PFC required to be statutorily examined as of the cut-off period (Report 2 above).

Data Limitations: Standards have been established in statute and by rule to ensure that examinations are performed within acceptable timeframes; however, the level of experience and efficiency of each examiner along with retaining and hiring qualified examiners can be limiting factors. This measure would also be affected by a significant increase or decrease in licensees.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-02.03 Percentage of Perpetual Care Cemetery Licensees Examined by Special Audits When Due

Short definition: The number of perpetual care cemeteries (PCC) license holders with examinations started by the Department of Banking over the 12-month period preceding the cut-off prior to the reporting date, divided by the number of PCCs license holders required to be statutorily examined as of the cut-off date. An examination is the process by on-site or off-site review, by which the Department reviews and evaluates the records of a licensee that related to the regulated activity to the extent necessary to determine compliance with applicable laws.

Purpose/Importance: This measure provides information regarding the extent to which the Department is adhering to the statutory requirements regarding examination frequency and demonstrates the effectiveness of the Department.

Source/Collection of Data: Examination data is provided to staff at Headquarters who enter this information into a customized Oracle database. The Oracle database produces customized reports that (1) lists all examinations started during the 12-month period preceding the cut-off prior to the reporting date and (2) lists the PCCs license holders required to be examined as of the cut-off date.

Method of Calculation: The percentage is calculated by dividing the examinations started during the 12-month period preceding the cut-off prior to the reporting date (Report 1 above) by the number of PCCs required to be statutorily examined as of the cut-off period (Report 2 above).

Data Limitations: Standards have been established in statute and by rule to ensure that examinations are performed within acceptable timeframes; however, the level of experience and efficiency of each examiner along with retaining and hiring qualified examiners can be limiting factors. This measure would also be affected by a significant increase or decrease in licensees.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-02.04 Percentage of Perpetual Care Cemetery and Prepaid Funeral Contract Applications Completed Within Statutory Period

Short definition: The number of perpetual care cemetery (PCC) and prepaid funeral contract (PFC) applications completed within the statutory periods, expressed as a ratio of the number of PCC and PFC applications completed during the reporting period.

Purpose/Importance: To measure to what extent the Department is adhering to the statutory requirement regarding the processing and completion of PCC and PFC applications. This measure provides an indication of the Department's compliance with the statutory requirements pertaining to PCC and PFC applications.

Source/Collection of Data: All application processing data is maintained in an Oracle database, which produces customized reports for the applications processing function. The following information is maintained for each application: date of receipt, date of response, date of completion, days to complete, and date of final action. A report is also generated which lists all received, pending and approved applications during the reporting period. Staff in each of the two areas input data as applications are received and as the processing function takes place. The customized reports can be produced for any given date and are readily available to check the status of an application at any given time.

Method of Calculation: A percentage is obtained by dividing the number of PCC and PFC applications completed within the statutory periods for the reporting period divided by the number of PCC and PFC applications completed during the same reporting period.

Data Limitations: Limitations include the level of experience of the staff who process the applications and understaffing. Operating procedures have been developed to ensure that applications are processed within the required time frame; however, the level of experience and efficiency of the staff and reviewing officials, along with retaining and hiring qualified employees are limiting factors.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-02.05 Number of Special Audits Licensees Examined

Short Definition: The aggregate number of money service businesses, prepaid funeral contract and perpetual care cemetery examinations started by the Department of Banking or of another state agency or of the federal government or of an independent accounting firm in the reporting period. An examination is the process by on-site or off-site review, to review and evaluate the records of a licensee that relate to the regulated money service businesses, prepaid funeral contract and perpetual care cemetery businesses to the extent necessary to determine compliance with applicable laws.

Purpose/Importance: This measure shows the total number of examinations started during a reporting period and can also be used to determine the percentage of licensees examined during that same period. This data is used by management to determine examiner efficiency, evaluate staffing requirements, schedule future examinations, and to assess the overall effectiveness of Special Audit's examination program.

Source/Collection of Data: Examination data is provided to staff at the headquarters office who enter this information into customized Oracle databases. The Oracle databases produce customized reports that list all examinations started for any given reporting period for each regulated area of Special Audits. Totals from these reports are combined to arrive at the total number of Special Audit Licensees examined during the reporting period.

Methodology of Calculation: Customized Oracle reports that list and detail the start date of each examination for a reporting period are generated and the totals from these reports are added together to determine the number of Special Audits examinations performed during a reporting period.

Data Limitations: Standards have been established in statute and by rule to ensure that examinations are performed within acceptable timeframes; however, the level of experience and efficiency of each examiner, along with retaining and hiring qualified examiners, can be limiting factors. This measure would also be affected by a significant increase or decrease in licensees.

Calculation Method: Cumulative

New Measure: No

Target Attainment: Higher than target

01-02.06 Number of Special Audits Licensees

Short Definition: Total number of Special Audit licensees as of the reporting period cut-off date.

Purpose/Importance: Provides an indication of the total number of entities licensed by the Department of Banking and under the supervision of the Special Audits Division. This measure is useful for determining industry trends and growth patterns of the three areas (Perpetual Care Cemetery, Prepaid Funeral Contracts, and Money Service Business) within the Special Audits Division. Information is also useful to assess personnel needs and to evaluate regulatory policies and procedures for each area.

Source/Collection of Data: Each of the three areas within the Special Audits Division maintains an Oracle database master list, which shows each licensed entity. An entity is transferred to the master list upon becoming an active license.

Method of Calculation: Totals from each area's master listing of licensees as of the reporting period cut-off date are combined to arrive at the total number of Special Audits Division licensees as of the reporting period cut-off date.

Data Limitations: The number of licensees could fluctuate depending on the number of new licensees and/or the surrendering or revocation of licenses.

Calculation Type: Cumulative

New Measure: No

Target Attainment: Higher than target

01-02.07 Average Direct Cost per Prepaid Funeral Contract and Perpetual Care Cemetery Licensee Examination

Short Definition: Total direct prepaid funeral contract (PFC) and perpetual care cemetery (PCC) licensee examination costs, divided by the number of examinations started by the Department of Banking over the reporting period. An examination is the process by on-site or off-site review to review and evaluate the records of a licensee that related to the regulated activity to the extent necessary to determine compliance with applicable laws.

Purpose/Importance: To measure the average direct cost of each PFC and PCC licensee's examination performed over the reporting period. This measure provides an indication of the Department's use of its resources, personnel, and time as it relates to the examination of PFC and PCC licensees.

Source/Collection of Data: Data used to calculate the average cost per PFC and PCC licensee examination is derived from the Department's MIP (Micro Information Products) accounting system which allocates all direct costs incurred by the Department which are associated with the examination of any PFC and PCC licensee during the reporting period. Data is collected and summarized by the MIP accounting system as costs are incurred and charged as expenses. The number of licensee examinations performed over the reporting period is derived from a customized Oracle database report which lists each examination performed during the period and which provides a total of the number of examinations performed over the reporting period.

Method of Calculation: The total direct costs associated with the examination of any PFC and PCC licensee are divided by the number of examinations performed over the reporting period. The resulting figure is an average direct cost per PFC and PCC licensee examination.

Data Limitations: Legislative increases in allowable travel expenses or a statewide merit increase could increase this measure.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Lower than target

01-02.08 Dollar Amount (Billions) of Prepaid Funeral Contracts in Force

Short Definition: The total dollars (aggregate) in prepaid funeral contracts held by prepaid funeral contract licensees regulated by the Department of Banking at the close of the most recent calendar year.

Purpose/Importance: Provides an indication of the dollar volume of prepaid funeral contracts regulated by the Department of Banking. This measure assists in determining industry trends and growth patterns, assessing personnel needs, and evaluating examination policies and procedures.

Source/Collection of Data: Data is derived from the most recent Departmental examination report of each licensee. The reports contain the total dollar amount and number of prepaid funeral contracts held by the licensee as of the most recent examination. Data contained in the reports entered in an Oracle customized database that produces a report summarizing the total number of prepaid contracts and dollars sold.

Method of Calculation: A customized Oracle database containing each licensee's total number of outstanding contracts and total dollar amount of outstanding contracts produces a report which provides a total of the aggregate total dollar amount in prepaid funeral contracts held by prepaid funeral contract licensees.

Data Limitations: The number of contracts and/or the dollar amount of outstanding contracts reported by each licensee at the most recent examination is dependent on information provided by the licensee.

Calculation Type: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-03.01 Percentage of Bank & Trust, Money Service Business, Check Verification Company and Private Child Support Enforcement Agency Registration and Renewal Applications and Cemetery Broker Registrations Completed within Statutory Time Periods

Short Definition: The number of bank and trust, money service business (MSB), check verification company (CVE), and private child support enforcement agency (PCSEA) registration and renewal applications, and cemetery broker (CB) registrations completed within the statutorily required periods, expressed as a ratio of the number of such applications completed during the reporting period. The time periods for completing these activities are prescribed by rule or statute, and a Summary Chart (Appendix II) of this information is maintained in the Corporate Activities Division.

Purpose/Importance: This measure shows the extent of compliance with statutory and rule limitation on the time allowed for corporate processing. A high percentage of compliance is suggestive of an efficient and effective division that is responsive to the requests of the applicants. Processing deadlines bring some certainty to the process and recognition of lost opportunity costs to the applicants. Further, a high percentage of compliance helps the Department remain competitive vis-à-vis other banking regulatory agencies.

Source/Collection of Data: The source of data is derived from the Oracle databases referred to as "CATS". Agency staff make the initial entry including received date for all corporate filings from information supplied by applicants. Additional entries are made to indicate acceptance for filings, requests for additional information and date of decision.

Methods of Calculation: The ratio is computed by dividing the number of compliant initial-reply and processing time limits for applicable corporate filings divided by the total number of initial-reply and processing time limits that are mandated for applicable corporate filings. CATS produces customized reports the (1) lists all corporate filings with initial reply and processing times compared to mandated limits and (2) totals all compliant and non-compliant initial reply and processing times for each transaction type.

Data Limitations: Standards are established in statute and by rule to ensure that all corporate filings, especially those subject to rule or statutory time limits, are timely performed; however, the Department has no control over the number or types of applications submitted during a particular time period. In some instances, the Corporate Division is dependent upon the actions of others in order to reach a decision. For example, a conversion examination by the Bank and Trust Division must be completed before a decision can be rendered on an application. Additionally, because the Commissioner is the only person authorized to make decisions on some types of applications, processing may extend beyond the required timeframe because of scheduling conflicts.

Calculation Method: Noncumulative

New Measure: No

Target Attainment: Higher than target

01-03.02 Number of Bank and Trust Applications, Notices, and Filings, Money Service Business License, Check Verification Company and Private Child Support Enforcement Agency Registration and Renewal Applications and Cemetery Broker Registrations Completed

Short Definition: Number (aggregate) of Bank & Trust applications, notices, and filings completed; the total number of money service business (MSB) new license applications completed; and the number of check verification company (CVE) private child support enforcement agency (PCSEA) and Cemetery Broker (CB) initial and renewal applications completed in the reporting period.

Purpose/Importance: This data is used to judge not only the types of activities undertaken by the regulated entities, but to predict future performance of the regulated industries. In most instances the Texas public will feel the effect of these actions and the economic health of the state will be affected. Agency staffing and training requirements can also be impacted based upon the types of filings.

Source/Collection of Data: The source of data is derived from the Oracle databases referred to as "CATS". Agency staff makes the initial entry including received date for all corporate filings from information supplied by applicants. Additional entries are made to indicate acceptance for filing, requests for additional information and date of decision.

Methodology of Calculation: A pre-defined report format for this measure is contained within the CATS database. The report allows the user to select a beginning and ending date, which is typically a fiscal quarter. The resulting report then lists, by type of application or filing, the respective number of corporate filings by one of the following five categories: "approved," "denied," "information," "notice," or "withdrawn." The report also provides a total for each type as well as a grand total. The number used for the performance measure takes the total for the number of filings less the total number of "information" and "withdrawn" filings for the applicable reporting period. Numbers for MSB and PCSEA must be manually calculated.

Data Limitations: Standards are established in statute and by rule to ensure corporate filings are timely performed; however, we have no control over the number or types of applications submitted during a particular time period. In some instances the Corporate Division is dependent upon the actions of others in order to reach a decision. For example, a conversion examination by the Bank and Trust Division must be completed before a decision can be rendered on an application. Additionally, because the Commissioner is the only person authorized to make decisions on some types of applications, processing may extend beyond the required timeframe because of scheduling problems. Further, the number and timing of filings received by the Corporate Division is a function of the private sector and, as such, is beyond the control of the Corporate Division. Withdrawn applications are not counted even though much time may have been expended in their review.

Calculation Method: Cumulative

New Measure: No

Target Attainment: Higher than target

01-03.03 Number of Requests for Information Received

Short Definition: The number of requests received over the reporting period, open records requests and the number of consumer complaints and inquiries.

Purpose/Importance: This measure shows the frequency and type of information, which the Department supplies. The public depends upon this data to facilitate commercial transactions such as loan closings, title releases, etc. This information also reflects the volume and types of complaints and inquiries received from the public regarding the entities that we license and/or regulate.

Source/Collection of Data: Data is derived from divisional databases administered by the Strategic Support, Special Audits, and Legal Divisions. The information requests and related processing information, such as entity involved and response date is input into the applicable database by an administrative assistant.

Method of Calculation: The measure is calculated as the sum of: (1) the total number of complaints and inquiries processed by the Strategic Support, and Special Audits Divisions and (2) the total number of open records requests received by the Legal Division during the fiscal quarter reporting period.

Data Limitations: Protocols are established to help ensure information requests are captured; however, no mechanism exists to ensure such information is always appropriately noted.

Calculation Type: Cumulative

New Measure: No

Target Attainment: Lower than target

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APPENDIX E
Workforce Plan 2015-2019

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I. DEPARTMENT OVERVIEW

The Department is a Self-Directed, Semi-Independent (SDSI) agency operating under the oversight of the Texas Finance Commission. As a SDSI agency, the Department is not required to have its budget approved by the Legislature. The Finance Commission is responsible for setting the spending authority or limits for the agency each year.

The agency's mission is carried out through chartering, licensing, examination and supervision, and customer assistance. Regulated entities receive examinations to ensure they are operating in a safe and sound manner and are in compliance with state and federal laws. The ability to adequately supervise the entities under the Department's jurisdiction requires that sufficient support be provided to our financial examiners, as well as the regulated entities through professionalism, technology, legal services, communication and administrative services.

The Department competes with financial service providers, other state agencies and the federal regulatory agencies for its professional examination staff. The agency is approved to have 200 full-time equivalent (FTE) employees and as of April 30, 2014, employs 185 individuals. Field examiner staffing for the Bank and Trust Supervision Division is 99.25 and 16 for the Special Audits Division, leaving 13.75 vacant financial examiner positions.

In order to reduce historical turnover among the financial examiner series, the Department, with the support of the Finance Commission, sought to receive approval to initiate examiner salary adjustments. Continuation of equity adjustments for financial examiner salaries to better align with federal counterparts has led to an overall decline in examiner turnover. Although examiner turnover rose in Fiscal Year (FY) 2012 to 17.05% (mainly due to terminations, retirements and death) only 7.75% of FY 2012 turnover was voluntary. Total financial examiner turnover significantly decreased in FY 2013 (8.20%). As of April 30, 2014, the financial examiner turnover for FY 2014 was 6.06% (2.28% from involuntary separations and retirements).

The Department has worked diligently to reduce and abate turnover, and must continue the same efforts to sustain a qualified workforce. Lessons learned from the past banking crisis highlight the need to retain a sufficient number of trained and tenured staff to stay abreast of economic and industry changes and be prepared for adverse events that will occur sometime in the future. The Department needs to be prepared for these contingencies rather than become complacent during times of prosperity. In an effort to remain competitive with federal banking regulators, the agency continues efforts to maintain examiner salaries at no less than 90% of the FDIC salaries, with a goal of achieving parity. With the SDSI status, the agency has the ability to adjust salaries as needed to remain competitive.

Offering better incentives and staff opportunities remains a priority. Although the burden cannot be fully eliminated, the Department continues to search for avenues to reduce the onus and necessity of travel. Examining personnel spend a significant amount of their time away from home to conduct on-site examinations. To reduce travel time, and provide a more family-friendly arrangement, all offices have implemented flexible schedules that allow either every Friday, or every other Friday, off. The Pre-Examination Program (PREP) was also implemented. Examiners can now perform certain procedures prior to traveling on-site to the bank. Enhanced imaging methods used by banks to provide documents in advance have also contributed in reducing travel. Infrastructure, such as increasing headquarters and regional offices online bandwidths, has been implemented to enhance the methods of information exchange. To compensate for the burden of prolonged travel, the Department offers a stipend program to individuals who meet a minimum number of nights in "stay-out" travel status on an annual basis.

In 2012, the Department developed the Student Educational Employment Program (SEEP) which is a paid internship program in partnership with Texas A&M University and Sam Houston State University.

Each has a dedicated banking program. The purpose of the SEEP is to introduce students to the career of a Financial Examiner so they may consider applying for a regular position with the Department upon their graduation.

II. Workforce Plan Focus

Key economic and environmental factors affecting the Department's workforce over the next five years include: an improving economy; turnover and retention of financial examiners; an aging workforce; increased ethnic diversity; and technology that improves efficiency and productivity. The Texas unemployment rate as of March 2014 was 5.5%. It has fallen dramatically since it peaked in March 2010 at 8.3%, resulting in more competition for qualified workers. Resurgence in banks seeking to hire examiners at a higher rate of compensation could affect the Department's ability to retain experienced examiners. The agency's challenge will be to maintain a reasonable turnover rate while preparing for the impact of the departure of significant numbers of retiring workers. If the economic recovery involves a significant inflationary impact, many retirement eligible employees may need to postpone retirement. Alternatively, if the legislature makes significant changes to the retirement system or retirement eligibility requirements, this could hasten the retirement of approximately 22% of the current workforce eligible to retire today. The Department needs to plan for an array of possibilities for future retention and adjustment initiatives.

Financial Examiner Turnover by Fiscal Year							
FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014*
7.8%	11.3%	8.8%	6.2%	11.4%	17.0%	8.2%	6.1%

**As of April 30, 2014*

Fiscal year 2012 financial examiner turnover included seven retirements, five involuntary separations, five employees left for employment with banks, two with a federal regulatory agency, two to private or public sector and one cited personal reasons.

Fiscal year 2013 financial examiner turnover included one retirement and two involuntary separations. Two individuals left for employment with banks, one for a federal regulatory agency, and two for private industry. The remaining three cited personal reasons, some related to travel. Fiscal year 2014 (as of April 30, 2014) financial examiner turnover (eight in total) includes two retirements and one death. Three left for employment with a federal agency, one left to work for a bank and another left for personal reasons.

A. Trends and Factors Affecting the Retention of Financial Examiners

The Department's examiner positions require highly skilled and educated employees. The competition to hire and retain these workers is an on-going challenge. The Department continually reviews its training programs and compliments external curriculums with in-house schools that target specific training needs of the examiners. The Department has also implemented a Financial Examiner III-B level within the classification of the financial examiner series which allows for a salary increase after passing Phase I of the Bank Examination Testing System (BETS). Providing rewards and incentives has also helped the agency's retention of qualified staff. Examples of the agency's efforts that have been implemented include:

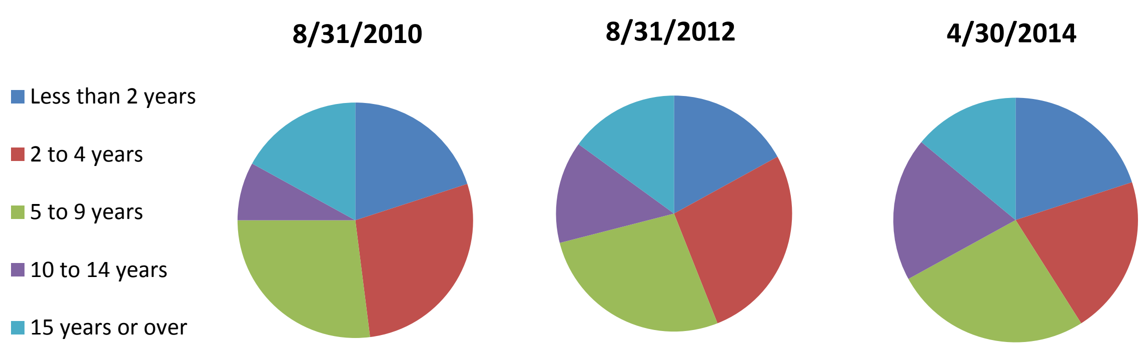
- Noncompetitive promotion through Financial Examiner VI classification.

- Development of career paths into specialty areas – IT, Trust, Bank Secrecy, Capital Markets, and Large Bank Supervision.
- Frequent overnight stay-out travel stipend program, if funds are available.
- Flexible work schedules to accommodate employees and their families.
- One-time or permanent merit based pay increases.

The Department continues to use a work style profile in the hiring process to identify candidates that have inherent work style characteristics conducive to our supervisory responsibilities, a propensity for the rigors of frequent travel and desire to establish a long term career with one employer. The screening appears to be an asset to help identify candidates best suited for our employment. The Department also includes prior work experience, preferably with a financial institution, and bilingual skills as preferred qualifications of potential candidates. Recent implementation of competency based interviewing will also help the Department better identify the most qualified and potentially successful candidates for hire.

The Department must continue to curb turnover at the lower and mid financial examiner levels. These examiners must be cultivated, trained, and retained to replace departing and retiring employees. Internal policy prescribes that an assistant examiner has seven years to complete the core training curriculum and pass an internal test to become a qualified "commissioned" examiner. Without continued competitive salaries, the Department will have difficulty retaining trained personnel and competing for qualified candidates. Education trends indicate that the number of workers in the prime age category who have attended college is not expected to increase over the coming decades, even though demand for highly educated workers will continue to grow. Further, it is expected that there will be much greater demand and competition for highly-skilled workers.

B. DEPARTMENT OF BANKING TENURE



The goal of the Department is to achieve a two to one ratio of commissioned examiners to assistant examiners. The charts above show a positive movement towards a balanced experienced tenure ratio. The goal of the Department is to retain the large group of commissioned examiners with five to twelve years of experience which helps the agency move to the staffing plan goal of 87% commissioned examiners in Bank and Trust Supervision. Special Audits aims to have 75% senior examiners.

C. Trends and Factors Related to the Aging Workforce

Within the next five years, 33% of the Department's workforce will be eligible to retire. 22% of this group is eligible to retire today. The loss of these employees combined represents over 900 years of experience.

Most demographic experts estimate that the number of people over the age of 65 will double over the next few decades. The impact of this shift will affect the workplace in a number of ways. The aging workforce and issues related to succession planning will become crucial as large numbers of baby boomers are expected to retire at the same time. In response to these trends, the Department is furthering the development of the succession plan and bringing retirees back into the workforce; thus we fill the gap between examiners early in their careers and the long tenured experienced examiners. This facilitates and expedites the education process of new examiners and relieves experienced examiners of some training duties, allowing them to focus on other assignments.

The ability to maintain competitive salaries with federal counterparts also increases the Department's ability to recruit commissioned examiners from federal employers and gain employees with training and experience.

The aging workforce necessitates developing non-traditional workplace and employment relationships, such as short-term assignments and consulting agreements with retired employees. There are state law constraints regarding return-to-work retirees and contracting limitations but we will work within the system to best utilize this talent pool.

Succession planning is a priority as retirement and other turnover factors continue to rise. In the next five years 68.75% of senior management is eligible to retire. Preparing qualified staff to carry on these roles will require training programs such as sponsoring eligible employees for the Governor's Center for Management Development schools and other educational opportunities to develop management skills. The agency has begun to require all Financial Examiner level VI and above to enroll and participate in this type of management training. Pertinent to the success of this transition is retaining mid-level examiners to then replace high level examiners who move into these leadership roles.

D. Increasing Diversity

The Department continues to emphasize the need for workplace diversity and to strive for a workforce reflective of the racial composition of the population. According to the May 2011 Issue of the 2010 Census Briefs, Hispanics are now the nation's largest minority group and account for the majority of births in some states. The 2010 Census reports that the Hispanic population accounted for over half the growth of the total population in the United States between 2000 and 2010. In addition to a workforce that mirrors the population, this shift in demographics increases the demand for multilingual training and information. The Department includes fluency in Spanish as a preferred qualification for all jobs postings. Recruiting activities include representation at job fairs as many diverse universities in the state and distribution of job announcements to minority organizations.

III. Agency Mission

To ensure Texas has a safe, sound and competitive financial services system.

IV. Strategic Goals and Objectives

Goal: Effective Regulation	To ensure timely, fair, and effective supervision and regulation of the financial institutions and other licensees under our jurisdiction in order to promote a stable banking and financial services environment and provide the public with convenient, safe, and competitive services.
Objective	**A-1 Quality Bank Regulation:** To provide quality regulation and maintain the credibility of the Department with the public, the industries we regulate, federal banking regulators, and other government agencies by striving that through 2019: • Examinations of regulated entities will be performed when due. • Correction-oriented enforcement action will be taken against any regulated entity that demonstrates higher than normal weakness or risk. • Accreditation status by the Conference of State Bank Supervisors (CSBS) will be maintained. • Agency will strive to attract and retain qualified employees.
Strategies	**A-1.1 Bank Examination:** • Conduct commercial bank, trust company, foreign bank agency, and foreign representative office examinations, in cooperation with federal regulatory entities, in conformance with the Department's examination priority schedule. • Maintain CSBS accreditation. • Maintain contact with, and monitor the condition of, regulated entities between examinations. • Optimize efficiencies in the examination process, including automating examination procedures and reference materials. • Provide substantive training to staff. • Research and report on changing industry and economic conditions. • Provide the industry with electronic access to regulatory and supervisory information though the website. • Monitor industry status and activities through an off-site monitoring system and engage in regular communication with federal regulators. **A-1.2 FDIC/Industry Deterioration/Federal Regulatory Consolidation Contingency Plan:** • Maintain a contingency plan to provide additional regulatory resources in the event of further industry deterioration or systemic industry problems, the reallocation of federal regulatory resources, a significant increase in the regulated asset base or substantial loss of examiners.

Objective	**A-2 Quality Non-bank Regulation**: To provide quality regulation and maintain the credibility of the Department with the public, the industries we regulate and other government agencies by striving that through 2019: • Examinations of regulated entities will be performed when due. • Correction-oriented enforcement action will be taken against regulated any entity that demonstrates higher than normal weakness or risk. • Agency will strive to attract and retain qualified employees. • Agency will seek out illegal entities operating without a charter or license.
Strategies	**A-2.1 Non-bank Examination:** • Conduct PCC, PFC, and MSB examinations, in cooperation with federal and other state regulatory entities, in conformance with the Department's examination priority schedule. • Maintain contact with, and monitor the condition of regulated entities between examinations. • Optimize efficiencies in the examination process, including automating examination procedures and reference materials. • Research and report on changing industry and economic conditions. • Provide swift and efficient investigation/prosecution of illegal operatives. • Provide the industry with electronic access to regulatory and supervisory information and filings though the website.
Objective	**A-3 Corporate Activities:** To provide convenient and competitive financial services and protect the public by striving through 2019, that all applications receive a timely and thorough review resulting in knowledgeable and competent recommendations.
Strategies	**A-3.1 Application Processing:** • Enhance current systems through the automation of applications and request processing by the efficient utilization of computer resources and programs. • Provide on-line filing of applications and forms. • Process applications and information request timely and thoroughly, resulting in knowledgeable and competent recommendations.

V. Anticipated Changes in Strategies

Specialized staff and training are necessary in order to assess financial service provider's procedures to prevent cyber-security fraud, which is a constantly evolving threat. Technology and electronic payment systems continue to change as new forms of payment systems arise. Therefore, the Department must devote additional resources to evaluating licensing and regulation issues, monitoring risks associated with emerging technologies, and providing education and training to staff to keep up with these new products and technologies.

The Department may become more involved in compliance examinations of the larger financial institutions and will be participating in compliance examinations of large money service businesses with the Consumer Financial Protection Bureau.

VI. SUPPLY ANALYSIS - CURRENT WORKFORCE PROFILE

A. CRITICAL WORKFORCE SKILLS

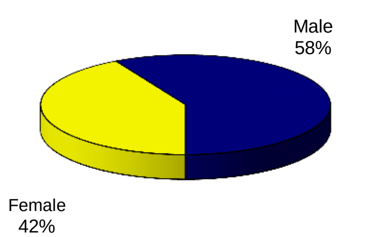
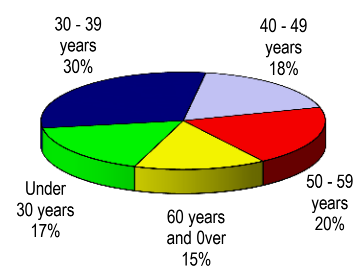
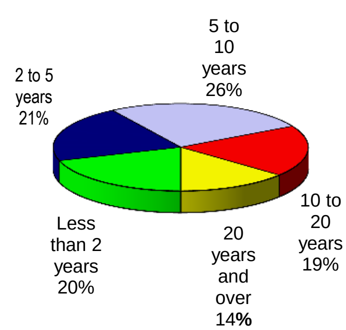
As mentioned in the Department Overview, as of April 30, 2014, the Department employs 185 individuals. Several critical skills are vital to maintaining the Department's ability to operate effectively and efficiently. Without these, the Department could not provide basic business functions. The skills are:

- Financial examination experience and expertise
- Customer service expertise
- Information technology expertise
- Financially related legal knowledge
- Database development and maintenance expertise
- Regulatory and accounting experience and expertise
- Financial regulatory legal expertise

B. WORKFORCE DEMOGRAPHICS (AS OF APRIL 30, 2014)

Workforce Breakdown: The following chart profiles the Department's current workforce that includes both full and part-time employees. The Department's workforce is comprised of 58% males and 42% females. Approximately 53% of our workforce is over the age of 40 and approximately 41% have five years or less of Department service. Over 47% of financial examiners have less than five years of Department experience. This percentage is high enough to warrant strong programs to ensure examiner retention.

Workforce Breakdown as of April 30, 2014

Gender	Age	Department Tenure
		

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Workforce Plan 2015-2019

Department Workforce by Job Category: The following table compares African-American, Hispanic American, and Female Department staffing as of April 30, 2014, to the statewide civilian workforce as reported by the Texas Workforce Commission, Civil Rights Division. The Department strives to meet these diversity targets. Hispanic Americans, African-American and Females are under-represented in Official/Administration category. African-American and Females are under-represented in the Professional category. Females and Hispanic-Americans are under-represented in the Technical category. African-Americans are under-represented in the Administrative Support category. We have only one para-professional who is a Hispanic-American, Female. The Department is vigilant in its effort to continue to monitor, address, recruit, and improve the minority representation.

Department Workforce by Job Category as of April 30, 2014

Job Category Employee Count	African-American		Hispanic American		Females	
	Department %	Civilian Workforce	Department %	Civilian Workforce	Department %	Civilian Workforce
Official/Administration 14	7%	9%	7%	20%	21%	39%
Professional 140	7%	11%	18%	17%	36%	59%
Technical 5	40%	14%	0%	21%	20%	41%
Admin. Support 25	8%	14%	36%	30%	88%	66%
Para Professional 1	0%	14%	100%	48%	100%	41%

C. Employee Turnover

Overall turnover has remained relatively static over the past three fiscal years, but is still higher than the target turnover rate of 8%. The turnover rate for FY 2013 was 11.9%, a decrease from the prior year, as reflected in the next chart. Excluding retirements and involuntary separations, the turnover rate for FY 2012 is 7% and FY 2013 is 6%. Economic indicators suggest competition for financial examiner job skills will continue. The Department must be vigilant in researching and refining retention methods.

Twelve Year Turnover: The following chart compares the Department's turnover to that of the state over the last twelve years.

Twelve Year Turnover		
Fiscal Year	Department Turnover Rate	State Turnover Rate*
FY 2013	11.9%	18.9%
FY 2012	12.6%	19.6%
FY 2011	10.3%	17.7%
FY 2010	6.2%	15.9%
FY 2009	7.1%	15.6%
FY 2008	13.6%	19.3%
FY 2007	10.8%	19.2%
FY 2006	15.8%	17.9%
FY 2005	20.9%	19.1%
FY 2004	14.4%	41.8%**
FY 2003	10.2%	17.9%
FY 2002	14.1%	15.3%

* Information obtained from the State Auditor's Office E-Class System including interagency transfers.
** The exceptionally high statewide turnover in FY 2004 is due to the reorganization of the health and human services agencies.

FINANCIAL EXAMINER TURNOVER BY LENGTH OF SERVICE
AS OF AUGUST 31, 2013
(The denominator for the turnover percentages is the beginning balance for the period.)

Years of Service	# of Financial Examiners	% of Financial Examiners	% of Financial Examiner Turnover FY 2013
Less than 2 years	28	21%	10%
2 – 5 years	33	25%	20%
5 – 10 years	32	25%	40%
10 – 15 years	22	17%	0%
15 – 20 years	6	5%	0%
20 years and over	10	7%	30%
TOTAL	**131**	**100%**	**100%**

FINANCIAL EXAMINER TURNOVER BY LENGTH OF SERVICE
FOR CERTAIN FISCAL YEARS
(The denominator for the turnover percentages is the beginning balance for the period.)

Years of Service	% of Financial Examiner Turnover FY 2012	% of Financial Examiner Turnover FY 2013	% of Financial Examiner Turnover FY 2014*
Less Than 2 years	9%	10%	12%
2 – 5 years	36%	20%	38%
5 – 10 years	18%	40%	12%
10 – 15 years	5%	0%	26%
15 – 20 years	0%	0%	12%
20 years and over	32%	30%	0%

** FY 2014 data as of April 30, 2014*

Financial Examiner Turnover: The financial examiner series is the largest component of the Department's workforce. Turnover in this group is most costly to the Department because examiners receive extensive professional training and direct supervision in the first four to five years of employment, which requires substantial monetary commitment by the Department.

As of August 31, 2013, 71% of financial examiners had tenure of ten years or less and constitute 70% of the turnover for FY 2013, an increase over the 63% turnover in the same category in fiscal year 2012. As of April 2014, the turnover in the 10-year and below tenure category is 62% of total financial examiner turnover.

NON-FINANCIAL EXAMINER TURNOVER BY LENGTH OF SERVICE
AS OF AUGUST 31, 2013
(The denominator for the turnover percentages is the beginning balance for the period.)

Years of Service	# of Non Examiner Employees	% of Non Examiner Employees	% of Non Examiner Turnover FY 2013
Less than 2 years	5	9%	12%
2 – 5 years	7	12%	26%
5 – 10 years	15	27%	0%
10 – 15 years	18	32%	38%
15 – 20 years	1	2%	12%
20 years and over	10	18%	12%
TOTAL	56	100%	100%

NON-FINANCIAL EXAMINER TURNOVER BY LENGTH OF SERVICE
FOR CERTAIN FISCAL YEARS
(The denominator for the turnover percentages is the beginning balance for the period.)

Years of Service	% of Non Examiner Turnover FY 2012	% of Non Examiner Turnover FY 2013	% of Non Examiner Turnover FY 2014*
Less than 2 years	0%	12%	0%
2 – 5 years	0%	26%	0%
5 – 10 years	100%	0%	50%
10 – 15 years	0%	38%	50%
15 – 20 years	0%	12%	0%
20 years and over	0%	12%	0%

** FY 2014 data as of April 30, 2014*

Non-Financial Examiner Turnover: The majority of non-examiner turnover is occurring with employees with more than ten years of experience. Two exceptions to this trend are one employee in FY 2012 and another in FY 2014 who were in the 5-10 year category. It is expected that non-examiner turnover will increase with time due to retirement eligibility and an improved job market.

ALL EMPLOYEE TURNOVER BY LENGTH OF SERVICE
AS OF AUGUST 31, 2013
(The denominator for the turnover percentages is the beginning balance for the period.)

Years of Service	# of All Department Employees	% of All Department Employees	% of State Employees	% of Department Turnover FY 2013	% of State Turnover FY 2013*
Less than 2 years	33	18%	18%	11%	42%
2 – 5 years	40	21%	20%	17%	19%
5 – 10 years	47	25%	20%	28%	12%
10 – 15 years	40	21%	14%	17%	11%
15 – 20 years	7	4%	12%	5%	10%
20 years and over	20	11%	16%	22%	6%
TOTAL	**187**	**100%**	**100%**	**100%**	**100%**

*Information obtained from the State Auditor's Office E-Class System including interagency transfers.

All Employee Turnover: Retirement will remain a major factor in our turnover rate. The highest rates of Department turnover in FY 2013 occurred in the 5-10 year and 20 plus year categories. The Department must continue to provide incentives for employees to make employment with the Department an attractive long-term career choice.

WORKFORCE BY AGE AS OF AUGUST 31, 2013
(The denominator for the turnover percentages is the beginning balance for the period.)

Age Groups	# of All Department Employees	% of All Department Employees	% of All State Employees	% of Department Turnover FY 2013	% of State Turnover FY 2013*
Less than 30	30	16%	16%	11%	36%
30 – 39	55	29%	22%	22%	18%
40 – 49	31	17%	27%	6%	12%
50 – 59	42	22%	25%	28%	15%
60 and over	29	16%	10%	33%	19%
TOTAL	187	100%	100%	100%	100%

*Information obtained from the State Auditor's Office E-Class System including interagency transfers.

Workforce by Age: Employees over the age of 40 comprised 55% of the Department's workforce as of August 31, 2013. Employees under the age of 30 comprised 16% of the workforce.

D. Retirement Eligibility

Forty-one (or 22% of) employees are qualified to retire in FY 2014. 48% of Headquarters staff and 25% of all field examiner staff are eligible to retire in the next five years.

Retirement from the Department does not account for the majority of separations. For this fiscal year through April 30, 2014, four staff members have retired and one has announced their intent to retire before year-end. Over the next five years our pool of retirement eligible employees increases. With these retirements, we will lose substantial institutional knowledge and expertise. As of April 30, 2014, the Department has 61 employees, including 29 financial examiners that could potentially retire within the next five years. Furthermore, 22% of this group is eligible to retire today. In the next five years 68.75% of senior management is eligible to retire.

VII. Demand Analysis - Future Workforce Profile

Assessing the future workforce requirements of the Department encompasses a broad range of issues. These issues have been identified through the Department's strategic planning process, interaction and discussion with federal banking regulators, input of agency management, and input from industry representatives. The evolution of the financial services industry means the Department will need an experienced and qualified professional staff to meet anticipated growth and change in the industry.

APPENDIX E
Workforce Plan 2015-2019

A. CRITICAL FUNCTIONS

- Increased Information Technology (IT) examination activity at the regulated entity and service provider level.
- Increased demand on supervisory resources due to changes in national, regional and local economic and regulatory conditions.
- Increased trust examination activity as the population ages and wealth management becomes more pronounced.
- Increased examination activity because of changes in products and technologies in the money services businesses area.
- Increased demand for Bank Secrecy Act/Anti-Money Laundering specialists.
- Increased need for Fraud Specialists.
- Implementation of Dodd-Frank requirements.

B. EXPECTED WORKPLACE DYNAMICS

- Increased use of technology to maximize efficiency.
- Increased use of subject matter specialists.
- Greater focus on risk assessments and problem resolution of our regulated entities.
- Greater need to investigate unlicensed and/or illicit activity.

C. ANTICIPATED INCREASE IN NUMBER OF EMPLOYEES NEEDED

- Number of new money services businesses continues to increase.
- Assets of and services offered by state-chartered banks under supervision will increase.
- Federal counterpart priorities and reallocation of examination resources.
- Training needs increase.

D. FUTURE WORKFORCE SKILLS NEEDED

A competent and knowledgeable staff is necessary to efficiently and effectively supervise the variety of entities under the Department's oversight and to respond to changes in these industries. Employees must increase skills in the following areas:

- Comprehensive understanding of IT risk in a constantly changing environment.
- Changing technology and diversity of products offered.
- Knowledge of financial crimes and risks.
- Project management.
- Process analysis.
- Change management.
- Management and supervision of staff.

VIII. GAP ANALYSIS

A. ANTICIPATED SHORTAGE OF WORKERS OR SKILLS

1. Recruiting experienced examiners remains a significant challenge.
2. An imbalance of experience exists between Bank and Trust Supervision assistant examiners and commissioned examiners.
    - In FY 2014, noncommissioned examiners make up 33% of the bank and trust examiner workforce while commissioned examiners account for the remaining 67%. The Department's staffing plan calls for 13 % assistant examiners and 87% commissioned examiners. Although the Department has made great strides in closing this gap (In FY 2008 this percentage spread was 58.1% non-commissioned to 41.9% commissioned), continuing the trend of improving this ratio requires the Department to effectively retain assistant examiners and transition them to commissioned examiners while retaining the commissioned examiners that we already have.
3. An increase in assets or large institutions under the Department supervision would call for additional staffing.
4. An increase in fraud investigations or enforcement actions would call for additional staffing.
5. An increase in technology needs may call for additional Information Technology staff.
6. Current Increased staffing needs due to the following:
    - Increase in the number of money service business opinion requests, new applications and examinations required to be performed.

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Gap Analysis: The Department's analysis of the current Finance Commission approved FTEs and anticipated workforce needs are presented in the chart below.

Gap Analysis As of April 30, 2014															
Division	**Executive**			**Professional**			**Technical**			**Administrative**			**Total**		
	Authorized	Need	Gap	Authorized	Need	Gap	Authorized	Need	Gap	Authorized	Need	Gap	Authorized	Need	Gap
Executive / Admin	3	3	0	0	0	0	0	0	0	2	2	0	5	5	0
Legal	0	0	0	7	7	0`	0	0	0	3	3	0	10	10	0
Admin Services	0	0	0	4	4	0	0	0	0	5	5	0	9	9	0
IT Division	0	0	0	1	1	0	6	6	0	0	0	0	7	7	0
Division of Strategic Support	0	0	0	3	3	0	0	0	0	6	6	0	9	9	0
Corporate Activities	0	0	0	5	5	0	0	0	0	3	3	0	8	8	0
Bank Supervision	2	2	0	103	103	0	0	0	0	6	6	0	111	111	0
Foreign Bank Supervision	0	0	0	1	1	0	0	0	0	0	0	0	1	1	0
Trust Company/ Department Supervision	0	0	0	9	9	0	0	0	0	0	0	0	9	9	0
IT Examinations	0	0	0	11	11	0	0	0	0	0	0	0	11	11	0
PFC/PCC	0	0	0	11	11	0	0	0	0	3	3	0	14	14	0
MSB	0	0	0	6	7	1	0	0	0	0	0	0	6	7	1
Total Department of Banking	**5**	**5**	**0**	**161**	**162**	**1**	**6**	**6**	**0**	**28**	**28**	**0**	**200**	**201**	**1**

IX. Strategy Development

Gap	Current staffing levels contain an experience imbalance.
Goal	Reduce the existing experience gap within the Department.
Rationale	Closing the gap will reduce the impact of retirements or other loss of the most experienced personnel on the knowledge base and skill sets and preserve the Department's ability to act on and react to deterioration that might occur in regulated entities as a result of economic weakness or other factors not directly related to the economy.
Action Steps	• Continue a program that allows retirees to return-to-work to train less tenured employees. • Continue a program that allows time for senior personnel to mentor less tenured employees to ensure knowledge and lessons learned from the past are appropriately considered in present day evaluations. • Allow mid-level managers to be in-charge of problem or more complex situations and confer with senior staff on findings. • Create a "spilled milk" notebook to record and memorialize historical approaches to problem and complex situations. • More aggressively recruit mid-level managers from outside the Department. • Continue to refine and improve our succession plan. • Continuation of BETS timeline for commissioning.

Gap	Current employees lack critical skills.
Goal	Develop a competent, well-trained workforce.
Rationale	The presence of a well-trained workforce is absolutely critical not only to the success of the Department, but also to the credibility of the agency and condition of the industry. The success of the Department is not only measured by whether and how well it meets its goals and objectives, but the level of credibility it maintains with its federal counterparts. The level of credibility maintained by the Department has a direct correlation on the cost of supervision and regulation to regulated entities. A loss of credibility could result in a higher volume and more frequent supervision by federal regulators and therefore increase regulatory burden upon the supervised businesses operating in Texas.
Action Steps	• Identify skills required to meet changes that have occurred and are anticipated in the financial services industries. • Expand core training programs to include more in-depth and comprehensive courses in areas of identified weakness. • Develop additional in-house training programs to supplement programs offered by CSBS and federal regulatory agencies. • Conduct a risk assessment to determine the level of risk facing the Department regarding the potential loss of knowledge and the areas of knowledge gaps. • Continue to refine and improve our succession plan. • Develop a knowledge transfer strategy that may include: documenting process, steps, dates,

	relationships, players, contacts, form and files. • Institute checklists, flowcharts, reference guides and job pairing to provide easy to access resources.

Gap	Attracting and retaining the right employees.
Goal	Become an employer of choice.
Rationale	There is competitive job market for qualified individuals with the skills required to perform the duties of an examiner.
Action Steps	• Continue efforts to maintain examiner salaries at no less than 90% of the FDIC salaries, with a goal of achieving parity. • Work in partnership with universities to recruit through job fairs and internship programs. • Continue and develop the current internship program. Expand program to more universities. • Continue to offer and expand family friendly schedules. • Continue to mitigate travel exposure with alternative work methods and technology. • Provide training in specialized areas related to the examination process. • The Department is also exploring new strategies to meet staffing needs. One strategy may be to over-staff in critical areas in order to increase the "bench-strength" of the Department. A cost/benefit analysis of this strategy will need to be analyzed.

Gap	Leadership Development
Goal	Identify high potential employees for succession to Director positions
Rationale	68.75% of current Directors are eligible to retire within the next five years.
Action Steps	• Identify the knowledge, skills and abilities of current successful leadership positions. • Identify high potential staff that possess or could more readily acquire the necessary abilities and knowledge. • Institute development plans into performance management. • Provide training, experience, or job shadowing on assignments. • Provide opportunities for mid-level managers to attend management training programs.

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APPENDIX F
Survey of Employee Engagement

Throughout the year, employees are encouraged to provide feedback and input on agency policies and procedures. Annual surveys and year-round access to the agency's online suggestion box provide each employee with an opportunity to provide feedback and input. Each biennium, the Department encourages all employees to participate and provide feedback during the strategic planning process.

In November 2013, staff participated in the biennial *University of Texas Survey of Employee Engagement (SEE).* Over 94% of staff utilized the employee assessment tool designed to solicit candid feedback from staff on a variety of areas. The survey instrument identifies where employees may be generally satisfied and which areas can be improved. The current survey results did not identify any significant areas of concern. Nevertheless, senior management remains committed to continually improving working conditions for all employees.

The SEE results are accessible to our staff on the agency's intranet. The agency's Employee Advisory Council, or EAC, reviews the findings and provides feedback to senior management. This group is an employee working group composed of non-senior executive managerial representatives from each region. Each regional representative meets with their peers in smaller groups to further explore the results and obtain additional feedback. All EAC members then meet to analyze the survey results. After the results are analyzed, EAC representatives meet formally with executive management to discuss the findings and make recommendations.

Over the years, the EAC has brought to management's attention specific employee opinions and priorities for improvement. These include, but are not limited to the following:

- Examiner training deficiencies
- Personnel policy changes
- Communication during report reviews
- Examiner IT training deficiencies
- Training manuals for Special Audits
- Improved information technology
- Need for management refresher training and succession planning

Several recommendations have resulted in new programs and incentives for staff, including:

- An employee recognition program where individuals are acknowledged for their contributions to the agency
- Payment of a travel stipend
- Revision of the commissioning program
- Flexible work schedules to accommodate employees and their families
- Casual dress code
- Improved performance appraisal rating and scoring system
- Management training courses
- Increased IT staff and IT training

SURVEY OF EMPLOYEE ENGAGEMENT

SEE

Texas Department of Banking

Executive Summary

2013

EMPLOYEE ENGAGEMENT
INSTITUTE FOR ORGANIZATIONAL EXCELLENCE

REPORT ID: 451

Texas Department of Banking | 2013

Executive Summary
Table of Contents

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EMPLOYEE ENGAGEMENT
INSTITUTE FOR ORGANIZATIONAL EXCELLENCE

APPENDIX F
Survey of Employee Engagement

Introduction

Thank you for your participation in the Survey of Employee Engagement (SEE). We trust that you will find the information helpful in your leadership planning and organizational development efforts. As an organizational climate assessment, the SEE represents an employee engagement measurement tool based on modern organizational and managerial practice and sound theoretical foundations. In short, the SEE is specifically focused on the key drivers relative to the ability to engage employees towards successfully fulfilling the vision and mission of the organization.

Participation in the SEE indicates the willingness of leadership and the readiness of all employees to engage in meaningful measurement and organizational improvement efforts. The process is best utilized when leadership builds on the momentum initiated through the surveying process and begins engagement interventions using the SEE data as a guide. Contained within these reports are specific areas of organizational strengths and of organizational concern.

The SEE Framework initially consists of a series of items to ascertain the demography of the respondents. The purpose is to measure whether or not a representative group of respondents participated. The second section contains 71 primary items. These are used to assess essential and fundamental aspects of how the organization functions, the climate, potential barriers to improvement, and internal organizational strengths. The items are all scored on a five-point scale from Strongly Disagree(1) to Strongly Agree(5) and are averaged to produce various summary measures - Constructs, Climate indicators, and the Synthesis Score.

The SEE has 14 Constructs which capture the concepts most utilized by leadership and those which drive organizational performance and engagement. These constructs are: Supervision, Team, Quality, Pay, Benefits, Physical Environment, Strategic, Diversity, Information Systems, Internal Communication, External Communication, Employee Engagement, Employee Development, and Job Satisfaction. In the Climate section of the reports are the Climate indicators: Atmosphere, Ethics, Fairness, Feedback, and Management.

Workplace Dimensions
Survey Constructs

Work Group
Supervision
Team
Quality

Accommodations
Pay
Benefits
Physical Environment

Organization
Strategic
Diversity

Information
Information System
Internal Communication
External Communication

Personal
Employee Engagement
Employee Development
Job Satisfaction

APPENDIX F

Survey of Employee Engagement

Organization Profile

Texas Department of Banking

Organizational Leadership:

- Charles Cooper, Commissioner

Benchmark Groups

The most current benchmark data are provided in your report. To get a better idea of how this organization compares to others like it, we provide three types of benchmark data: organizations with a similar size, similar mission, and organizations belonging to a special grouping.

The Benchmark Categories for this organization are:

- **Organization Size:** Size category 3 includes organizations with 101 to 300 employees.
- **Mission Category:** Mission 8 (Regulatory)
  The Regulatory category includes organizations involved in the regulation of medical, financial, and other service industries.
- **Special Grouping:** None

Survey Administration

Collection Period:
11-04-2013 through 11-22-2013

Additional Items and Categories (if applicable) may be used to target areas specific to the organization. Refer to the Appendix of the Data Report for a complete listing.

- 4 additional items
- Category 1 (6 codes)

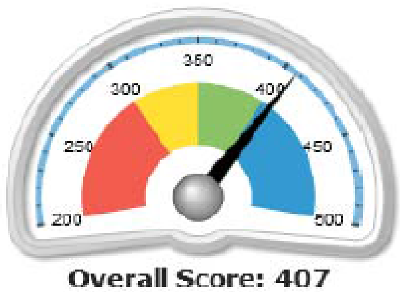
Survey Liaison:
Wendy Rodriguez (512) 475-1320
Director - Strategic Support
2601 N. Lamar Blvd.
Austin, TX 78705

wendy.rodriguez@dob.texas.gov

Overall Score and Participation

Overall Score

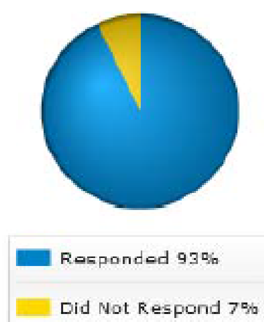
The overall survey score is a broad indicator for comparison with other entities. The Overall Score is an average of all survey items and represents the overall score for the organization. For comparison purposes, Overall scores typically range from 325 to 375.

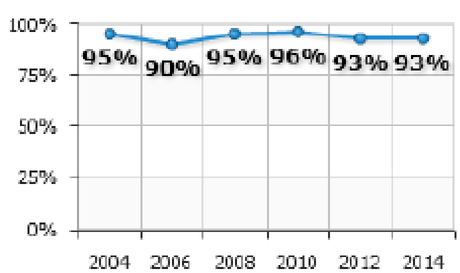


Response Rates

Overall Response Rate
Out of the 184 employees who were invited to take the survey, 172 responded. As a general rule, rates higher than 50 percent suggest soundness. Rates lower than 30 percent may indicate problems.

At 93%, your response rate is considered high. High rates mean that employees have an investment in the organization, want to see the organization improve, and generally have a sense of responsibility to the organization. With this level of engagement, employees have high expectations from Leadership to act on the survey results.



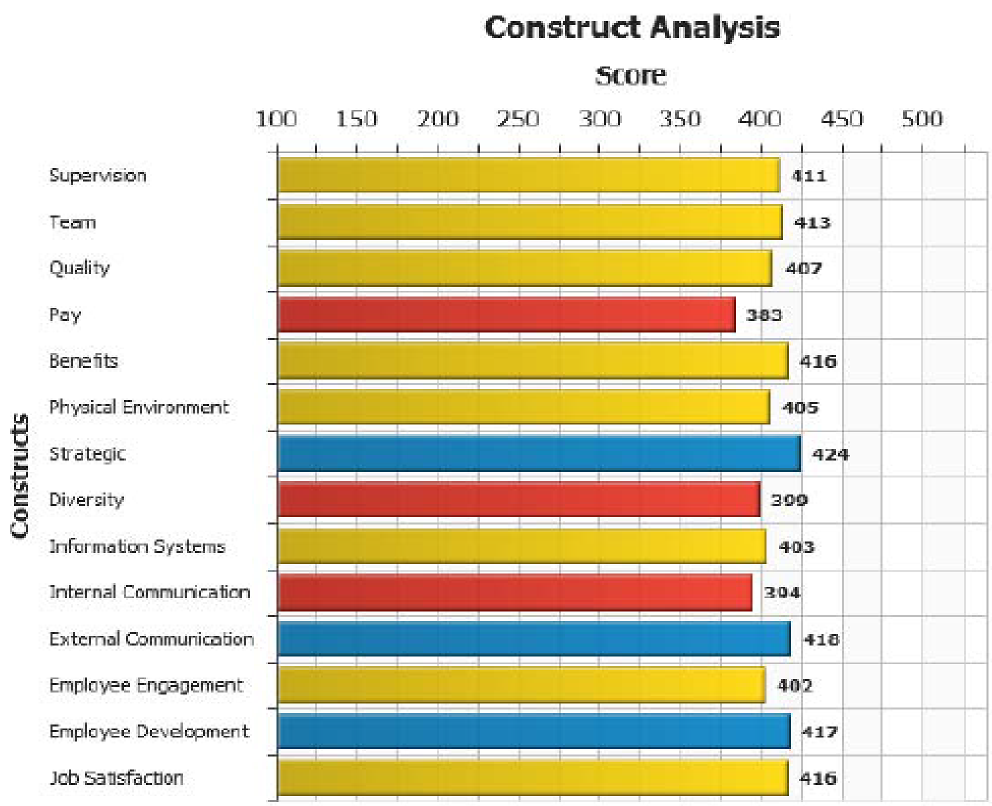


One of the values of participating in multiple iterations of the survey is the opportunity to measure organizational change over time. In general, response rates should rise from the first to the second and succeeding iterations. If organizational health is sound and the online administration option is used, rates tend to plateau around the 60 to 65 percent level. A sharp decline in your response rate over time can be a significant indicator of a current or potential developing organizational problem.

Construct Analysis

Constructs have been color coded to highlight the organization's areas of strength and areas of concern. The 3 highest scoring constructs are blue, the 3 lowest scoring constructs are red, and the remaining 8 constructs are yellow.

Each construct is displayed below with its corresponding score. Highest scoring constructs are areas of strength for this organization while the lowest scoring constructs are areas of concern. Scores above 350 suggest that employees perceive the issue more positively than negatively, and scores of 375 or higher indicate areas of substantial strength. Conversely, scores below 350 are viewed less positively by employees, and scores below 325 should be a significant source of concern for the organization and should receive immediate attention.



Organizational Typology: Areas of Strength

The following Constructs are relative strengths for the organization:

Strategic — Score:424

The Strategic construct reflects employees' thinking about how the organization responds to external influences that should play a role in defining the organization's mission, vision, services, and products. Implied in this construct is the ability of the organization to seek out and work with relevant external entities.

High scores indicate employees view the organization as able to quickly relate its mission and goals to environmental changes and demands. It is viewed as creating programs that advance the organization and having highly capable means of drawing information and meaning from the environment. Maintaining these high scores will require leadership to continually assess the ability of the organization and employees at all levels to test programs against need and to continue to have rapid feedback from the environment.

External Communication — Score:418

The External Communication construct looks at how information flows into the organization from external sources, and conversely, how information flows from inside the organization to external constituents. It addresses the ability of organizational members to synthesize and apply external information to work performed by the organization.

High scores indicate that employees view their organization as communicating effectively with other organizations, its clients, and those concerned with regulation. Maintaining these high scores will require leadership to be alert to change and maintain strong and responsive tools to assess the external environment.

Employee Development — Score:417

The Employee Development construct is an assessment of the priority given to employees' personal and job growth needs. It provides insight into whether the culture of the organization sees human resources as the most important resource or as one of many resources. It directly addresses the degree to which the organization is seeking to maximize gains from investment in employees.

High scores indicate that employees feel the organization provides opportunities for growth in organizational responsibilities and personal needs. Maintaining high scores requires both providing resources and challenges for employees.

Organizational Typology: Areas of Concern

The following Constructs are relative concerns for the organization:

Pay **Score: 383**

The Pay construct addresses perceptions of the overall compensation package offered by the organization. It describes how well the compensation package 'holds up' when employees compare it to similar jobs in other organizations.

High scores indicate that employees view the level of pay positively. It means that pay is well valued relative to the type of work, work demands, and comparable positions. Maintaining these high scores will require leadership to carefully assess pay levels and watch for changes in the cost of living, as well as, the competitiveness of salaries compared to other organizations.

Internal Communication **Score: 394**

The Internal Communication construct captures the organization's communications flow from the top-down, bottom-up, and across divisions/departments. It addresses the extent to which communication exchanges are open, candid, and move the organization toward its goals.

High scores indicate that employees view communication with peers, supervisors, and other parts of the organization as functional and effective. Appropriate communication technology is available and useful. Maintaining these high scores will require continual attention to communication needs and technology.

Diversity **Score: 399**

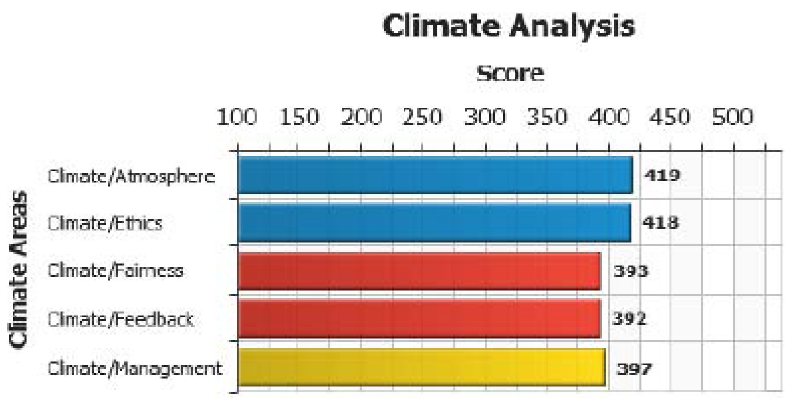
The Diversity construct addresses the extent to which employees feel personal differences, such as ethnicity, social class or lifestyle, may result in alienation from the larger organization and missed opportunities for learning or advancement. It examines how the organization understands and uses creativity coming from individual differences to improve organizational effectiveness.

High scores indicate that employees view the diversity within the work setting, work teams and supervisory process positively. It means individuals feel that the cultural, gender, and income variations within organization reflect the relative diversity within the community.

Climate Analysis

The climate in which employees work does, to a large extent, determine the efficiency and effectiveness of an organization. The appropriate climate is a combination of a safe, non-harassing environment with ethical abiding employees who treat each other with fairness and respect. Moreover, it is an organization with proactive management that communicates and has the capability to make thoughtful decisions. Climate Areas have been color coded to highlight the organization's areas of strength and areas of concern. The 2 highest scoring climate areas are blue (Atmosphere, Ethics), the 2 lowest scoring climate areas are red (Feedback, Fairness), and the remaining climate area is yellow (Management).

Each Climate Area is displayed below with its corresponding score. Scores above 350 suggest that employees perceive the issue more positively than negatively, and scores of 375 or higher indicate areas of substantial strength. Conversely, scores below 350 are viewed less positively by employees, and scores below 325 should be a significant source of concern for the organization and should receive immediate attention.



Climate Definitions:
Atmosphere: The aspect of climate and positive Atmosphere of an organization must be free of harassment in order to establish a community of reciprocity.

Ethics: An Ethical climate is a foundation of building trust within an organization where not only are employees ethical in their behavior, but that ethical violations are appropriately handled.

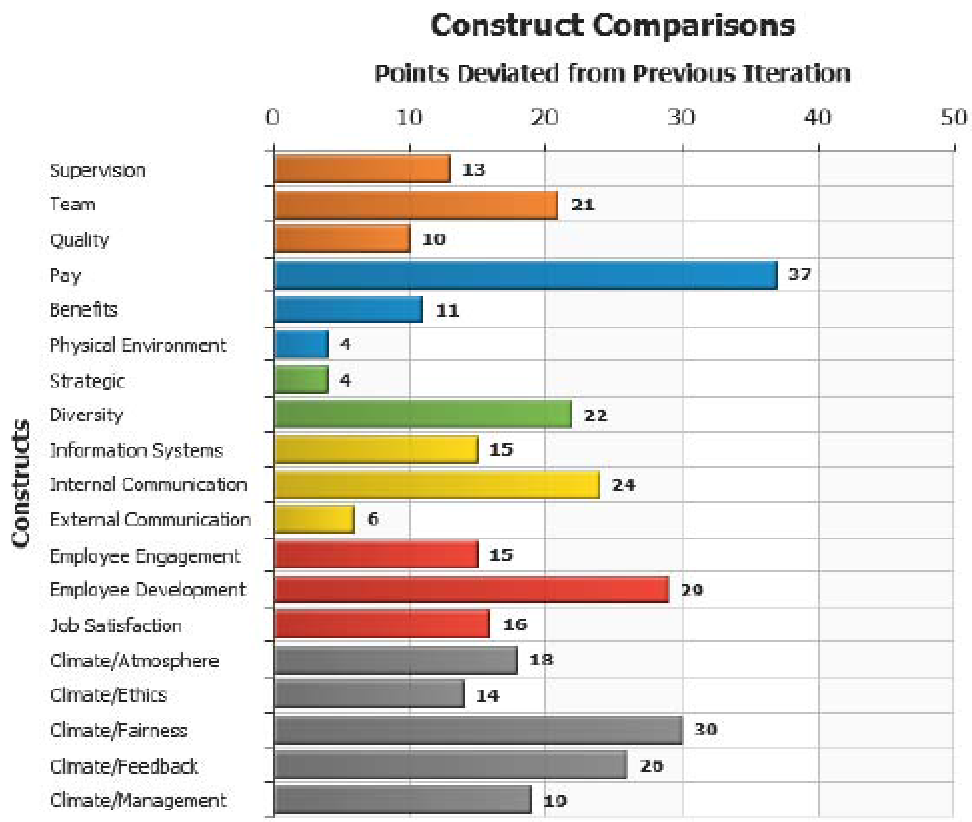
Fairness: Fairness measures the extent to which employees believe that equal and fair opportunity exists for all members of the organization.

Feedback: Appropriate feedback is an essential element of organizational learning by providing the necessary data in which improvement can occur.

Management: The climate presented by Management as being accessible, visible, and an effective communicator of information is a basic tenant of successful leadership.

Over Time Comparisons

One of the benefits of continuing to participate in the survey is that over time data shows how employees' views have changed as a result of implementing efforts suggested by previous survey results. Positive changes indicate that employees perceive the issue as adequately improved since the previous survey. Negative changes indicate that the employees perceive that the issue has worsened since the previous survey. Negative changes of greater than 50 points and having 10 or more negative construct changes should be a source of concern for the organization and should receive immediate attention.

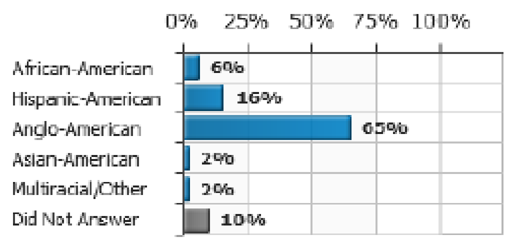


Participant Profile

Demographic data helps one to see if the Survey response rate matches the general features of all employees in the organization. It is also an important factor in being able to determine the level of consensus and shared viewpoints across the organization. It may also help to indicate the extent to which the membership of the organization is representative of the local community and those persons that use the services and products of the organization.

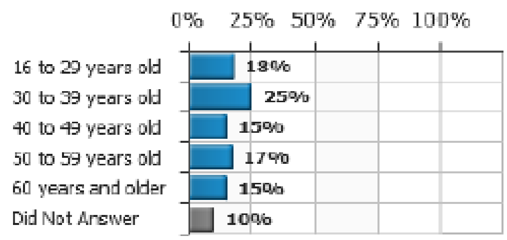
Race/Ethnic Identification

Racial/Ethnic diversity within the workplace provides resources for innovation. A diverse workforce helps ensure that different ideas are understood, and that the community sees the organization as representative of the community.



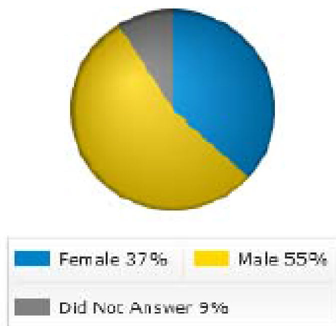
Age

Age diversity brings different experiences and perspectives to the organization, since people have different challenges and resources at various age levels. Large percentages of older individuals may be a cause of concern if a number of key employees are nearing retirement age.



Gender

The ratio of males to females within an organization can vary among different organizations. However, extreme imbalances in the gender ratio when compared to actual gender diversity within your organization should be a source of concern and may require immediate attention as to why one group is responding at different than anticipated rates.



Benchmark Data and Other Resources

Benchmark Categories:

Benchmark Data composed of the organizations participating in the survey are provided in your reports. Benchmarks are used to provide a unit of comparison of organizations of similar mission and size. If you selected to use organizational categories, internal benchmarks between categories as well as over time data illustrate differences and changes along item and construct scores. Our benchmark data are updated every two years and are available from our website at www.survey.utexas.edu.

Reporting and Other Resources:

A Data Report accompanies this summary. The data report provides greater detail than the executive summary. The data report is largely a quantitative report of the survey responses. Demographic data are presented in percentages and real numbers. Construct means and benchmark comparison numbers are provided on all variables. Item data are broken into mean, frequency counts, standard deviations, and number of respondents. Item benchmark data are also displayed.

Electronic Reports are provided in two formats. First, all executive and data reports are included in pdf files for ease in distribution and for clear printability. This file format is widely used, and a free pdf reader called Adobe Acrobat reader is available from www.adobe.com. The second type of electronic reports are in Microsoft Excel format. These reports are construct and item survey data in a flat spreadsheet format. This allows the user to sort highs and lows, search for individual items, or create custom reports from the survey data.

Using the Survey as a Catalyst for organizational improvement is essential to the survey process. The survey creates momentum and interest. At the end of the executive summary report is a series of suggested next steps to assist in these efforts.

Additional Services are available from our group. We conduct 360-Degree leadership and supervisory evaluations, special leadership assessments, customer and client satisfaction surveys along with the ability to create and administer a variety of custom hardcopy and online survey instruments. Consultation time for large presentations, focus groups, or individual meetings is available as well. For additional information, please contact us at anytime.

Next Steps: Interpretation and Intervention

After the survey data has been complied, the results are returned to the survey liaison, executive director, and board or commission chair approximately one to two months after data collection stops. These individuals are strongly encouraged to share results with all survey participants in the organization. Survey results are provided in several formats to provide maximum flexibility in interpreting the data and sharing the data with the entire organization. The quick turnaround in reporting allows for immediate action upon the results while they are still current.

The Executive Summary provides a graphical depiction of the data. Graphical data can easily be reproduced in a company newsletter or website. For additional detailed data, the Data Report is useful for examining survey data on the individual item level. Response counts, averages, standard deviations, and response distributions are provided for each item. Excel files provide electronic access to scores. Scores can be sorted in various ways to help determine strengths and areas of concern. The electronic data can also be used by Excel or other software to create additional graphs or charts. Any of these formats can be used alone or in combination to create rich information on which employees can base their ideas for change.

Benchmark data provide an opportunity to get a true feel of the organization's performance. Comparing the organization's score to scores outside of the organization can unearth unique strengths and areas of concern. Several groups of benchmarks are provided to allow the freedom to choose which comparisons are most relevant. If organizational categories were used, then internal comparisons can be made between different functional areas of the organization. By using these comparisons, functional areas can be identified for star performance in a particular construct, and a set of "best practices" can be created to replicate their success throughout the organization.

These Survey Data provide a unique perspective of the average view of all participants. It is important to examine these findings and take them back to the employees for interpretation and to select priority areas for improvement. This is an opportunity for the organization to recognize and celebrate areas that members have judged to be areas of relative strength. By seeking participation and engaging people on how the organization functions, you have taken a specific step in increasing organizational capital. High organizational capital means high trust among employees and a greater likelihood of improved efforts and good working relationships with clients and customers.

Ideas for getting employees involved in the change process:

- Hold small focus groups to find out how the employees would interpret the results
- Conduct targeted follow-up surveys to collect additional information including comments
- Provide employees with questionnaires/comment cards to express their ideas

Ideas for sharing data with the organization:

- Publish results in an organizational newsletter or intranet site
- Discuss results in departmental meetings
- Create a PowerPoint presentation of the results and display them on kiosks

Timeline

January and February: Interpreting the Data

- Data are returned to survey liaisons, executive directors and board members
- Review Survey data including the Executive Summary with executive staff
- Develop plans for circulating all the data sequentially and provide interpretations for all staff

March: Distributing Results to the Entire Organization

- Implement the plans for circulating the data to all staff
- Create 3 to 4 weekly or monthly reports or organization newsletters
- Report a portion of the constructs and items, providing the data along with illustrations pertinent to the organization
- Select a time to have employees participate in a work unit group to review the reports as they are distributed to all staff, with one group leader assigned to every group. The size of the groups should be limited to about a dozen people at a time. A time limit should be set not to exceed two hours.

April: Planning for Change

- Designate the Change Team composed of a diagonal slice across the organization that will guide the effort
- Identify Work Unit Groups around actual organizational work units and start each meeting by reviewing strengths as indicated in the data report. Brainstorm on how to best address weaknesses
- Establish Procedures for recording the deliberations of the Work Unit Group and returning those data to the Change Team
- Decide upon the Top Priority Change Topic and Methods necessary for making the change. Web-based Discussion Groups and Mini-Surveys are convenient technologies
- First change effort begins
- Repeat for the next change target

May and Beyond: Implementation and Interventions

- Have the Change Team compile the Priority Change Topics and Methods necessary for making the change and present them to the executive staff
- Discuss the administrative protocols necessary for implementing the changes
- Determine the plan of action and set up a reasonable timeline for implementation
- Keep employees informed about changes as they occur through meetings, newsletters, or intranet publications
- Resurvey to document the effectiveness of the change

APPENDIX G
SDSI Vision, Mission, Purpose, and Goals

VISION

As a Self-Directed, Semi-Independent (SDSI) agency, we envision a more effective, responsive, and accountable system for the oversight of our regulated industries.

MISSION

To enable the SDSI agency to respond more effectively and proactively to the changing needs of our regulated entities, the agency, and the public.

PURPOSE

The SDSI status demonstrates the effectiveness of operating independently of the appropriations process. Additionally, it demonstrates that an agency operating independently can be more accountable and responsive to the stakeholders and the legislature.

GOALS

- Provide high quality administration through effective programs and services
- Conduct business in a timely, efficient, and cost effective manner
- Strengthen the public's trust and confidence in the regulated entities
- Improve communication and customer service to all stakeholders
- Protect the public interest through fair and forthright enforcement activities
- Improve operational efficiencies by sharing best practice between the SDSI agencies
- Provide for long term planning to be responsive to a changing global financial environment
- Develop metrics for continuous self-assessment