

Building a
Stronger Texas
Texas Department of Banking
2012 ANNUAL REPORT





Agency Mission

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

Agency Philosophy

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

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.



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Message from the Commissioner

We are pleased to present the Texas Department of Banking's 2012 Annual Report, which highlights our agency's major accomplishments and activities for the year.

The nation proceeded on a slow but steady recovery in 2012, while Texas adhered to its "business as usual" motto. Although the state has been plagued with a historic drought impacting our environment and our communities, Texas adapted and our state's leaders shaped and guided our economic landscape into a model for the nation. Not surprisingly, financial institutions in Texas continued to improve their financial health despite unavoidable obstacles like low interest margins, increased competition from out-of-state institutions, and what seems to be a continuous and increasing level of regulatory burden and overreach at the national level. In this issue we explore the banking conditions and emerging risks that the Texas banking industry faced in 2012.

An exploding concern for many institutions in 2012 regardless of size or charter, was cybercrime. Using advanced technology, high-tech criminals devised new methods for stealing funds. Traditional bank robbery methods have evolved, the industry rapidly forced to adjust to modern electronic criminal sophistication. One bank experienced more losses through one cybercrime than in their loan portfolio. The emergence of this cancerous threat cannot be under emphasized. The

Department is at the forefront, issuing guidances to our regulated entities and actively promoting awareness through our involvement in numerous events that highlight risk management as an important component of countering these cyber-criminals.

The money services business industry is also impacted by evolving new technologies. As described in this report, mobile payment services, prepaid access devices, and remittances have advanced in the last several years. As with all new innovations, the competition for companies to develop mobile payment systems has increased, all of which are competing for this growing market.

Similar to the industries we regulate, the Department itself had to adapt to the changes in technology. Looking back over the decades, technology has enhanced the effectiveness of the Department's communications and examinations. We too continue to change with the times. And although we have changed our processes over the years, one principal remains the same, all of us at the Department share the responsibility of ensuring that our mission and purpose is accomplished. We could not reach our goals year after year without our dedicated staff.

We welcome stakeholder thoughts and suggestions regarding our leadership and efforts to provide "Tough but Fair" regulation of the financial industries under our purview.

Charles G. Cooper
Banking Commissioner

SERVING THE CITIZENS OF TEXAS

By the Numbers: As of December 31, 2012



There are 293 State-chartered banks in Texas ...



Employing approximately 39,815 Texans ...



Safeguarding \$169.2 billion in deposits and \$205.6 billion in assets.

22 Independent Trust Companies manage \$26.4 billion in fiduciary assets.



10 Foreign Bank Agencies located in Texas control in excess of \$80.3 billion in assets.

395 Prepaid Funeral Licensees oversee 883,075 contracts worth \$3.4 billion.



243 Perpetual Care Cemeteries with \$275 million in trust assets care for our loved ones.

135 Money Services Businesses with \$90.0 billion in assets annually transmit \$80 billion dollars for Texans.



**Texas businesses serving Texans today ...
and tomorrow**



2012 THE YEAR IN REVIEW

January 17, 2012 - Texas Banking Commissioner Charles G. Cooper and Edna J. Perry, Special Agent in Charge of the U.S. Secret Service Dallas Field Office jointly announced efforts to assist financial institutions in adopting practices designed to reduce the risks of corporate account takeover.



January 25, 2012 - The Texas Department of Banking announced a new online service that will allow certificate holders to renew their Perpetual Care Fund Activity and Certificate of Authority. In an effort to enhance the Department's services, this online process brings the benefits of e-government to certificate holders, while reducing the paper burden placed on them at renewal.

April 5, 2012 - The Texas Department of Banking issued a Cease and Desist and Seizure Order to Nathan Shannon, former owner of Shannon-McBee Family Funeral Home, Matador and Paducah, Texas, relating to the sale of prepaid funeral benefit contracts.

June 1, 2012 - The Texas Department of Banking revised its policy regarding the use of branch certificates as part of our continuing efforts to minimize regulatory burden. As of

this date, the Department will no longer issue branch certificates of authority and Texas state chartered banks will no longer be required to display a certificate of authority at each branch.

May 10, 2012 - Commissioner Cooper issued an Order to Cease and Desist Activity and Pay Restitution to Tyler Esser, individually and as owner of All Faiths Funeral Services of Houston, and Fred Esser, individually and as General Manager of All Faiths Funeral Services of Houston, relating to the illegal sale of prepaid funeral benefits contracts without a permit in violation of Chapter 154, Texas Finance Code.

May 15, 2012 - The Texas Banking Commissioner issued an Amended Cease and Desist Order to Myrtlewood Memorial



Services, Inc. dba Harlingen-Combes Memorial Cemetery, Combes, Texas, relating to the operation of the cemetery. The cemetery let its certificate of authority expire. It also violated Health and Safety Code Chapter 712 by failing to deposit funds into the perpetual care trust fund as required and by failing to be in satisfactory financial condition.

2012 Year in Review

May 16, 2012 - Commissioner Cooper issued an Emergency Cease and Desist Order to Antioch St. John's Cemetery Company dba American Memorial Park; Gerald Weatherall, Sr., its president; and Beverly Randall-Weatherall, its vice-president, Grand Prairie, Texas, relating to the operation of the cemetery. The cemetery violated numerous provisions of the Texas Health and Safety Code. It was unable to renew its certificate of authority due to these violations and its unsatisfactory financial condition.



May 21, 2012 - Texas Banking Commissioner Charles G. Cooper was elected Treasurer to the 2012-2013 Board of Directors of the Conference of State Bank Supervisors (CSBS). Additionally, he is a member of the Executive Committee and a Board member of the State Regulatory Registry (SRR) which is responsible for all policy matters governing the Nationwide Mortgage Licensing System (NMLS). The CSBS Board is comprised of 20 state supervisors and has supervision, control and direction of the affairs of CSBS, its affiliates, its committees and publications, and determines its policies and actively pursues its objectives.



June 22, 2012 - Texas Banking

Commissioner Charles G. Cooper announced that Frost Bank, headquartered in San Antonio, has completed its conversion to a Texas state-chartered bank. The addition of Frost Bank brought the total number of state-chartered banks to 301.

August 10, 2012 - The Texas Department of Banking issued a proposed Cease and Desist and Seizure Order to Grant Holt of Lindley-

Robertson-Holt Funeral Home, Navasota, Texas, relating to the sale of trust-funded prepaid funeral benefit contracts. The Order became final on August 30, 2012. Holt violated Chapter 154 of the Texas Finance Code by failing to renew his trust-funded permit and failing to submit to examination by the Department.

September 12, 2012 - In June 2012, a law administrative judge found that Mr. Marquis Demon Johnson, owner of Oscar Johnson Funeral Home, Houston, Texas, failed to properly maintain prepaid funeral contract records. Permit holders are required to reconcile the prepaid funeral contract records to ensure that consumer



payments are properly accounted for and deposited in the restricted depository account. As a result, on August 10, 2012, Texas Banking Commissioner Charles G. Cooper adopted a Proposal for Decision that ordered Mr. Johnson to pay an administrative penalty in the amount of \$12,000 for the continuous multiple record-keeping violations of the Texas Finance Code.

November 13, 2012 - Commissioner Cooper issued a Consent Order Prohibiting Further Participation (Prohibition Order) against Dong Sik Yoo a/k/a Jimmy Yoo, the former Chairman of the Board of United Central Bank, Garland, Texas (UCB) and former Chairman of the Board of its bank holding company, Central Bancorp, Inc. (CBI). The Commissioner reasonably determined that Mr. Yoo intentionally committed or participated in violations of law or regulations, unsafe or unsound practices, and/or breaches of

2012 Year in Review

fiduciary duty with regard to the affairs of UCB and CBI.



December 3, 2012 - Veritex Community Bank, headquartered in Dallas, Texas, completed its conversion to a Texas state-chartered bank effective December 1, 2012.

December 31, 2012 - Mason National Bank, headquartered in Mason, Texas, completed its conversion to a Texas state-chartered bank effective December 31, 2012. As a result of the merger, the bank changed its name to Mason Bank.





REGIONAL OUTLOOK

Ask a group of Texas bankers to describe the banking environment in 2012 and you'll probably get mixed reviews. Some aspects of their operating environments would be described as excellent while others would be described as threatening. Texas banks as a whole recorded good profitability and improved balance sheet risk in 2012. There were, however, a number of obstacles

to overcome before these improvements could be accomplished.

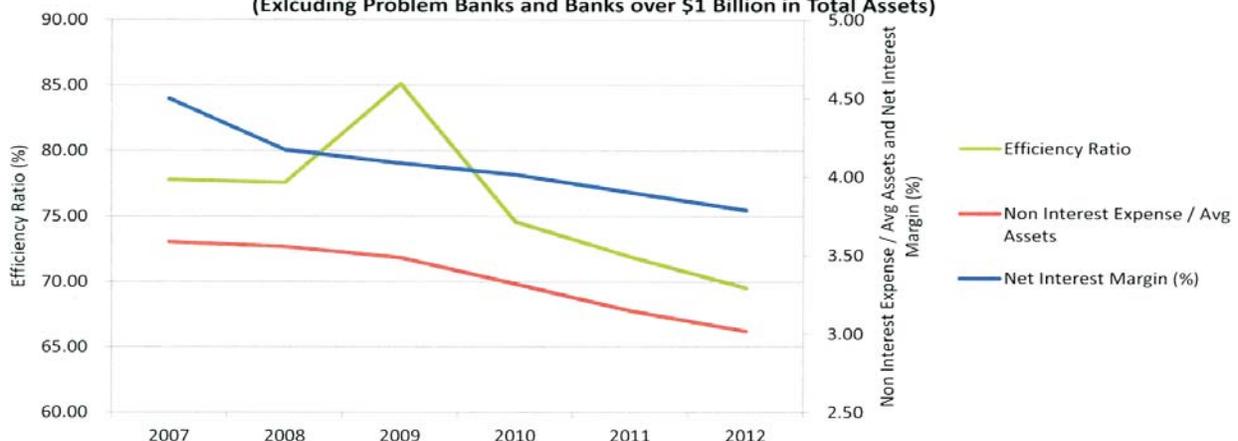
The banking conditions and trends experienced in 2012 affected banks to varying degrees - though in some cases not at all. The conditions and trends analyzed herein also provide an outlook for 2013. The discussion must be qualified by considering each bank's inherent differences,

operating in distinct markets, responding to diverse issues. An obstacle for one may not necessarily be an obstacle for another.

One of the most significant issues that all commercial banks dealt with in 2012 was the low interest rate environment, which may continue beyond 2013. As illustrated below, banks continued to experience significant downward pressure on their net interest

Table 1: Texas State-chartered Bank	2007	2008	2009	2010	2011	2012
Non Interest Expense / Avg Assets	3.59	3.56	3.49	3.32	3.15	3.02
Efficiency Ratio	77.78	77.56	85.12	74.55	71.87	69.52
Net Interest Margin (%)	4.50	4.17	4.09	4.01	3.90	3.79

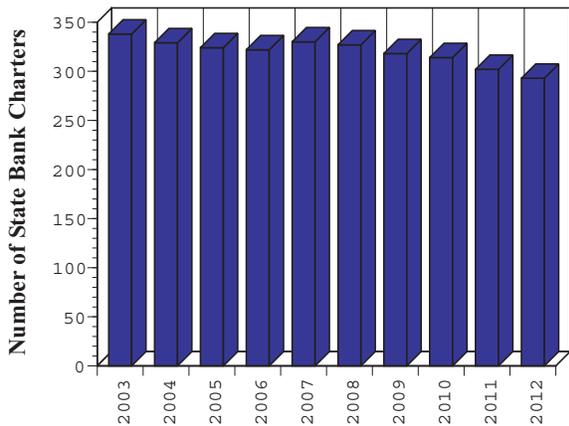
Chart 1: Net Interest Margin and Overhead Expense
(Excluding Problem Banks and Banks over \$1 Billion in Total Assets)



“Even in Texas, loan growth has been modest with only a few banks being able to significantly expand their loan activities in 2012.”

Number of State Banks in Texas

Year	#
2003	338
2004	329
2005	324
2006	322
2007	330
2008	327
2009	318
2010	314
2011	302
2012	293



margins, a trend that started back in 2007. For community banks with assets of less than \$1 billion and excluding problem banks, the net interest margin declined from 4.5% in 2007 to 3.79% in 2012. Problem banks, defined by the Department as banks with a Uniform Financial Institutions Composite Rating of 3, 4, or 5, are excluded from Chart 1 because they generally have higher overhead costs relating to other real estate and attorney fees.

On the liability side of the balance sheet, banks that derived significant funding from certificates of deposits or Federal Home Loan Bank (FHLB) borrowings, versus core deposits, were challenged to reprice their liabilities at a level that would maintain their margin. Some banks dealt with significantly higher funding costs having locked in long-term certificates of deposit or FHLB borrowings in previous years when rates were higher. As these higher cost funding sources matured, asset-liability committee (ALCO) members across the state were breathing a collective sigh of relief being able to adjust these funding products to lower

market rates. It is expected that over time, higher cost funding products will be repriced at lower rates, and net interest margins will become more stable. On the asset side of the balance sheet, investment officers were challenged to find safe, short-term investment products that could cover their funding costs, maintain a reasonable spread, and provide balance sheet liquidity. Even in Texas, loan growth was modest with only a few banks being able to significantly expand their loan activities in 2012. Most were content to hold their position and replace maturing loans. During examinations, bankers expressed a firm commitment to maintain asset quality and book only high quality loans.

The search for yield drove some banks to explore new lending product lines. Some of these bankers made a concerted effort to increase commercial and industrial lending. Working capital, inventory and equipment financing however, require special expertise and sound controls to conduct it safely. In addition, residential

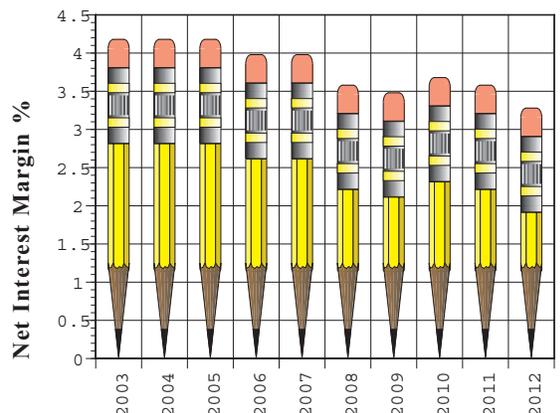
home prices, which increased in 2012, caused some banks to rethink their construction and land development (C&D) lending activities. Since 2007, several Texas banks experienced significant losses related to C&D lending, signaling that bankers may reconsider following this trend again or at the very least proceed with caution before rapidly expanding into this type lending.

For the most part, banks with sizable mortgage operations fared very well in 2012 causing some institutions to consider establishing new mortgage facilities. However, the Mortgage Bankers Association predicts that mortgage volumes will be significantly reduced in 2013, which may put pressure on banks with mortgage business lines to make adjustments to staffing and back office operations.

Though Texas banks explored new business lines, they did not significantly expand their branch networks. In an effort to offset lower net interest income and maintain earnings at or near prior period levels, many banks assessed their overhead cost structure for nonessential components that could be reduced or

**Texas State-Chartered Banks
Net Interest Margin**

Year	Percent
2003	4.2%
2004	4.2%
2005	4.2%
2006	4.0%
2007	4.0%
2008	3.6%
2009	3.5%
2010	3.7%
2011	3.6%
2012	3.3%





eliminated. As Chart 1 shows, overhead costs as a percentage of average assets and efficiency ratios improved significantly over the last three years. Bank managers however, were reluctant to aggressively expand into new geographical markets and open new branches, which would add to their overhead structure. Chart 2 shows the pace of branch expansion in Texas subsided in 2010. Since then, the number of Texas banking offices has held relatively constant.

Chart 3 below shows the number of employees working for Texas commercial banks has held relatively steady since 2008, further reflecting the pressure to maintain earnings by keeping overhead expenses in check.

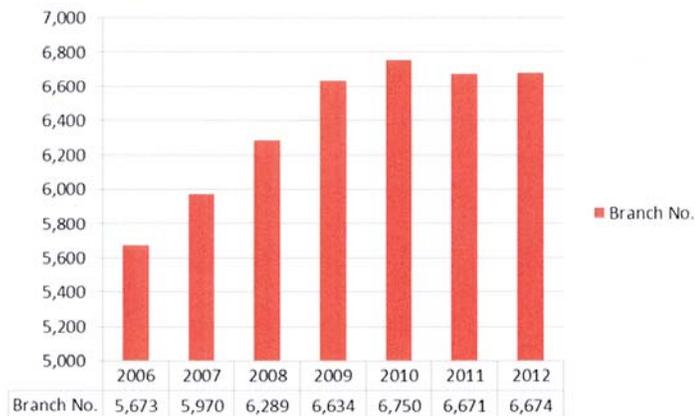
Bankers responding to the Department's Banker Economic and Business Survey continued to report concerns about regulatory burden, both from the current operating environment

and from a post-Dodd Frank perspective.

Though asset quality and asset concentration levels are significantly improved, troubled loans and other real estate levels remain elevated compared to pre-2007 levels. Asset quality for most Texas state-chartered banks improved in 2012.

Examinations conducted by the Department in 2012 indicate that the average level of problem assets in relation to Tier 1 capital and reserves improved by 24%. Not only did the level of problem assets improve, but the level of past due and nonaccrual loans reduced as well. Though it varied from bank to bank, many were able to liquidate other real estate properties at either a small loss or a modest gain. These trends, combined with assertive actions on the part of bank

Chart 2: Commercial Bank Branches - Texas

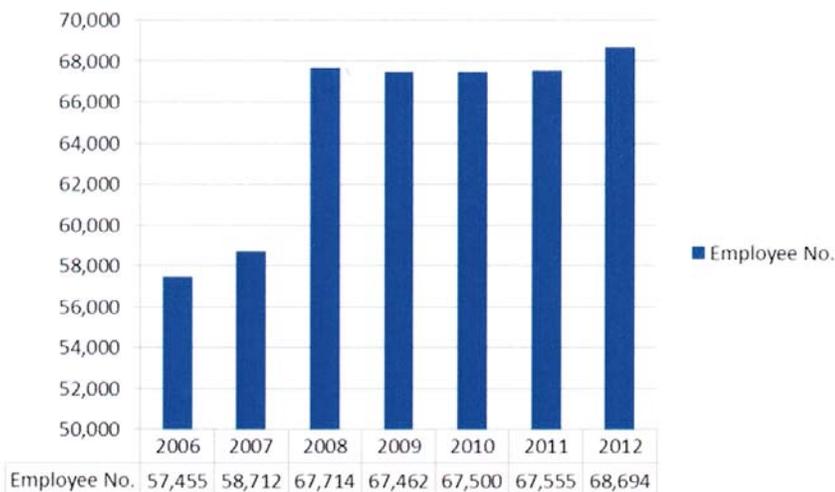


Includes all commercial banks' offices in Texas as of June 30 of each year.

managers to improve other CAMELS components, led to a significant reduction in the number of problem banks (component rating of 3, 4, or 5), from 47 at the beginning of 2012 to 37 by year-end. Though asset quality trends remain favorable, there is little doubt that asset quality and concentration risk management will remain areas of heightened concern going forward.

Liquidity risk was not a significant issue for most Texas banks with many showing significant improvement in balance sheet liquidity over the last two years. Some banks located in active oil and gas development areas like the Eagle Ford Shale experienced dramatic increases in deposits, which in some instances threaten to pressure the bank's capital structure. Also, as alternative investments, for instance the stock market, become more attractive, funds that were previously parked in insured bank deposits may move to other nonbank investments.

Chart 3: Commercial Bank Employees - Texas



Includes employees from all commercial banks in Texas as of June 30 of each year.

REGIONAL OUTLOOK

The performance of many banks was bolstered by statewide economic growth. The growth has been steady and modest and is projected to continue into 2013. In areas dependent on agricultural production, persistent drought conditions pose a significant risks in 2013. Metropolitan area growth may also be curtailed without adequate water resources for new construction.

Cybercrime is an emerging obstacle, potentially threatening every financial institution's stability. Institutions large and small in 2012 experienced waves of computer-generated attacks. Such incursions, including corpo-

rate account takeover, inflicting significant damage to banks and their customers, is now a global financial criminal enterprise unlikely to diminish in the foreseeable future. This increase was the primary motivation behind the Department's involvement in the Texas Bankers Electronic Crimes Task Force.

Overall, Texas bankers fared very well in 2012. With few exceptions, they've capably addressed the highlighted risks. The Department remains optimistic that Texas bankers will continue to meet the challenges ahead, continue to prosper, and continue to provide valuable

services to their customers. The Department stands ready, willing and able to assist banks with any developing issues.

At a Glance

Oversight and Supervision of:
Commercial State-Chartered Banks
and Trust Companies

Total Staffing:

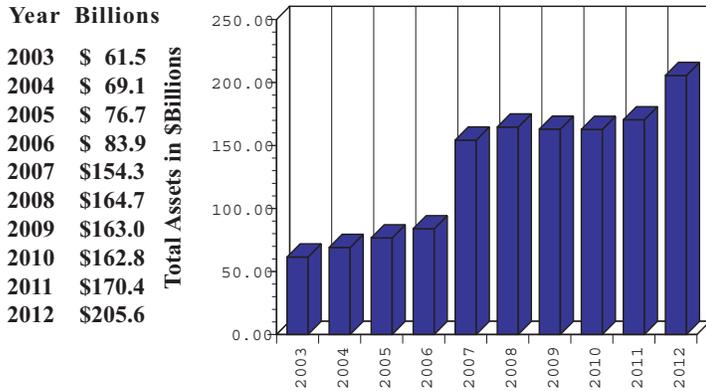
116 Full-time employees
4 Part-time employees

356 examinations performed in
calendar year 2012.

164 Safety and Soundness
135 IT
57 Trust

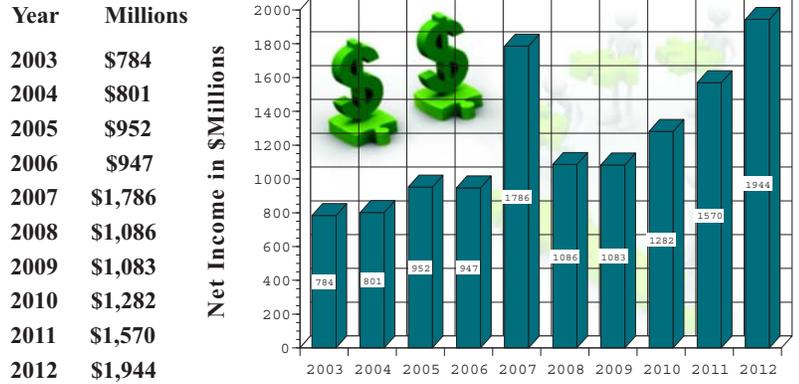
Additional Texas State-Chartered Bank Statistics

Assets Held by State Banks in Texas



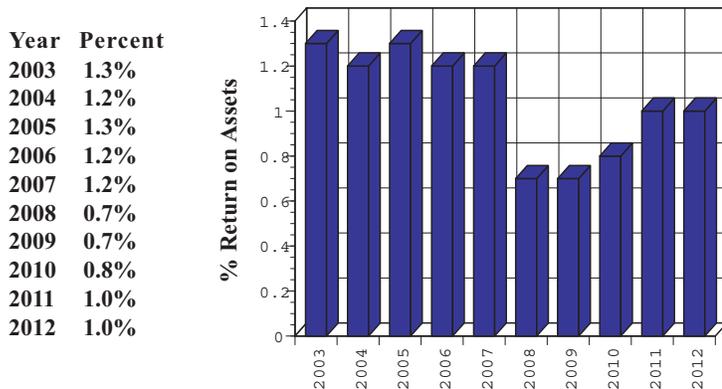
Texas State-Chartered Banks

Net Income



Texas State-Chartered Banks

Annual Return on Assets



REGIONAL OUTLOOK

Texas State-Chartered Banks Annual Percent of Total and Net Charge-offs

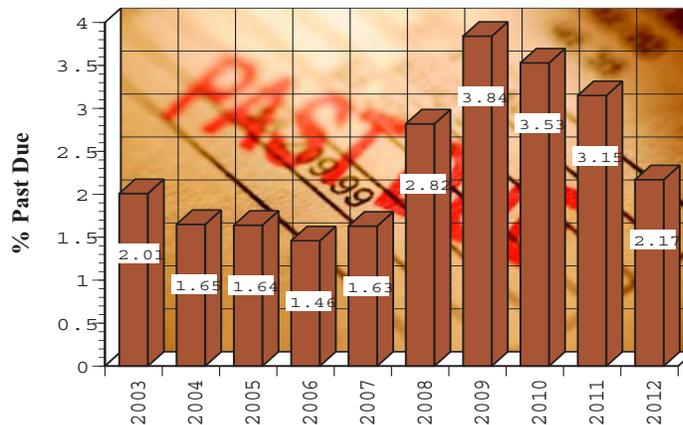
	T Total C/O	N Net C/O
2003	.42%	.33%
2004	.34%	.27%
2005	.33%	.27%
2006	.24%	.19%
2007	.31%	.24%
2008	.64%	.61%
2009	1.33%	1.23%
2010	1.09%	.97%
2011	.79%	.63%
2012	.44%	.31%



Texas State-Chartered Banks Delinquency Rates - Total Loans

Includes Nonaccrual Loans

Year	Percent
2003	2.01%
2004	1.65%
2005	1.64%
2006	1.46%
2007	1.63%
2008	2.82%
2009	3.84%
2010	3.53%
2011	3.15%
2012	2.17%



TEXAS BANKERS LEAD NATIONAL CYBER SECURITY INITIATIVE



Corporate Account Takeover (CATO) is an insidious form of identity theft. Cyber thieves gain control of a business' bank account and then initiate fraudulent wire and ACH transactions. These thefts are impacting local communities across the entire United States and large financial losses have been incurred by banks of all sizes. Thefts have ranged from a few thousand dollars to multi-millions of dollars. Because the financial losses of many of these crimes are quietly settled between the bank and the corporate customer, there is limited awareness and statistics on the extent of these types of crimes.

The Texas Department of Banking and banking industry representatives in conjunction with the U.S. Secret Service formed the Texas Bankers Electronic Crimes Task Force. The Task Force developed a list of best practices and the Department issued minimum standards to Texas state-chartered banks to enhance risk management in this area. To ensure the practice would be useful for all financial institutions, the task force is composed of operational executives from a diverse group of banks in terms of size, complexity, and market environment.

The Task Force's efforts were strongly supported by the Independent Bankers Association of Texas, the Texas Bankers Association, and SWACHA. In use since January 2012, these industry-developed best practice initiatives have been well-received and proven successful.

So successful that in December 2012, the Conference of State Bank

Supervisors (CSBS), the U.S. Secret Service, and the Financial Services-Information Sharing and Analysis Center (FS-ISAC) announced the nationwide adoption of these practices by financial institutions.

Working with CSBS, state financial regulators across the country are disseminating the best practices to their staff and will continue to do so

" ... the Department issued minimum standards to Texas state-chartered banks to enhance risk management in this area."

during 2013. The best practices should help minimize financial losses and prevent loss of confidence in the banking system.

The cooperative spirit of Texas bankers to collectively address these crimes is to be applauded and continues to benefit banks and communities nationwide. State-chartered banks and trust companies with questions regarding these and other IT security issues may contact: DOB Chief IT Security Examiner Phillip Hinkle at 817-640-4050.



T E C H N O L O G Y

Then



AND

Now



“When it isn’t indifference or independence that delays my mail inefficiency presents itself and my disappointment is assured. For three days I’ve watched and waited for your second letter. From your telephone conversation I felt positive my letter would be at the office this morning when I came to work. It wasn’t.”

Lyndon Johnson to Lady Bird Taylor, September 18, 1934

The times they are a-changing. No more waiting nervously by the phone. Instead, we now wait nervously in front of the computer or cell phone hoping that someone will IM, e-mail, or tweet, much less actually call us. Twenty years ago almost no one had cell phones. Today we can’t live without them. So, take a walk down memory lane with us as we compare past and present.

LBJ would eventually get his letter and his girl. For a young Congressional aide, instant messaging likely wouldn’t have been fast enough, let alone Depression-era postal service between Karnack and Washington. The future president’s impatience does have a familiar ring. Information technology has always been about one thing: speed.

As LBJ fumed, another young central Texas native was crisscrossing the Bryan District, visiting 34 banks in 80 days. Former examiner Arch Adam’s regular correspondence – reports, itineraries, expense reports, etc. – wouldn’t have ended, as the 26-year old suitor’s did, with “Here is a big hug & kiss.” Still, both utilized then state-of-the-art communications, the U.S. Mail. It wasn’t long before Adams became an examiner that the

entire Department of Banking (and Insurance) could be run out of an “ample filing case of the latest pattern.”

By 1923, overseeing 950 Texas banks were a commissioner, deputy, department examiner, liquidating agent, clerical staff of 10, and 24 examiners ranged the state visiting each bank “at least” once every four months (2012 Total DOB workforce: 186). For decades their tools of the trade fit inside the original laptop, a “moving office” in the form of a leather satchel: part portable work station, briefcase, manual and reference library. (see page 19).

“A time-honored tradition” is how an unabashed Old School examiner (now retired) describes relations between regulator and banker back in the day. “I think the bankers appreciated us coming in and helping them.” It was a simpler time, when: “All banks were little then,” said a banker. “All banks,” a time when (former departmental examiner David Crockett recalled) the relationship as more “consultative,” especially with the more rural bankers who, he said, “used you to find out what was going on in the broader world, either across



the county line, or across the state." An assistant examiner during those times recalled that "you got to know the banker's family and they got to know yours."

Those days would go the way of the Boston ledger. Exponentially faster and more formal electronic communications would impact the Department, and that personal relationship. The word processor replaced the typewriter, not without its advantages. Few are nostalgic about typing reports on nights and weekends, receiving pink slips from former departmental examiner Bill Aldridge when they were late, senior examiners who forbade Wite-Out, and charge-off and securities pages that couldn't bear so much as an erasure mark. The laborious "hands-on" task of counting cash would no longer be necessary. Generations of examiners could surely vouch to W.A. Sandlin's early description, that "It was a day and night job and many times all day and all night." Modern work schedules became more predictable.

The most significant technological transformation in DOB history coincided with the Department's "war time" footing of the '80's, beginning with the "luggable," as those who responded would refer to it. The Compaq "portable" computer that weighed in at around 30 pounds. It just felt heavier.

"Oh, man, it was like a 40-pound suitcase," remembered Bill Murphy. "I'm serious." His 28-years with the Department, in two stints, span the era beginning after former Commissioner J.M. Falkner's 1970 retirement to the present. Basically a word processor, the luggable, Murphy said, had "some number crunching, but not much. No one wanted to be responsible for it because they didn't

want to have to haul it around." Current eBay descriptions invariably describe it as "vintage."

Examination procedures continue to evolve and adapt to the demands. "Now, it's more orchestrated," said Finance Commission member Larry Patton, reflecting on seven years as a national examiner with the OCC, and 40 years in Texas banking. "A lot of the examiner's work is now performed off-site to help alleviate and reduce the demands on bank staff." It's a long way from the nostalgic days of daily lunches with bankers, and maybe a cook-out or round of golf at week's end.



The celebrated short story writer O. Henry described examiners as the "finished products of the world of straight lines, conventional methods, and formal affairs." There was something else, an investigative "gift," an instinct for examining born of experience, to be able to see something others might miss and

follow it. Silicon Valley's most sophisticated designs have not yet found the means to manufacture it. Former Commissioner J.M. Falkner called it simply "good judgment."

Witness to a half-century of profound innovation - within his industry, his state and his department, Falkner embodied a component standard issue from the age of telegraph to Twitter. "The chief factor in an efficient and complete examination," he once wrote, "is not the report form itself, but the ability of the examiner." In perpetuum semperque (Forever and Always).

Dell Latitude E6420 laptop
(current DOB issue)

VS.

Arch Adam's satchel & contents
(c. 1930's)



Hazardous materials (lead, cadmium, mercury)
6 lbs.
Portable
E-mail
Requires printer
Delete key
Runs on Intel Core i5-2540M processor, 9-cell battery
Higher resolution available
Wi-Fi Internet access
Power surges
Fragile
Impressive storage capacity
Space for expense reports, work sheets, examiner contact info, recent directives, applications for charter, examination fee, schedules, statements of condition, personal schedules, miscellaneous forms, draft correspondence, etc.
Calendar Function
Good until the next upgrade

Leather, metal buckles
11 lbs. 15.4 oz.
Portable (and stylish)
Mail (envelopes/stationery)
Prints in real time
Eraser
Runs on external power source (human)
Higher resolution available (with lamp)
Copies of Poor's Ratings, Bank Examiner's 1938 edition, American Bankers Bulletin 78, "Earnings and Expenses of all Insured Commercial Banks," 1938, "Contract Feeding and Pasturing of Lambs and Cattle," The Federal Reserve System, Its Purposes and Functions (leather bound, personalized in gold lettering), "Financial Statistics" Texas Counties
No spell check
Unbreakable
Impressive storage capacity
Ditto
Calendar
Built to last



Banker Examination Survey Results

Part of the ongoing effort to improve on-site examinations and the examination report process, the banking commissioner solicits input regarding the supervision provided by the Texas Department of Banking through a bank and trust survey. The survey's goal is to help target areas for improvement and to identify those parts of the existing examination process that work well. Surveys are mailed to each bank or trust company within 30 to 45 days after the completion of an examination. The

survey contains 19 questions covering three areas: the examination process, examination reports, and the examination scope and correspondence.

For fiscal year 2012, 266 surveys were mailed and 191 responses were received for a 71.8% response rate. Overall, the responses complimented the examining staff's professionalism and knowledge. Positive responses exceeded 91% in all categories.

COMMISSIONER'S BANKING EXAMINATION SURVEY RESULTS COMPARISON 2011 to 2012

191 Responses or 71.8% Response Rate - 2012
193 Responses or 66.3% Response Rate - 2011

CONSOLIDATED ALL REGIONS, TRUST & IT

I. EXAMINATION PROCESS

1. The examiners clearly communicated the examination scope and goals to management prior to the start of the examination.

# of Responses	Year	Strongly Agree	Agree	Disagree	Strongly Disagree	Yes	No Opinion
191	2012	74%	26%				
193	2011	69%	30%				1%

2. The examiners requests for information prior to and during the examination were timely and reasonable.

191	2012	74%	25%	1%			
193	2011	66%	32%	1%			1%

3. The examination team acted in a professional and courteous manner during the examination.

191	2012	88%	12%				
193	2011	78%	20%	1%			1%

4. The examiners communicated with management throughout the examination.

191	2012	78%	21%				1%
193	2011	72%	25%	1%	1%		1%

5. The examiners are informed of current industry issues and were knowledgeable of your bank.

191	2012	66%	30%				4%
193	2011	58%	34%	1%	1%		6%

6. In what areas, if any, do you feel the examiners need additional training or education? Attach additional paper if necessary:

191	2012						
193	2011						

Survey Results (cont.)

7. The examiners remain focused on the key issues confronting your institution.

# of Responses	Year	Strongly Agree	Agree	No / Disagree	Strongly Disagree	Yes	No Opinion
191	2012	68%	30%	1%			1%
193	2011	62%	34%	2%			2%

8. The examiners clearly and effectively communicated their findings and concerns at the exit and board meetings.

191	2012	75%	24%	1%			
193	2011	75%	23%	1%			1%

9. Conclusions regarding the bank's condition were well supported.

191	2012	68%	31%	1%			
193	2011	58%	35%	4%	1%		2%

10. Recommendations for corrective actions were reasonable.

191	2012	62%	30%	1%			7%
193	2011	55%	37%	3%			5%

11. Did any events or comments take place during the examination that you felt were surprising, unfair, unreasonable or not in conformance with exam policy?

191	2012	96%					3%
193	2011	95%				4%	1%
		NO				YES	

II. EXAMINATION REPORTS

1. The examination report was received in a timely fashion.

# of Responses	Year	Strongly Agree	Agree	Disagree	Strongly Disagree	Yes	No Opinion
191	2012	72%	25%	1%			2%
193	2011	66%	28%	3%			3%

2. The report of examination clearly communicates the examination findings and provides useful information.

191	2012	71%	26%	1%			2%
193	2011	66%	30%	1%			3%

3. The tone and content of the report of examination is consistent with the board and/or exit meetings.

191	2012	73%	23%	2%			2%
193	2011	68%	27%	2%			3%

III. EXAMINATION SCOPE AND CORRESPONDENCE

1. The examination was conducted without placing an undue burden on the institution.

# of Responses	Year	Strongly Agree	Agree	Disagree	Strongly Disagree	Yes	No Opinion
191	2012	61%	37%	1%			1%
193	2011	55%	40%	3%	1%		1%

2. The on-site portion of the examination was completed in a reasonable timeframe.

191	2012	73%	25%		1%		1%
193	2011	66%	30%	1%	1%		2%

3. The use of pre-examination time through gathering documents and working off-site worked well and saved the bank time.

191	2012	73%	26%				1%
193	2011	62%	33%	4%			1%

4. The Regional Office and Headquarters staff were readily accessible and helpful to discuss exam findings.

191	2012	67%	24%				9%
193	2011	62%	28%	1%			9%



SPECIAL AUDITS

At a Glance

Oversight and Supervision of:
Prepaid Funeral Contract Sellers
Perpetual Care Cemeteries
Money Services Businesses

Total Staffing:

16 Full-time employees
1 Part-time employee

501 examinations performed in 2012.

258 PFC
154 PCC
89 MSB

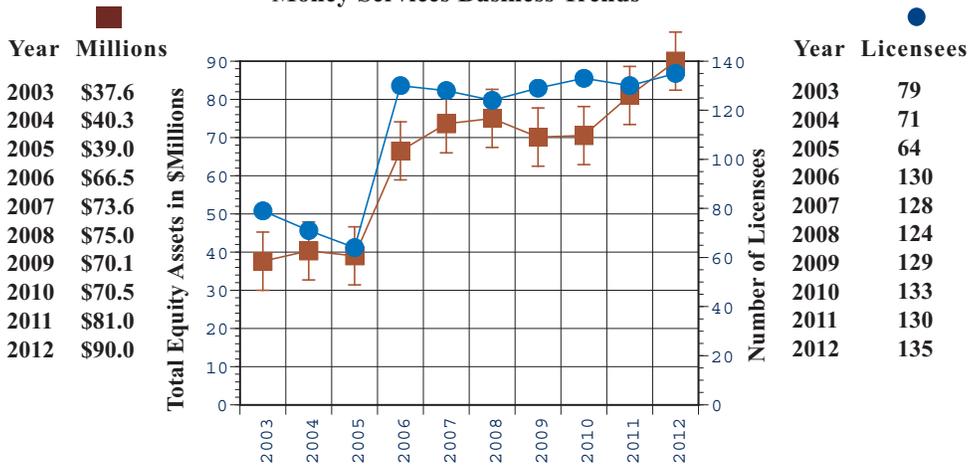
According to the World Bank, worldwide remittance estimates to developing countries in 2012 totaled \$406 billion, an increase of 6.5% over the prior year. As the U.S. economy expands and grows so does the hiring of migrants and the amount of funds remitted to relatives in their native countries. The World Bank expects remittances to continue to grow in the next three years reaching \$534 billion by 2015. With its close proximity to Texas, it is estimated that Mexico is one of the top recipients with remittances totaling \$24 billion.

As of December 31, 2012, the Department had 95 money transmission and 40 currency exchange license holders with combined assets of approximately \$89.9 billion. The latest figures reported by Texas money service business (MSB) license holders reflect the total dollar amount of money remitted in 2012 to be \$75.7

billion. This represents a nominal increase of \$500,000 when compared to the amount remitted in 2011. However, when compared to the decrease of approximately \$5.25 billion in remittances reported by the Department's MSBs from 2010 to 2011, the nominal increase in 2012 would seem to support the World Bank's assertion that remittances are growing and will continue to increase in the future.

Along with the increase in remittances in 2012, the number of entities applying to obtain a MSB license from the Department also increased. In 2012, the Department approved 13 MSB licenses, compared to four approvals in calendar year 2011. Of the new MSB licenses issued in 2012, two licensees were for currency exchange operations; the remaining 11 were money transmission licenses to companies that are non-traditional money transmission business models with either

Money Services Business Trends



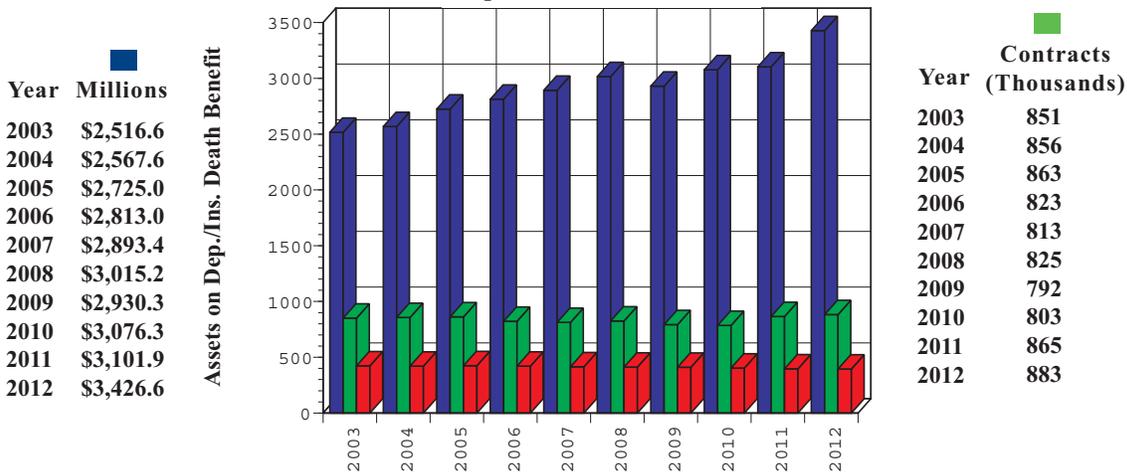
limited or no presence in Texas. Most of the new licensees offer consumers the ability to either conduct transactions online, online mobile payment services or provide prepaid access card products. Some companies receiving a license in 2012 were Facebook, Square, TouchPay and JPay, who allow consumers to send funds to people currently incarcerated.

MSBs allow consumers to send money to relatives and friends without the need for a bank account. According to a January 2012 report prepared by the Consumer Research Section of the Federal Reserve Board's

Division of Consumer and Community Affairs (DCCA), consumer use of mobile devices for banking, payments, budgeting, and shopping has increased. The DCCA reports that 21% of mobile payment users have transferred funds to another person's account and that the "underbanked" rely more on mobile payment services comparatively. The survey notes that approximately 11% of U.S. consumers are "unbanked" and another 11% are "underbanked." These figures provide incentives for the MSBs to provide financial services to this untapped market of U.S. consumers.

As the use of internet-enabled smart phones increases, so does the competition for companies to develop mobile payment technologies in an effort to gain consumer market share. The convenience of mobile remittances has resulted in a steady increase with an estimated six billion worldwide users in 2011, of which 4.6 billion are being used in developing countries. Mobile phones facilitate international remittances by allowing households to receive money in accounts linked to their mobile phones (mobile wallet) and subsequently use it to conduct mobile transactions or cash-out the money at an MSBs author-

Prepaid Funeral Contracts



Number of Licensees 423 421 424 421 415 412 410 403 396 395

ized delegate location. Other branch-less cash-out services allow migrants to send money to a cash card held by recipients, who can then withdraw funds at ATMs or make purchases with the card.

Prepaid access cards have also experienced an increase in usage climbing nearly 20% in 2011 to \$483 billion, according to the Mercator Advisory Group. 2012 figures are not available, however, the same group expects that prepaid access cards will reach \$594 billion in 2013. Research indicates that the growth isn't just a result of the "underbanked or unbanked," but that more and more educated consumers see prepaid access cards as an innovative tool to help them manage their money. This is evident as major financial institutions have introduced new prepaid access cards which target a more financially stable sector. In October 2012, Wal-Mart and American Express released the Bluebird prepaid access card which utilizes American Express' digital wallet platform that allows consumers to deposit checks by taking a picture from their smart phones, pay bills electronically, and send cash to friends.

As remittance business strengthened in 2012, the need for financial institutions to review transactions for compliance with the Bank Secrecy Act and Anti-Money Laundering (BSA/AML) regulations increased. For example, in December 2012, U.S. authorities, who included Financial Crimes Enforcement Network (FinCEN), the Department of the Treasury, the Office of the Comptroller of the Currency, and the Office of Foreign Assets Control reached a \$1.9 billion collective settlement with HSBC Holdings to settle allegations regarding the bank's breakdowns in AML compliance. The news release reported that HSBC's ineffective AML program allowed hundreds of millions of dollars from Mexican drug trafficking organizations to flow through accounts in the U.S. According to the report, HSBC failed to monitor bulk cash transactions conducted with its Mexican and other foreign affiliates and took delivery of more than \$15 billion in cash.

Mobile payments may be a product consumers desire, however, cross-border mobile remittances present regulatory and operational challenges to MSBs as AML and "know-your-client" requirements intensify

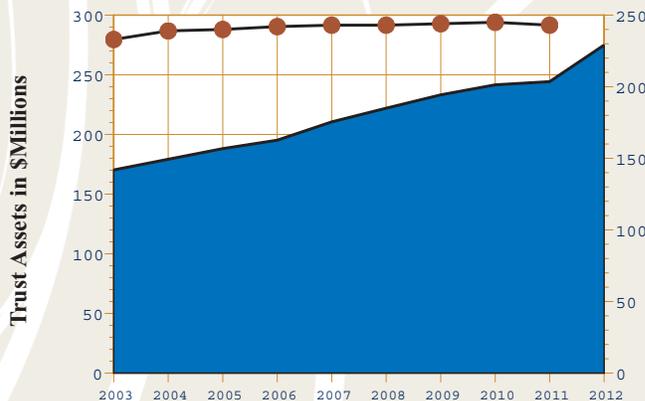
the regulatory hurdle for mobile money operators. To this end, the Department continues its efforts to ensure MSBs are compliant with applicable regulations through examinations and the analysis of transaction records for BSA/AML compliance.

In 2012, the Department performed 89 examinations of its licensed MSB entities to ensure compliance with applicable state and federal regulations. To ensure consistency with federal counterparts, the Department coordinates examination efforts with the Internal Revenue Service (IRS) and FinCEN through regularly scheduled conference calls. In November 2012, the Department was appointed to a working group established by FinCEN to review and provide suggestions for possible revisions to the current BSA/AML MSB examination manual. This manual was initially published in 2008 by FinCEN with the goal of achieving consistency in performing MSB examinations by the states and IRS. The Department was also a member of the working group that assisted FinCEN with drafting the initial BSA/AML MSB manual.

The Department remains in constant

Perpetual Care Cemeteries

Year	Millions
2003	\$170.3
2004	\$179.2
2005	\$188.2
2006	\$195.3
2007	\$210.6
2008	\$222.1
2009	\$233.3
2010	\$241.6
2011	\$243.0
2012	\$274.8



Year	Licenses
2003	233
2004	239
2005	240
2006	242
2007	243
2008	243
2009	244
2010	244
2011	243
2012	243

communication with member states of the Money Transmitters Regulators Association (MTRA). MTRA is a national non-profit organization whose membership consists of state regulatory authorities dedicated to the efficient and effective regulation of the MSB industry in the U.S. Notably, of the examinations performed in 2012, 14 were conducted jointly with several member MTRA states. The Department is an active participant in MTRA and coordinates joint examinations in an effort to reduce the regulatory burden on MSB license holders. With this goal in mind, based on report of examination acceptance criteria set forth in the Supervisory Memorandum 1024, the Department accepted seven examinations performed by MTRA member states in lieu of conducting our own on-site examination.

The Department is also involved in the organized Multi-State MSB Examination Taskforce (MMET). The MMET consists of 10 representatives of participating state regulators, five of which are appointed by the Conference of State Bank Supervisors (CSBS) and five of which are appointed by the MTRA. Similar to MTRA, the MMET's goals are to promote a nationwide framework for cooperation and coordination among MSB state regulators to minimize the regulatory burden on supervised entities.

In March 2012, the Department also met with representatives of the Consumer Finance Protection Bureau (CFPB) in Austin to discuss current complaint handling processes. CFPB selected four states to visit to gain an understanding of the current complaint

process for the various non-bank industries. Texas was also selected as a pilot state to share MSB complaint data and information. The Department is also a member of a CSBS work group which oversees the improvement and expansion of the Nationwide Mortgage Licensing & Registry system (NMLS).

The goal of the above-noted groups is to promote uniformity and consistency within the MSB industry. Nonetheless, these attempts can also overwhelm MSBs and provide some overlap and jurisdictional challenges. For example, the Department revised its consumer complaint notice rules to promote consistency with CFPB regulations. Moreover, the expansion of NMLS to allow MSBs and their authorized delegates to register through NMLS required the Department to propose new legislation to allow participation by Texas MSBs. It is anticipated that this legislation will be signed into law in 2013 requiring Texas MSBs to use NMLS. The Department will continue to coordinate with the various associations and federal agencies to promote effective and efficient supervision of MSBs.

In 2012, the Department implemented and launched online license renewals. Previously, license holders were required to mail renewals. The Department believes providing license holders with this opportunity of renewing the yearly MSB license online provides a higher level of efficiency. A majority of the 2012 MSB renewals were completed online.

Newly Appointed Bankers

Jay Shands

East Texas in 1939 was enjoying an economic “golden age,” with thousands of new jobs and widespread growth. For H. J. Shands, the patriarch of a Lufkin banking family indelibly linked to the region’s prosperity, the Depression’s uncertainties still cast a long shadow. A full-page ad in that year’s Texas Forest Festival program emphasized First State Bank and Trust’s “SAFE FRIENDLY CONSERVATIVE POLICY.”

Jay Shands, H. J.’s grandson, and president of First Bank & Trust East Texas, marvels at the old ad. “I don’t think I’d put the same ad in today. The safe and conservative, I think everybody just assumes that now. You don’t have to tell them.”



The third-generation banker spent several years in Dallas before returning home. And who sat looking directly over his shoulder watching his every move? None other than “Papaw,” the epitome of those traditional values. “He was pretty much retired,” Jay remembers. “When I moved here they put me in a desk in the lobby right in front of him. People would come in and then after they’d leave, he’d call me back to his desk and (lowers voice) ‘here’s what you should’ve done.’ (laughs)

When my dad ran the bank, he opened the first drive-through in East Texas. He opened up the first ATM. They were the first to provide Visa and MasterCard. And at that time they thought there was a lot of change going on in the industry. And now we’re into Internet banking, real-time deposits, P-to-P, Facebook and Twitter. Things continue to evolve pretty quickly. It’s changing but it’s not. It’s still about the relationship and taking care of your customers.

His term on the Finance Commission expires February 1, 2018.

On the Finance Commission and looking ahead:

I’ve really enjoyed my time there. I think it’ll continue to be a robust commission because there’s a lot going on in the financial services industries, and a lot has changed so I’m sure we’ll have to stay on top of the regulatory parts of that. As our founder, Arthur Temple, felt when he chartered Diboll State Bank 60 years ago, a town will never reach its potential without credit being available to the community. I believe this is still true today. The best source is still locally owned and operated community banks.

2012, “An interesting year.”

We didn’t have the hiccups that the rest of the nation had, and I think that has to do with our home state mortgage laws. We’ve got a great economy for people coming here finding jobs. And the oil and gas business has really helped, boy, in this part of the state. Our bank and most of the banks in our area are continuing to grow. We’re healthy. Most of our competition is healthy.

Going forward

It is a great honor to serve the banking industry and our state on the Finance Commission of Texas. Our State Banking Department does a great job of ensuring that Texas has a strong financial system. Our local economies are driven from that strength, especially small business and rural communities across our state.

to the Finance Commission

Larry Patton

Larry Patton gets to his desk between 7 and 7:30. The President and CEO of El Paso's WestStar Bank turns on the computer. "That's the first thing I do." He smiles. "I don't do a lot of reading for pleasure. I'm a reader of industry information." Trade magazines, electronic newsletters, e-mail briefings, "stuff coming out of" the Fed, ABA, IBAT, TBA, banking association newsletters, "just a number of core things that I look at every day, and of course I try to keep up with regulations. With the Internet and the speed of how things get done today, you have to read a lot just to keep up."

The New Mexico native's first job out of college was with the Office of the Comptroller of the Currency in Denver. "When I graduated I didn't know what I wanted to do. I was interviewing with every type of company that came on campus: insurance, oil, retail, you name it." His father-in-law suggested the OCC.

*"I think quite frankly
that community banks
are the backbone
of banking ..."*

Back at campus, lo and behold they were on the schedule. He interviewed, dodged a national hiring freeze, and "that was it." He stayed seven years as an examiner. "Just like small business is the backbone of our economy," he observes, "I think quite frankly that community banks are the backbone of banking, and they always will be."

His term on the Finance Commission expires on February 1, 2014.

Looking ahead

I don't know where this whole "too big to fail" concept is going. I like the fact that there is now at least a dialog starting about redefining what a bank is. You know with the repeal of Glass-Steagall I think that definition got pretty broad. And I think there's a lot of things that go on with the big banks that make them whatever they call a systemic risk to the whole financial structure. Whereas if they went back to operating as a bank and their core business is protecting depositors' money, as a community bank does, it would make the financial system healthier. I don't know if that's ever going to happen but in the meantime I think there's a solid place for community banks all across the country because they do provide most of the financing for small business. They know their community. They know their customers. The big banks simply can't do that.



Financial Education Initiatives

A societal decline in financial literacy is routinely cited as a contributing factor to the recent financial crisis. Endeavoring to strengthen sound financial decision-making, communities responded, taking the initiative to educate all age groups on a wide range of important consumer issues, among them: budgets, credit, asset building, savings, debt management and identity theft. The Department is doing its part to educate Texans and promote these initiatives.

In 2012, it hosted free financial education webinars for state-chartered banks. These informational sessions, available online, explored various pertinent topics and featured exceptional guest speakers. Topics included: Financial Literacy Weeks in conjunction with the Federal Reserve Bank of Chicago, Consumer Education and Engagement with the CFPB, and Money Smart for Small Business with the FDIC. Each session averaged 175 registered participants. These webinars have expanded our community outreach, including reaching more remote, rural areas in Texas and beyond. Although over half of the participants were bankers, interest has come from a variety of other sectors including: government agencies, non-profit organizations, the business community, teachers, students and community leaders. The Department continues on a recurring basis to collaborate with federal regulatory agencies, learning the latest news and regulations, and regularly sharing best practices through networking coalitions via the DOB's financial education coordinator.

Efforts over the last several years are driven by the continuing interest in fostering financial education. A five-year financial literacy benchmark survey was conducted. It provided results on the increasing involvement of Texas banks regarding financial literacy. Working in concert with the IBAT Education Foundation and the

Texas Bankers Foundation, the Department continues to encourage bankers to take the lead in building and improving financial literacy in their communities. The fifth and final survey was published in 2012. It provides an assessment of specific financial literacy outreach and activity initiatives by Texas bankers.

Findings

Six-hundred banks with locations in Texas received the benchmark survey. Ninety-eight banks responded, the majority from rural areas or having less than one billion in assets. Sixty-six percent of responding banks indicated the existence of an active financial education outreach program in their communities. Of those responding, 28.3 percent were interested in offering a financial education program. Only 9.8 percent of respondents offer in-school banks; however, 43 percent noted they would consider this program in the future. It is interesting to note that only 23.3 percent of banks target senior citizens. Despite their clout as one of the nation's largest and fastest-growing demographics, seniors represent an untapped opportunity to banks to serve as an important financial education resource.



Identity theft

Identity theft service represents the most widely-offered financial educa-

tion product. Mortgage products were second followed by small business loans and online savings. As financial products and services proliferate and become more complex, financial education represents an essential unmet community need. With the right support and opportunities, bankers can make a real difference in improving the financial stability and general prosperity of their communities and our state. Complete survey results are available on the Department website.

Summit

Every year the Texas Bankers Foundation co-hosts a financial literacy summit with the IBAT Education Foundation at the Federal Reserve Bank of Dallas. The Department's financial education coordinator assists in crafting the proposed agenda and brainstorming over the line-up of guest speakers. In July, DOB Commissioner Cooper welcomed summit guests with opening remarks. Summit highlights included keynote speaker Jim Bearden, who addressed strategic actions and tools for organization success. Other highlights included panels on: banker-to banker best practices, teens transitioning out of the foster care system, and mortgage relief.

Local level

Local leaders have also initiated financial literacy programs. A good example is Financial Fitness Greater Austin (FFGA), an education and awareness initiative. FFGA's goal is to provide financial awareness and information to the Austin community-at-large, emphasizing the importance of financial literacy and consumer proactivity. In 2012, the Department's financial education coordinator served as FFGA Youth Committee Chair, coordinating the Capital One Smart Kid Essay Contest. The contest helped students understand basic economic and personal finance concepts, for instance: under-

standing budgets, the importance of financial planning, and becoming better consumers and later in life, better investors and employees. Capital One Bank donated \$5,000 in scholarship funds. These were awarded to four middle and high school students from a total of 120 essay entries. Finalists were interviewed by a panel of judges composed of community leaders. The top four contestants were recognized during the FFGA press conference at the Texas capitol. Mike Perrine, Capital One Bank president, presented prize checks to the winners. The event was such a success, Capital One agreed to sponsor the 2013 contest. For successfully coordinating the essay contest, on behalf of the Department, Leilani Lim-Villegas received the FFGA “Distinguished Partner Award.”

To bring unbanked and underserved populations into the financial mainstream, the FDIC founded the Alliance for Economic Inclusion (AIE), a national initiative establishing broad-based coalitions of financial institutions, community-based organizations and other partners. The AIE’s objective is to expand basic retail financial services for those underserved. These services include: savings accounts, affordable remittance products, small-dollar loan programs, targeted financial education programs, alternative delivery channels, and other asset-building programs. In 2012, the Department financial education coordinator served as chair of the financial education/asset building committee in Austin and Houston, attending quarterly meetings and participating on executive committee conference calls. Several financial institutions are involved, taking part in statewide activities and events. National bank participation is on the rise, and the Department was interested in capturing the amount of community activities hosted by our state-regulated institutions.

To measure state-chartered bank participation, a survey question was added to the officer’s questionnaire. Bank management was asked to respond during their examination to

gauge their level of interest in participating in financial literacy initiatives. Those responding favorably are then contacted by the financial education coordinator by phone or email, first directed to the appropriate information on the Department website. Available in English and Spanish, the website offers a wealth of user-friendly financial literacy information with sections covering: general information, money management, senior citizens, adults, youth, minority groups, and Bank On programs, with links to Texas and federal government and trade association sites. State-chartered banks are periodically notified about upcoming events and training opportunities.



These were the most popular information requests in 2012 by bankers: how to connect with local non-profits, initiatives to banking the unbanked, school volunteering opportunities, ATM safety, widely-used financial education curricula for specific age groups, and money management apps. The website a wonderful resource, nevertheless financial literacy is best learned on a personal level. The financial education coordinator actively encourages banks on a one-to-one basis, inviting regulated entities to get in touch for hand’s on training session and consultation.

Reaching Texans

Through training programs, financial coaching, speaking engagements, school programs, and statewide networking coalitions, the Department reached 1,490 Texans in 2012. Community non-profit organizations

remain in dire need of expert financial volunteers to teach financial literacy.

The same need exists in Texas public schools. As financial literacy is required to graduate high school, teachers are reaching out to bankers for volunteers to assist in meeting this mandate. Opportunities exist year-round to teach financial literacy to students of all ages and backgrounds, from all walks of life, in English and Spanish. Community teaching networks include: Goodwill Industries, American YouthWorks, Boys & Girls Clubs, Financial Literacy Coalition of Central Texas, United Way, Houston Money Week, Financial Fitness Greater Austin, Junior Achievement, Immigrant Services Network of Austin, and the Austin Learning Academy. Courses and requirements differ, each tailored to the intended audience. The financial education coordinator selects the appropriate curricula for each group. The most popular topics:

- FDIC’s Money Smart for Adults and Money Smart for Young Adults
- Federal Reserve Bank of Dallas’s Building Wealth
- Junior Achievement’s JA K-12
- American Bankers

Association’s Teach Children to Save and Get Smart about Credit

- National Endowment for Financial Education’s NEFE program

The financial education coordinator is trained to teach each of these programs. For further information, visit the Department website or directly contact the financial education coordinator at financial.education@dob.texas.gov, or call 512-475-1337.

UNAUDITED

TEXAS DEPARTMENT OF BANKING (451)

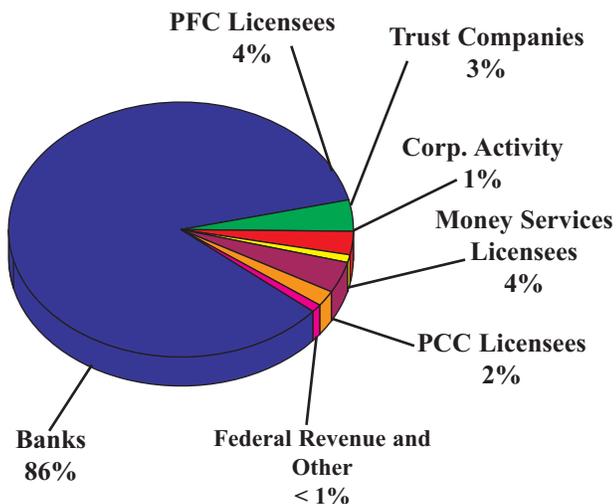
For the Fiscal Year Ended August 31, 2012

**Governmental
Funds
Total**

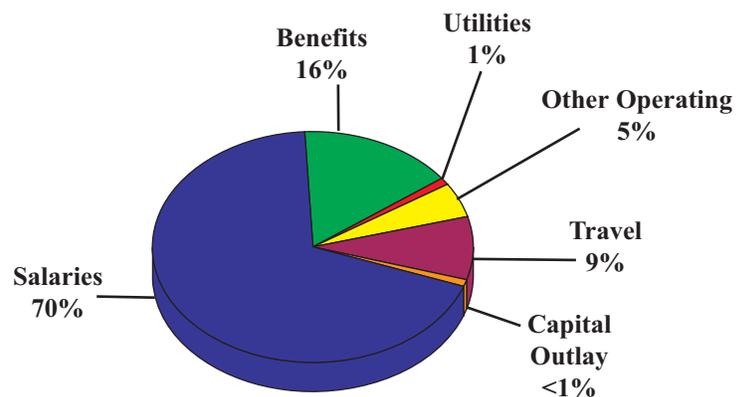
EXPENDITURES:

Salaries and Wages	15,006,953.29
Payroll Related Costs	3,345,889.99
Professional Fees and Services	86,960.56
Travel	1,800,282.00
Materials and Supplies	250,308.57
Communications, Utilities, Repairs and Maintenance	373,123.05
Printing and Reproduction	8,943.98
Other Expenditures	465,049.01
Capital Outlay	15,589.40
Total Expenditures	<u>\$21,353,099.85</u>

2012 Collected Revenues

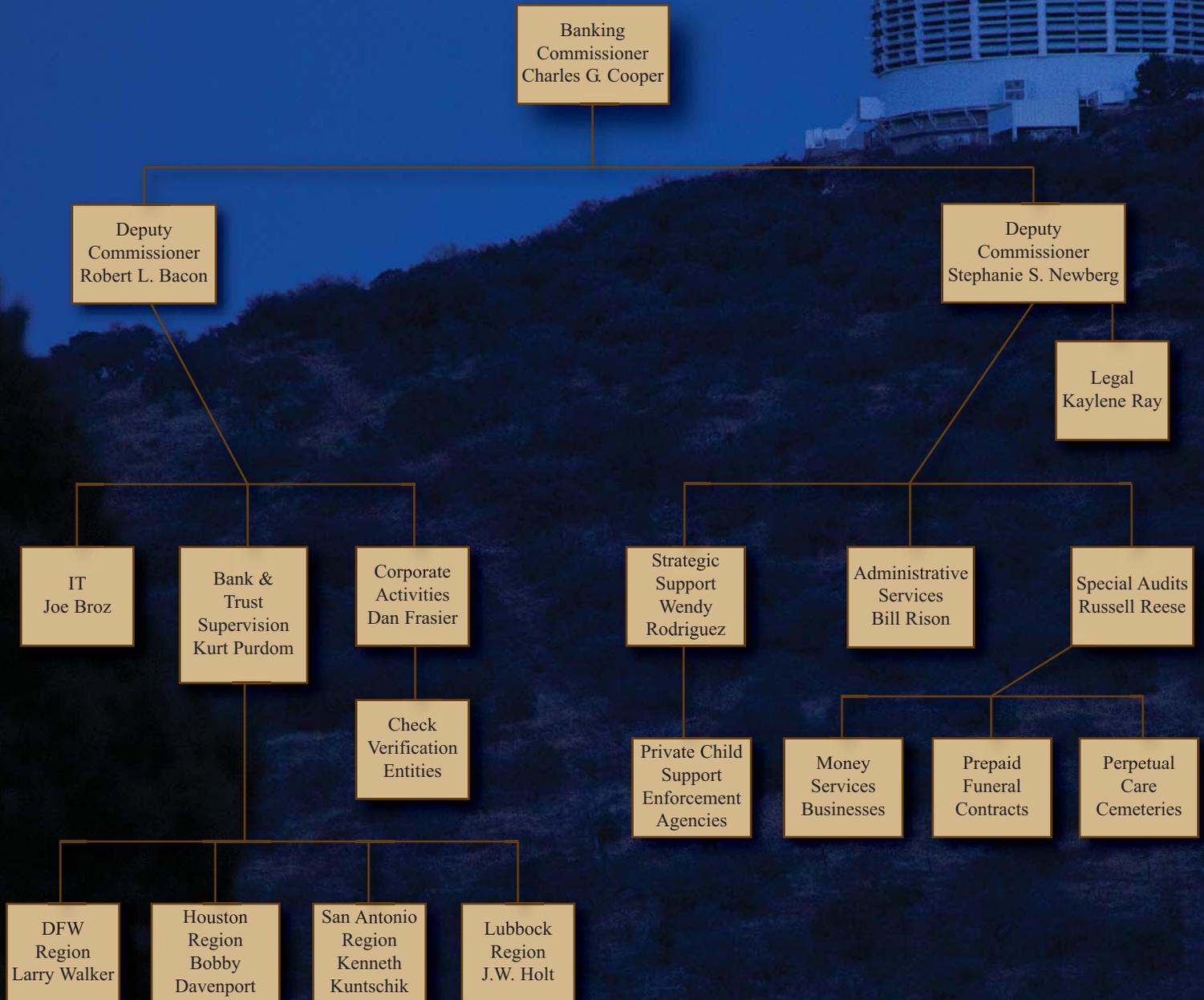


2012 Expenses



Department of Banking Organizational Chart

December 2012



Statement of Financial Condition

State-Chartered Banks in Texas

(in millions)

	Dec. 2012	Dec. 2011	Dec. 2010	Dec. 2009
NUMBER OF INSTITUTIONS	293	302	314	318
ASSETS				
Interest Bearing Balances	\$ 15,138	\$ 10,299	\$ 8,297	\$ 9,362
Federal Funds Sold	1,404	1,492	1,652	1,755
Trading Accounts	644	1,176	479	490
Securities	55,809	43,365	38,750	34,847
Total Loans	115,115	99,778	99,896	102,455
Less: Allowance for Loan Losses	(1,637)	(1,650)	(1,903)	(1,841)
Premises and Fixed Assets	3,346	2,901	2,889	2,843
Other Assets	15,791	13,029	12,527	12,900
<i>Total Assets</i>	\$205,610	\$170,390	\$162,587	\$162,811
LIABILITIES AND CAPITAL				
Total Deposits	\$ 169,154	\$ 138,510	\$ 129,396	\$ 124,320
Federal Funds Purchased & Repos	3,486	2,881	3,297	3,789
Trading Liabilities	475	407	405	409
Other Borrowed Funds	5,748	5,355	8,108	13,581
All Other Liabilities	4,283	4,041	3,573	3,646
Equity Capital	22,464	19,196	17,808	17,066
<i>Total Liabilities and Equity Capital</i>	\$205,610	\$170,390	\$162,587	\$162,811
RATIOS				
Yield on Earning Assets	3.65%	4.19%	4.48%	4.71%
Net Interest Margin	3.26%	3.58%	3.67%	3.50%
Return on Assets	1.00%	0.97%	0.79%	0.69%
Net Charge-offs to Loans	0.32%	0.65%	0.97%	1.23%
Assets Per Employee (\$million)	5.16	4.77	4.50	4.44
Loss Allowance to Loans	1.42%	1.65%	1.91%	1.80%
Equity Capital to Assets	10.92%	11.27%	10.94%	10.47%
Total Risk-Based Capital Ratio	14.70%	15.50%	15.19%	14.19%

Statement of Income

State-Chartered Banks in Texas

(in thousands)

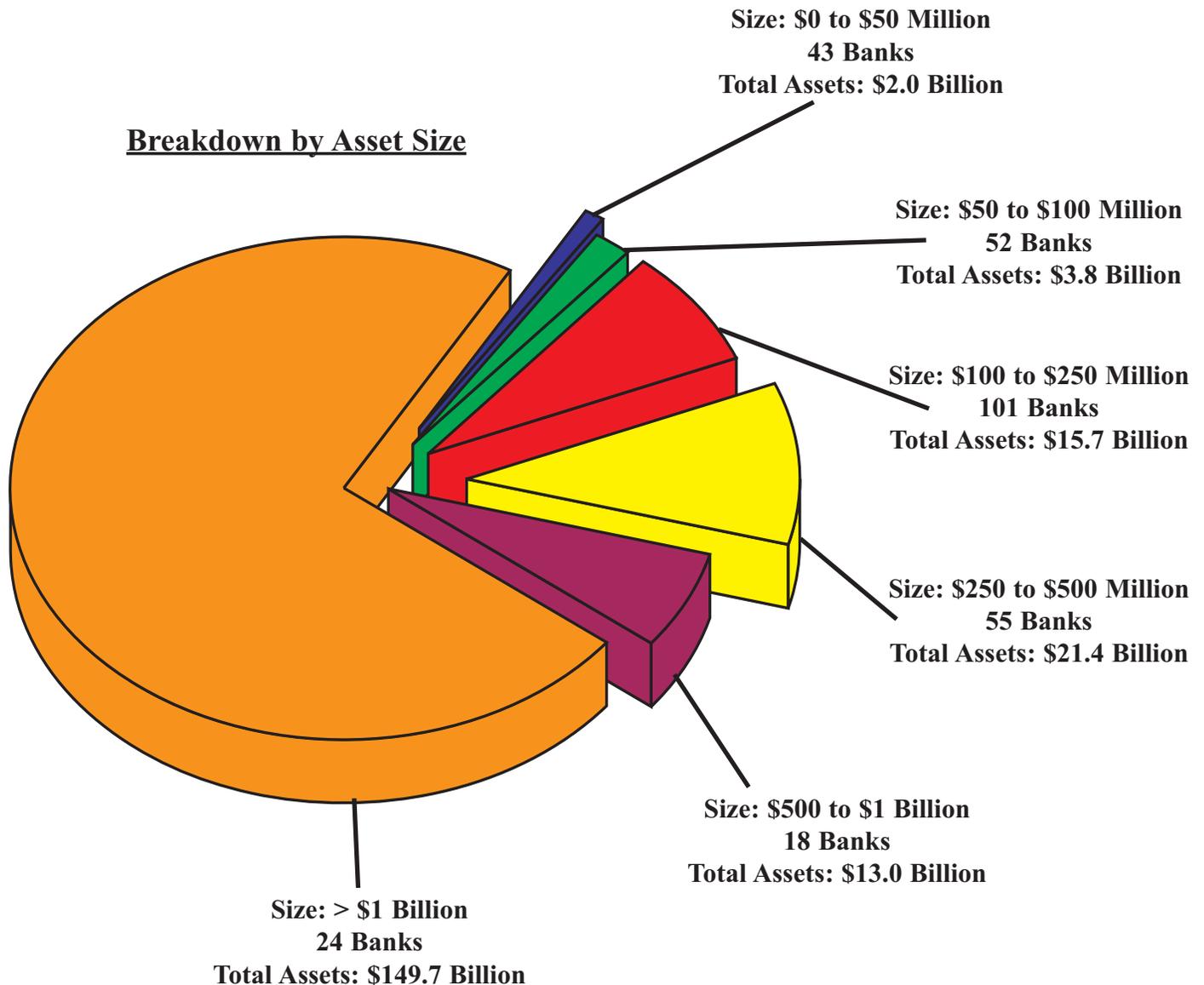
	Dec. 2012	Dec. 2011	Dec. 2010	Dec. 2009
INTEREST INCOME				
Loans	\$ 5,118,202	\$ 4,893,047	\$ 5,216,352	\$ 5,379,709
Lease Receivables	40,193	39,276	59,465	64,400
Due From Depository Institutions	45,413	43,102	48,872	48,333
Securities	1,226,668	1,153,216	1,213,095	1,454,489
Trading Assets	3,349	12,665	1,704	1,260
Federal Funds Sold	3,901	6,769	6,148	7,978
<i>Total Interest Income</i>	6,437,726	6,148,075	6,545,636	6,956,169
INTEREST EXPENSE				
Deposits	526,977	703,064	951,857	1,446,326
Federal Funds Purchased	46,117	54,245	63,136	75,401
Borrowings	69,158	92,419	128,177	193,599
Subordinated Notes	44,424	41,977	39,306	66,374
<i>Total Interest Expense</i>	686,676	891,705	1,182,476	1,781,700
Net Interest Income	5,751,050	5,256,370	5,363,160	5,174,469
Provision for Loan Loss	256,865	459,468	1,006,544	1,707,904
NONINTEREST INCOME				
Service Charges on Deposit Accts.	665,611	614,859	652,920	701,666
Other Noninterest Income	1,493,078	1,588,678	1,550,699	1,696,622
<i>Total Noninterest Income</i>	2,158,689	2,203,537	2,203,619	2,398,288
NONINTEREST EXPENSE				
Salaries and Benefits	2,851,755	2,722,777	2,672,279	2,552,606
Premises and Equipment	679,004	681,202	690,485	668,655
All Other Noninterest Expense	1,733,070	1,637,185	1,690,451	1,581,414
<i>Total Noninterest Expense</i>	5,263,829	5,041,164	5,053,215	4,802,675
Pre-Tax Net Operating Income	2,389,045	1,959,275	1,507,020	1,062,178
Securities Gains/(Losses)	139,078	74,837	113,820	330,203
Applicable Income Taxes	(580,761)	(473,233)	(354,754)	(263,139)
Extraordinary Gains - Net	(1,658)	4,120	17,663	1,572
NET INCOME	\$ 1,945,704	\$ 1,564,999	\$ 1,176,385	\$ 1,126,577



Financial Information on State-Chartered Banks in Texas

By: Size, Number, and Total Assets

Breakdown by Asset Size



Information as of December 2012 obtained from the FDIC database

Newest State Banks, Trust Companies, Money Services Businesses, Perpetual Care Cemeteries and Prepaid Funeral Contract Entities

State Bank Conversions

Frost Bank, San Antonio
June 2012

Veritex Community Bank, Dallas
December 2012

Mason Bank, Mason
December 2012

Trust Companies

Legacy Trust Company, LTA, Dallas
May 2012

Perpetual Care Cemeteries

Bluff Springs Garden, Inc., Austin
September 2012

Prepaid Funeral Contract Entities

Wilson Holdings, Inc., Houston
January 2012

DeWayne Hughes Family Funeral Services, LLC, Dallas
April 2012

Archdiocese of Galveston-Houston, Houston
May 2012

DeWayne Hughes Family Funeral Services, LLC, Dallas
December 2012

Money Services Businesses

JPay Inc., Miami, FL
January 2012

Texas Currency Exchange Corp., Tampa, FL
February 2012

Facebook Payments Inc., Palo Alto, CA
February 2012

Unirush, LLC, Cincinnati, OH
April 2012

TouchPay Holdings, LP, Irving
May 2012

Payoneer, Inc., New York, NY
May 2012

Envios de Valores La Nacional Corp., New York, NY
May 2012

Currency Exchange International Corp., Orlando, FL
June 2012

InteliSpend Prepaid Solutions, LLC, Fenton, MO
June 2012

USForex Inc., Wilmington, DE
July 2012

Square, Inc., San Francisco, CA
September 2012

Beamit, Inc., Seattle, WA
October 2012

Moneydart Global Services Inc., Woodbridge, NJ
November 2012

Top 20 Largest Texas State-Chartered Banks

December 2012



Bank Name/City	Total Assets (thousands)
Comerica Bank, Dallas	\$65,252,151
Frost Bank, San Antonio	\$23,187,836
Prosperity Bank, El Campo	\$14,590,421
International Bank of Commerce, Laredo	\$9,836,378
PlainsCapital Bank, Dallas	\$6,502,231
Southside Bank, Tyler	\$3,230,938
TIB The Independent BankersBank, Irving	\$2,587,134
City Bank, Lubbock	\$2,023,250
American Bank of Texas, Sherman	\$2,020,797
Happy State Bank, Happy	\$1,999,321
United Central Bank, Garland	\$1,862,389
Texas Bank & Trust Company, Longview	\$1,731,654
Independent Bank, McKinney	\$1,728,782
Legacy Bank of Texas, Plano	\$1,704,740
North Dallas Bank & Trust Co., Dallas	\$1,257,571
Northstar Bank of Texas, Denton	\$1,248,770
Patriot Bank, Houston	\$1,203,922
First State Bank Central Texas, Austin	\$1,182,864
First United Bank, Dimmitt	\$1,158,513
Southwest Bank, Fort Worth	\$1,137,323
<i>Total</i>	\$145,446,985
<i>Percentage of Total Texas State-Chartered Banking Assets</i>	85.9%

Top 10 Largest Texas State-Chartered Trust Companies

December 2012

Trust Company Name/City	Total Assets (thousands)
Hand Benefits & Trust Company, Houston	\$ 5,544,983
The Houston Trust Company, Houston	\$ 3,842,672
Westwood Trust, Dallas	\$ 2,976,960
Sentinel Trust Company, L.B.A., Houston	\$ 2,174,370
Austin Trust Company, Austin	\$ 2,146,297
Kanaly Trust Company, Houston	\$ 2,042,798
Turtle Creek Trust Company, Dallas	\$ 1,649,074
The Trust Company, San Antonio	\$ 1,493,098
Woodway Financial Advisors, Houston	\$ 1,433,459
Investors Trust, Inc., Dallas	\$ 901,730
	<i>Total</i> \$19,135,365
<i>Percentage of Total Texas State-Chartered Trust Assets</i>	91.6%



Closed Account Notification System (CANS)

Transaction Count (March 1, 2008 to December 31, 2012)

	Submitted
Texas State-chartered Banks	2,279
Texas State-chartered Savings Banks	105
Federal Savings Institutions	251
State Credit Unions	1,894
Federal Credit Unions	1,969
National Banks	1,166
Out of State State-chartered Banks	3
Out of State National Banks	89
	<hr/> 7,756





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