

House Committee on Government Reform

Legislative Briefing

Testimony of:

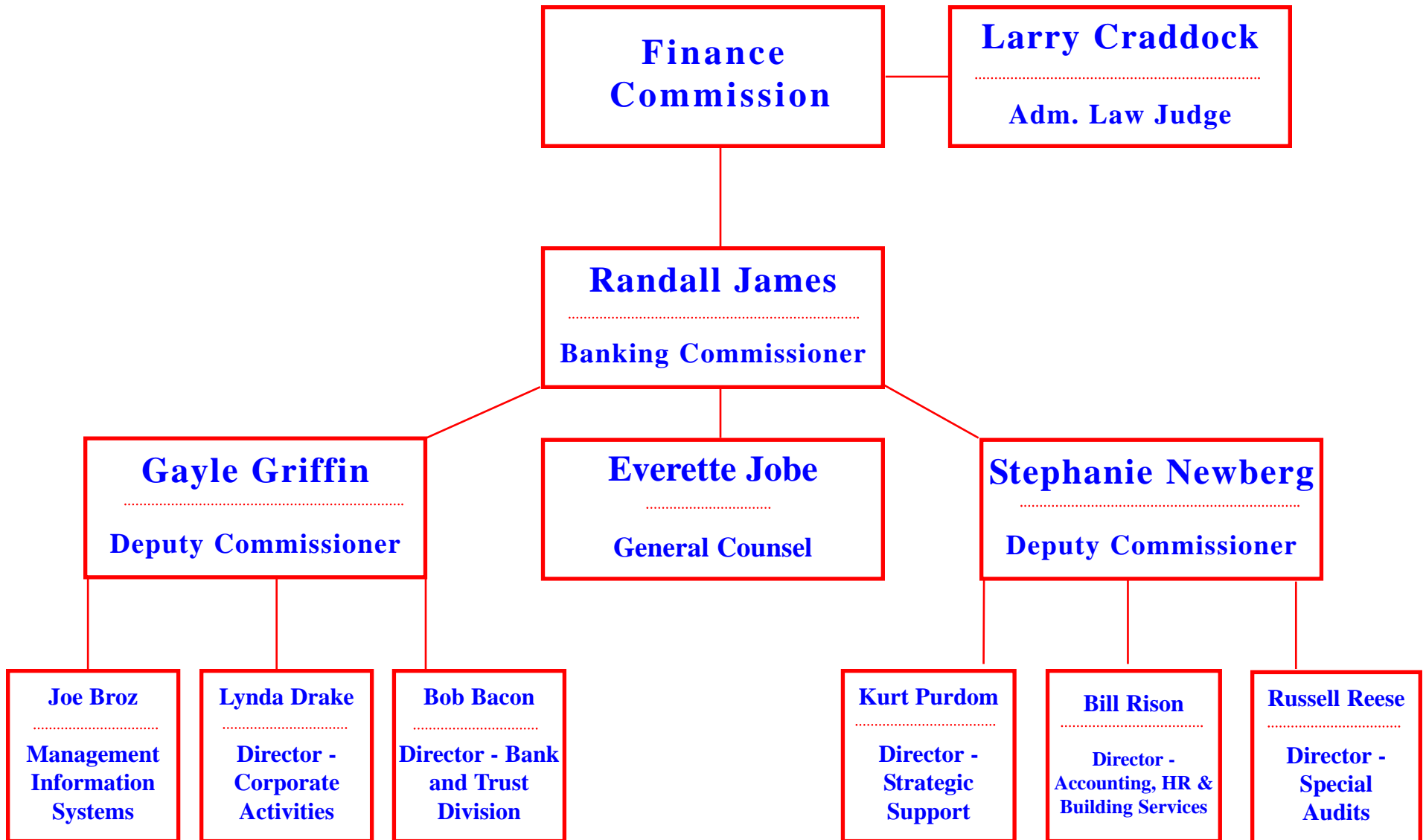
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Banking Commissioner

Texas Department of Banking

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Texas Department of Banking Organization Chart



State-Chartered Banking *Profile of Regulated Entities*

Regulated Entity	Number of Entities	Total Assets \$(millions)
Commercial Banks*	350	\$ 102,993
Foreign Bank Agencies	9	32,121
Trust Companies	26	31,284
Prepaid Funeral Licensees	429	2,445
Perpetual Care Cemeteries	231	162
Sale of Checks Licensees	62	593,604
Currency Exchange Licensees	78	33
Private Child Support Agencies	13	NA
Totals	1,198	\$762,642

Information as of September 2002

*Includes all State Banking Activity.

Profile of Banking in Texas

	State	National	Total
Charters	350	341	691
<i>Out-of-State Chartered*</i>	10	8	18
Assets	\$104.0B	\$144.3B	\$247.3B
<i>Out-of-State Chartered*</i>	\$42.7B	\$53.4B	\$96.1B
Deposits	\$ 90.9B	\$130.1B	\$221.0B
<i>Out-of-State Chartered*</i>	\$42.7B	\$53.4B	\$96.1B
Avg. Capital Ratio	9.9%	10.2%	

Information as of September 2002. *Indicates amount included in preceding total.
See Page 6 for information about out-of-state bank totals.

Statutory Mandates

★ Banks, Trust Companies, and Offices of Foreign Bank Agencies

- ✓ Chapters 31 and 181 of the Texas Finance Code require the Banking Commissioner to examine each state bank and state trust company annually or more often as the Banking Commissioner considers necessary to safeguard the interest of depositors/clients, creditors, shareholders, participants and participant-transferees.
- ✓ Chapter 204 of the Texas Finance Code requires that the Banking Commissioner examine each Texas state branch, agency or representative office of a foreign bank annually or more often as the Banking Commissioner considers necessary to determine if the office is operated in a safe and sound manner.

Statutory Mandates

★ Prepaid Funeral Contract Sellers, Perpetual Care Cemeteries, Currency Exchange Businesses, Sale of Check Licensees, and Private Child Support Enforcement Agencies

- ✓ Chapter 154 of the Texas Finance Code requires that the Banking Commissioner examine each prepaid funeral contract seller annually or more often as deemed necessary to protect the prepaid funds and to assure that the contracted services and merchandise are provided at the time of death.
- ✓ Chapter 712 of the Texas Health and Safety Code requires that the Banking Commissioner examine each perpetual care cemetery annually or more often as deemed necessary to protect and safeguard the perpetual care trust funds and to assure that the fund income is used to maintain and support cemetery maintenance.
- ✓ Chapter 153 of the Texas Finance Code requires that the Banking Commissioner examine each currency exchange, transportation and transmission licensee annually to protect and safeguard customer funds and prevent money laundering and funding of terrorist activities.
- ✓ Chapter 152 of the Texas Finance Code requires that the Banking Commissioner examine each sale of check licensee annually or more often as deemed necessary to protect and safeguard customer funds and prevent money laundering and funding of terrorist activities.
- ✓ Chapter 396 of the Texas Finance Code requires the Banking Commissioner to monitor private child support enforcement agencies through registration and investigation of consumer complaints.

Chartering and Licensing Procedures/Requirements

Regulated Entity	Process
Commercial Banks, Trust Companies, Foreign Bank Agencies	On site investigation, analysis of strategic plan, including three years proforma financial statements, analysis of the financial condition and personal background of principal shareholder, directors and officers, review business plan, review all offering documents and statutory filings, review of the security of all information systems, verification of bonding requirements, publication of notice and review of market conditions.
Prepaid Funeral Home Licensees	Owner and officer background checks, contract reviewed for plain language requirements, trust agreement approval, depository approval, analysis of financial condition and investment plan, review of articles of incorporation and corporate charter, filing of assumed name certificates, and completed agent designation forms.
Perpetual Care Cemeteries	Trust agreement approval, evidence of ownership of dedicated cemetery land with appropriate plat maps, review of articles of incorporation and corporate charter, analysis of net worth requirement, review of contracts, certificates of ownership, price lists and rules and regulations for required disclosures, documentation for initial perpetual care deposit, and filing of assumed name certificates.
Sale of Checks Licensees	Financial statement analysis of audited financials of applicant and certified statements of principals, net worth requirement of at least \$500,000, surety bond verification, review of business plan, evidence of U.S. Treasury registration, and background checks including Secretary of State, Texas Comptroller, and other regulators.
Currency Exchange Licensees	Identification and licensing of all locations, analysis of financial statement and certified financials of applicant and principals, perform fingerprint checks, perform background checks of applicants and principals including IRS, Secretary of State, Texas Comptroller, and other regulators, surety bond verification, review evidence of U.S. Treasury registration.
Private Child Support Enforcement Agencies	Approve contract in plain language, perform analysis of certified financial statements to determine solvency, registration of all locations, identification of principals, verification of surety bond, and review of information on pending litigation.

A Sound Financial System is Important to Texas

- ★ Texas citizens and Texas business owners need the State's assurance that –
 - ✓ Their money is safe and secure;
 - ✓ Their financial affairs are being handled honestly and fairly;
 - ✓ Their personal information is being properly safeguarded; and
 - ✓ Their financial service provider complies with the law.
- ★ Public confidence creates economic opportunities –
 - ✓ Consumer spending increases for goods and services;
 - ✓ New investments are made in stocks, bonds, and real property; and
 - ✓ Increases in business activity lead to new employment opportunities.
- ★ Well managed financial institutions are capable of extending loans and other forms of credit to facilitate business growth and consumer purchases.
 - ✓ State-chartered banks are a primary source of credit for small businesses, which employ most of the working population in Texas.
- ★ Effective regulation reduces instances of consumer fraud, money laundering, and other financial improprieties.
 - ✓ A continuing regulatory presence, coordinated with law enforcement and other regulatory agencies, is needed to protect Texas citizens.

Effective Regulation is Important

- ★ Now is NOT the time to reduce regulatory oversight due to economic uncertainties.
- ★ Effective regulation promotes strong and healthy institutions based in Texas that can offer financial leadership and guidance that best benefits Texas.
- ★ Prevents unnecessary or unabated deterioration in the state's financial service industries.
- ★ Economic prosperity fosters competitive markets, which benefits all Texans.

Revenue Sources

★ The Department is fully self-funded and “Revenue Neutral” to the General Revenue Fund.

- ✓ Fees and assessments on regulated entities fund 99.6% of the agency’s expenditures, with \$58,000 in federal grants covering the remainder.
- ✓ Expenditure reductions will not benefit the state’s General Revenue Fund.
- ✓ By statute, the Finance Commission is limited to collecting fees and assessments that cover only the agency’s direct and indirect expenditures related to supervision.

Expenditures

★ The Department’s expenditures are mainly personnel related.

- ✓ Salaries and other personnel expenses are 82% of total expenditures.
- ✓ Travel related expenses, mainly to conduct examinations, are 9.5% of total expenditures.

Supplemental Information

STRATEGY	Financial Examiners	Administrative and Support	Total	2003 Appropriations	Percent of Total
Bank Examination	84	37	121	\$8,371,907	80.3%
Non-Bank Examination	13	10	23	\$1,385,690	13.3%
Application Processing	3	6	9	\$474,304	4.5%
Regulatory Oversight	0	1	1	\$197,970	1.9%
TOTALS	100	54	154	\$10,429,871	100.0%
TURNOVER					
Fiscal YTD	2.0%	7.2%	3.8%		
Fiscal Year 2002	11.2%	20.0%	14.6%		
Fiscal Year 2001	21.7%	20.0%	21.0%		