



# House Committee on Investments and Financial Services

February 18, 2015

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Charles G. Cooper, Banking Commissioner  
Texas Department of Banking

# Department Overview

- ★ Established in 1905 by the 29<sup>th</sup> Legislature.
- ★ Rich tradition of professional and sound regulation.
- ★ Practices and promotes fiscal responsibility.
- ★ Reduces regulatory burden by coordinating regulatory activities with other state and federal agencies.
- ★ Ensures Texas has a safe, sound and competitive financial services system.
- ★ Self-Leveling, Self-Funding.
- ★ Agency responsible for all direct and indirect costs; no cost to General Revenue Fund.
- ★ Granted Semi-Directed, Semi-Independent status by 81<sup>st</sup> Legislature.
- ★ Department Motto – “Tough but Fair.”

# Profile of Regulated Entities

Regulated Entities	Number of Entities	Total Assets (\$ millions)
As of December 31, 2014		
Commercial Banks	267	229,584 ^
Trust Companies	21 Nonexempt 17 Exempt	96,937 NA
Foreign Bank Agencies	10 FBAs/FBB 15 Representative Offices	87,092 NA
Money Service Businesses	141	96,396
Prepaid Funeral Contract Sellers	386	3,442
Perpetual Care Cemeteries	242	291
Cemetery Brokers	5*	NA
Private Child Support Enforcement Agencies	11*	NA
Check Verification Entities	3*	NA

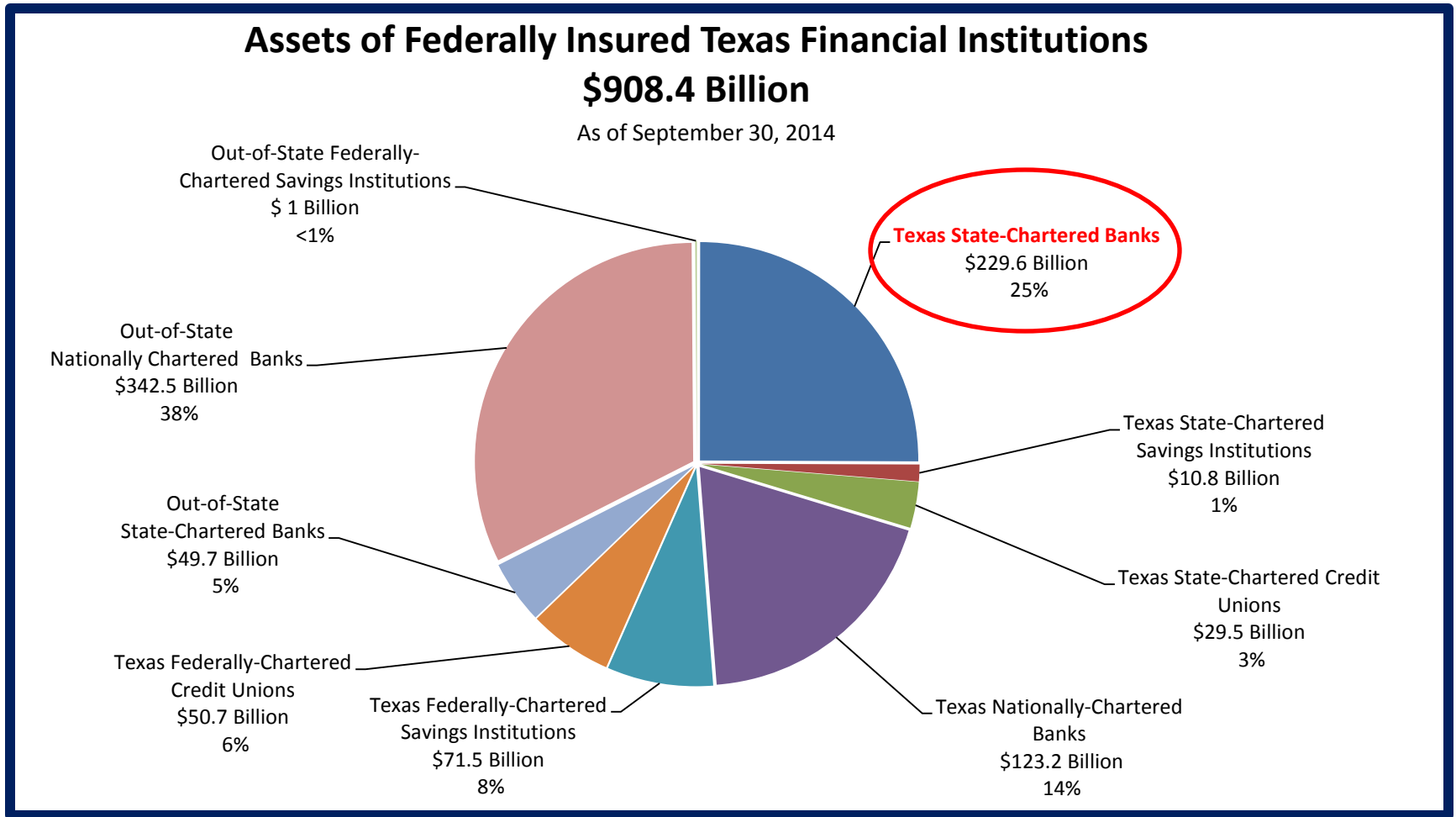
The Department conducts examinations of entities under its supervision to better evaluate safety and soundness and compliance with state and federal laws. Total assets of the regulated entities represented in the table are approximately \$514 billion.

Nine Texas state-chartered banks operate branches in nine other states.

^ Year-end financial data not finalized.

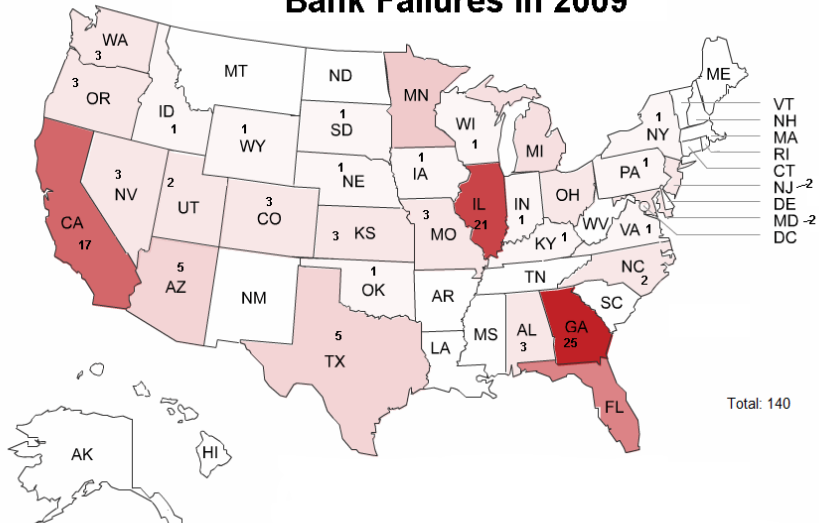
\* Registration requirement only.

# Assets Under Supervision in Texas



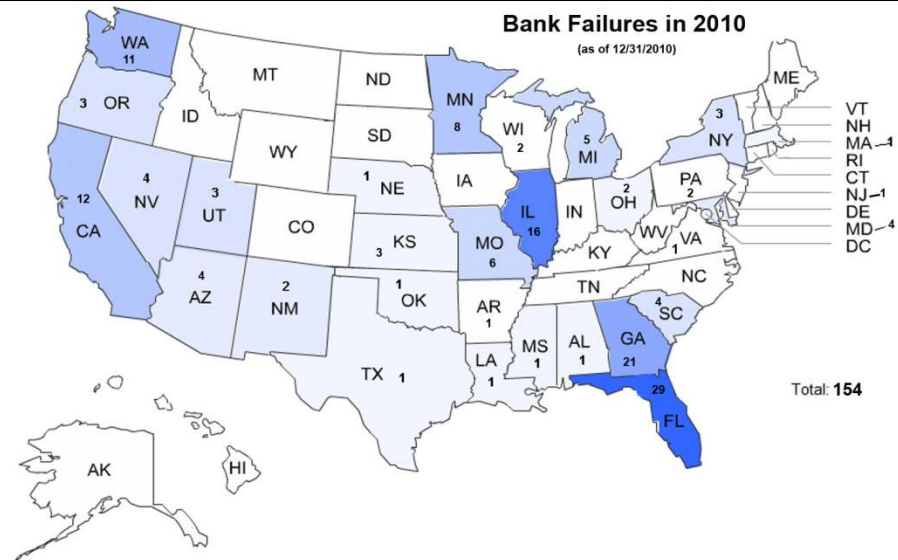
# Bank Failures - Nationwide

## Bank Failures in 2009



## Bank Failures in 2010

(as of 12/31/2010)



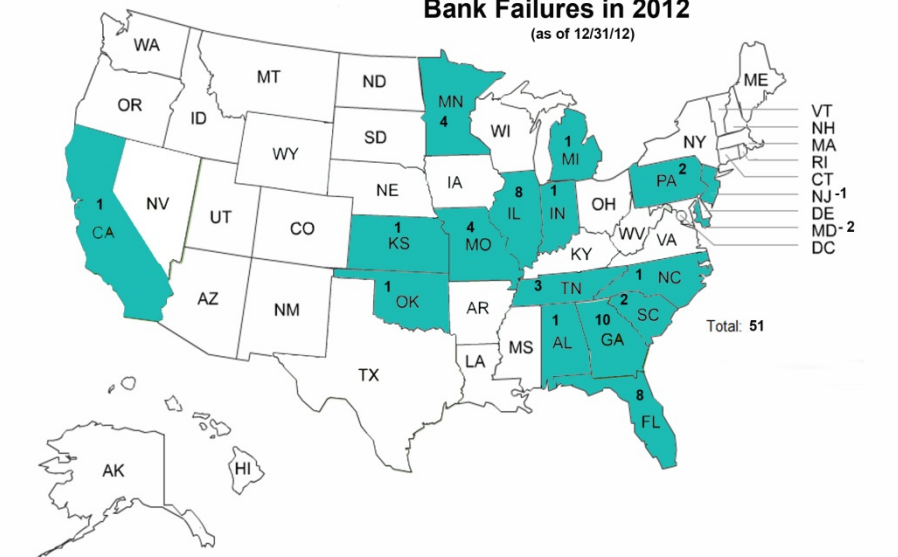
## Bank Failures in 2011

(as of 12/31/2011)



## Bank Failures in 2012

(as of 12/31/12)



# Bank Failures - Nationwide

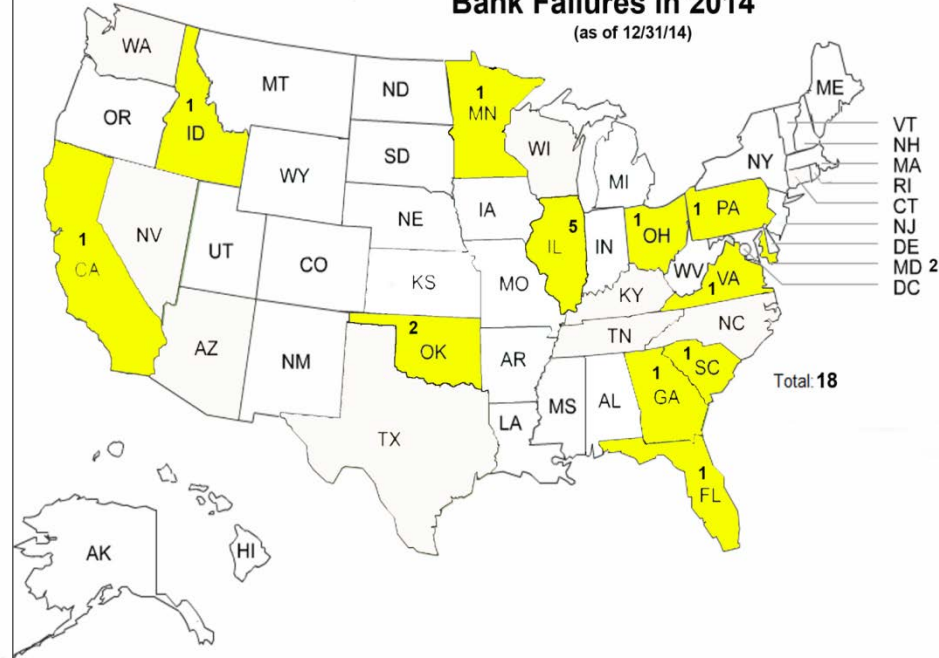
**Bank Failures in 2013**

(as of 12/31/13)



**Bank Failures in 2014**

(as of 12/31/14)

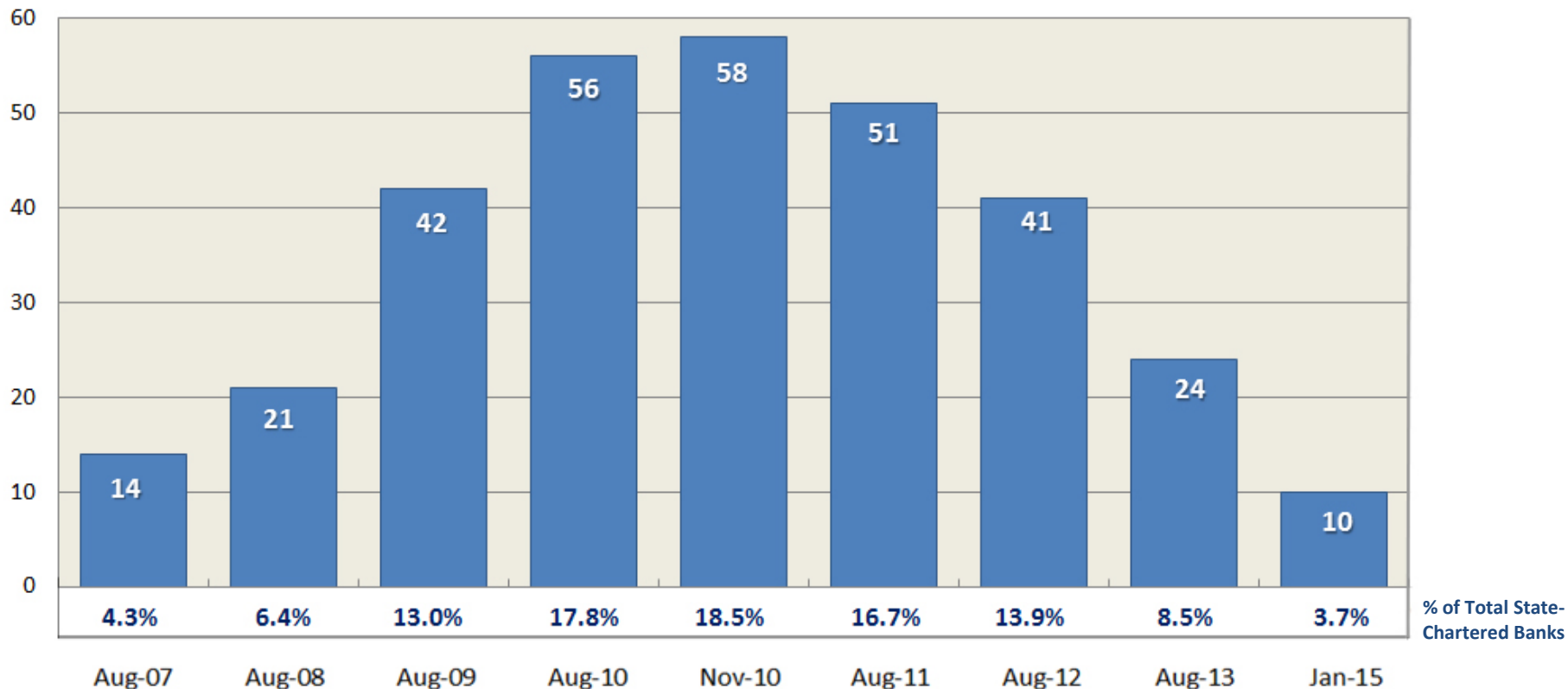


# Bank Failures in Texas

<b>2008</b>			
Franklin Bank, SSB	State Savings	Houston	November
Sanderson State Bank	State Bank	Sanderson	December
<b>2009</b>			
Millennium State Bank of Texas	State Bank	Dallas	July
Guaranty Bank	Federal Thrift	Austin	August
Citizens National Bank	National	Teague	October
Madisonville State Bank	State Bank	Madisonville	October
North Houston Bank	State Bank	Houston	October
<b>2010</b>			
The La Coste National Bank	National	La Coste	February
<b>2011</b>			
First International Bank	State Bank	Plano	September
<b>2013</b>			
First National Bank aka The National Bank of El Paso	National	Edinburg	September
Texas Community Bank, National Association	National	The Woodlands	December

# Historical Overview of Problem State-Chartered Banks

*The DOB defines problem banks as any financial institution with a composite rating of “3”, “4” or “5”.*





# Agency Highlights

- ☆ Department considered industry leader in bank and money services business regulation.
- ☆ Through enhanced training and education and the ability to offer competitive salaries, the Department has been able to attract and retain a highly-qualified professional staff implementing the “Tough but Fair” motto.
  - Commissioner Cooper is currently Vice-Chair of CSBS
  - Deputy Commissioner Newberg serves as President of the Money Transmitter Regulators Association (MTRA)
- ☆ No material changes to bank assessments since 2003 indicating strong fiscal responsibility.
- ☆ **In FY 2014:**
  - ✓ 100% of the banks and foreign banks received examinations when due.
    - ✓ 127 examinations performed
  - ✓ 97% trust company, trust department, IT, and other specialty examinations or reviews were performed.
    - ✓ 245 examinations performed
  - ✓ 98% Special Audit licensee examinations were performed.
    - ✓ 589 examinations performed
- ✓ Department coordinates examination activity with the FDIC, FRB, FinCEN, CFPB and other states.

# Cybersecurity

## ★ *Leadership Role in Promoting Cyber Security:*

- ★ 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 in April 2010 to develop recommended practices to mitigate the risks of electronic crimes such as Corporate Account Takeover (CATO). CATO is a form of identity theft where cyber thieves gain control of a business's bank account and then initiate fraudulent wires and ACH transactions. 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.
  - This initiative has proven to be very successful and 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 adoption of these best practices to be utilized by financial institutions nationwide.
- ★ In December 2014, the Texas Department of Banking partnered with the Texas Bankers Association, Independent Bankers Association of Texas, SWACHA, law enforcement , and federal and state banking regulators to host an event designed to provide CEOs and Directors an overview of cyber threats to the banking industry as well as resources and actions to manage these evolving threats. U.S. Deputy Secretary Raskin was the keynote speaker. The event was the first of its kind in the nation and is being used as a model program for other states.

# Challenges for State Banks

- ★ Increasing federal regulatory burden stemming from the financial crisis, i.e. Dodd-Frank, etc.
- ★ Cyber crimes.
- ★ Economic impact of the Texas oil and gas industry.
  - Only 7% of state banks have a significant activity in oil and gas loans.
  - Ancillary industries could be affected by decreased investments in the oil industry.
- ★ Drought conditions on communities and institutions, especially in regard to credit availability and other services.
- ★ Narrowing net interest margin in a low rate environment.
- ★ Revenue diversification through noninterest income sources.

Due to these challenges, we have seen an increased number of bank consolidations.

# 2015 Legislative Initiatives

- ★ **Banks and Trust Companies and Other Regulated Entities:** Authorize default against respondents in contested case hearings; clarify prohibition authority against individuals with felony convictions; and, authorize injunctive relief in cease and desist orders.
- ★ **Trust Companies:** Change requirements for restricted capital; align examination authority with that for banks; establish confidentiality of statement of condition and income for exempt trust companies and streamline reporting requirements; expand the scope of family members and interest that may be served by private trust companies; establish other guidelines for exempt trust companies.
- ★ **Perpetual Care Cemeteries:** Authorize Commissioner to petition a court for modification of trust and transfer of funds to an entity taking over a cemetery. Clarify authority to bring injunctive actions and requirements for emergency orders.
- ★ **Money Services Businesses:** Clarify definition of money transmission. Increase security required for exchangers conducting remote transactions. Authorize county prosecutors to pursue criminal violations.
- ★ **Commissioner Appointment:** Clarify requirements for appointment of Commissioner.