

Texas Department of Banking

March 1, 2023

Presented to:

Pensions, Investments & Financial Services Committee

Department Overview

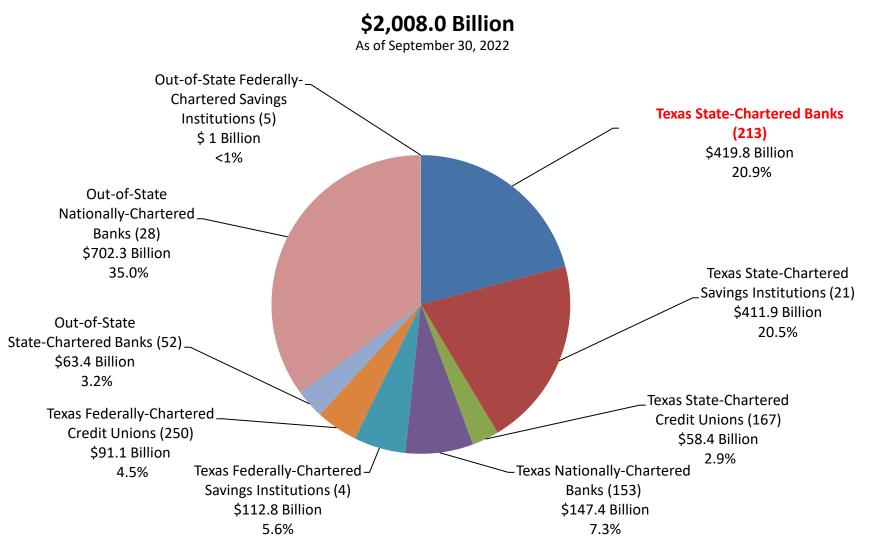
- ★ Established in 1905 by the 29th Legislature.
- ☆ Rich tradition of professional and sound regulation.
- ★ Practices and promotes fiscal responsibility.
- ★ Reduces regulatory burden by coordinating regulatory activities with other state and federal agencies.
- ★ Agency responsible for all direct and indirect costs; no cost to General Revenue Fund. Granted Self-Directed, Semi-Independent status by 81st Legislature.
- ★ Department Mission Ensures Texas has a safe, sound and competitive financial services system.
- ☆ Department Motto "Tough but Fair."
- ★ Reports to the Finance Commission of Texas, an eleven-member board appointed by the Governor.
- ★ Sunset date is September 1, 2031.

Profile of Regulated Entities

| As of December 31, 2022 | | | | |
|-------------------------------------|-------------------------------------|-------------------------------|--|--|
| Regulated Entities | Number of Entities | Total Assets (\$ millions) | | |
| State-Chartered Commercial Banks | 214 | \$420,499 | | |
| Trust Companies | 16 nonexempt 19 Exempt | \$149,877 | | |
| Foreign Bank Organizations | 7 FBAs 16 representative offices | \$121,897 | | |
| Money Services Businesses | 194 | \$315,008 | | |
| Prepaid Funeral Contract Sellers | 336 | \$4,602 | | |
| Perpetual Care Cemeteries | 243 | \$439 | | |
| Check Verification Entities* | 2 | NA | | |

* Registration requirement only. **Source**: Texas Department of Banking

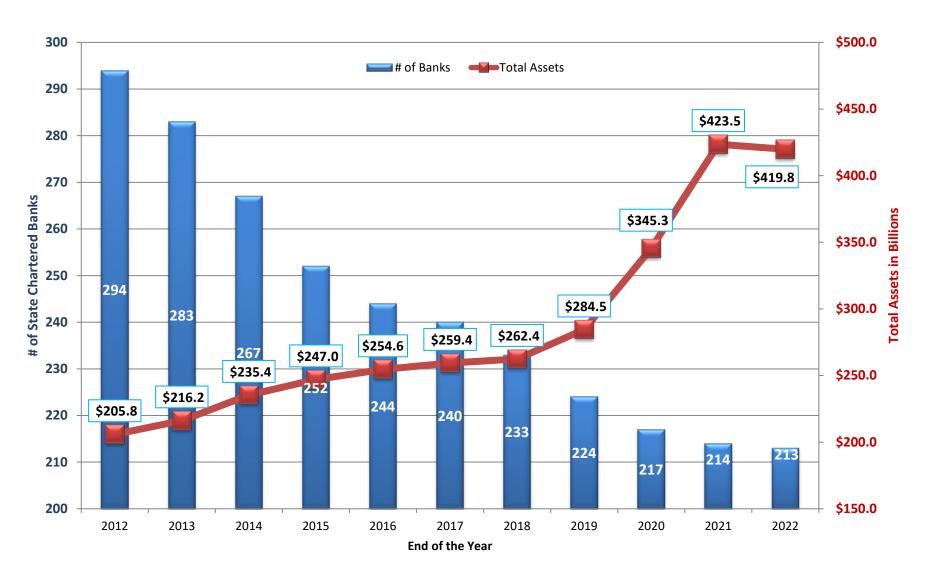
Assets of Federally Insured Texas Financial Institutions



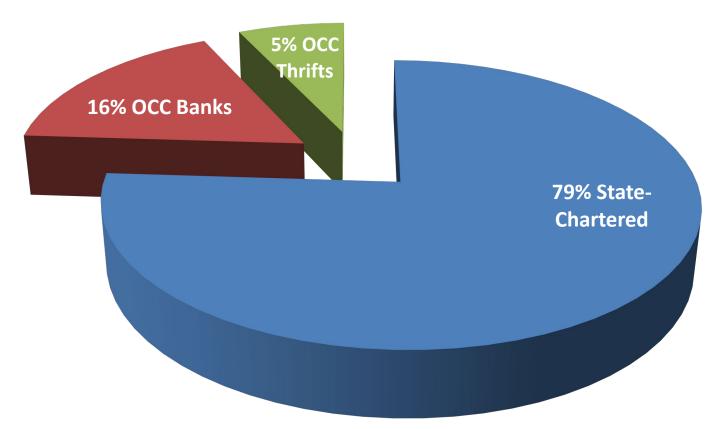
Sources: Bank and Thrift Data - FDIC September 2022 / Summary of Deposits June 2022.

Presented by the Texas Department of Banking

Changes Over the Years



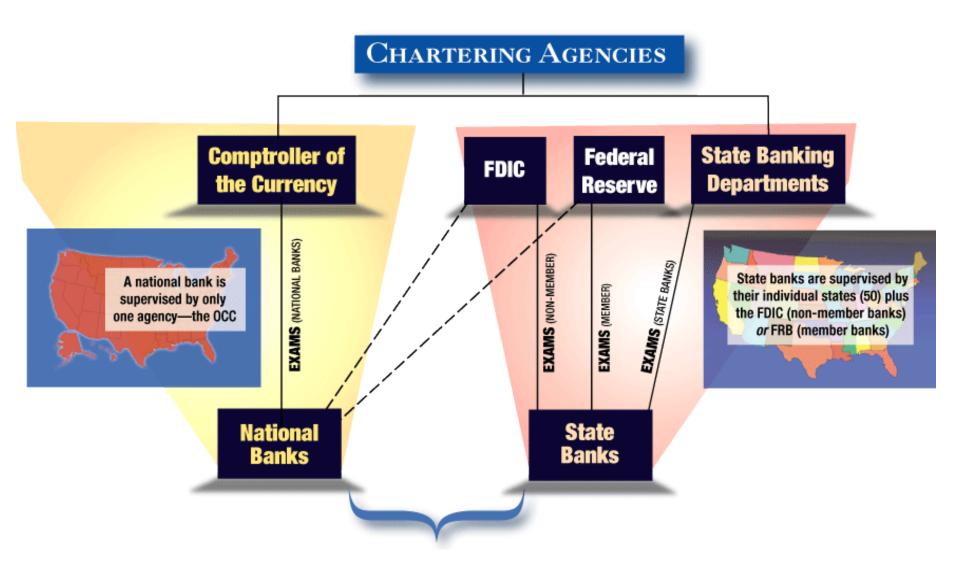
U.S. Bank Charters by Authority



In 1985, there were more than 18,000 active bank charters in the United States. Since then, the U.S. has experienced a 74% decrease in the number of active bank charters. Despite rapid consolidation, the state charter remains preferred by community bankers. Of the **4,746** banks in operation as of September 2022, **3,767** (79%) hold a state charter.

Source: FDIC and CSBS

Breaking Down Supervision and Regulation



Department Budget

Texas Department of Banking Budget - FY 2023

- Budget process All revenues for operations are derived from application filings, assessments, and other fees from regulated entities.
- Divisions work on budget in June.
- Public budget hearing is held annually.
- Finance Commission approves budget annually.
- The fiscal year 2023 budget was approved by the Finance Commission in August 2022.

| | Budget 2022 | Budget 2023* |
|-----------------------------------------|--------------|--------------|
| REVENUE | | |
| Bank & Trust Regulation | \$28,025,383 | \$30,345,091 |
| Penalties - Bank & Trust Regulation | 0 | 0 |
| Non-Depository Supervision | 2,929,920 | 3,237,400 |
| Penalties - Non-Depository Supervision | 349,750 | 285,000 |
| Miscellaneous Revenues | 8,500 | 84,200 |
| TOTAL REVENUES | \$31,313,553 | \$33,951,691 |
| EXPENDITURES | | |
| Personnel Costs | | |
| Employee Compensation | \$20,300,024 | \$21,650,654 |
| Employee Benefits | 5,974,356 | 6,101,007 |
| Add'l Health/Retirement | 301,068 | 314,468 |
| Other Personnel Costs | 608,946 | 596,388 |
| Subtotal Personnel Costs | \$27,184,394 | \$28,662,517 |
| Travel | | |
| In-State | \$1.015.704 | \$1,246,150 |
| Out-of-State | 504,755 | 675,895 |
| Subtotal Travel | \$1,520,459 | \$1,922,045 |
| Operating Costs | | |
| Professional Fees | \$461,005 | \$669.070 |
| Consumables | 44,500 | 38,000 |
| Office Utilities | 38.838 | 33,870 |
| Rent - Building/Space | 434,544 | 471,735 |
| Rent - Equipment/Other | 30,504 | 28,784 |
| Communications | 269,576 | 270,841 |
| Information Technology | 515.377 | 734,225 |
| Employee Training | 260,548 | 348,581 |
| Misc. Operating Costs | 553,808 | 772,023 |
| Subtotal Operating Costs | \$2,608,700 | \$3,367,129 |
| TOTAL EXPENDITURES | \$31,313,553 | \$33,951,691 |
| EXPENDITURES (OVER) / UNDER REVENUES | \$0 | \$0 |

* FY 2023 budgeted assessments are net approximately \$12.3 million in Bank and Trust that are not expected to be assessed to operate the Department.

Condition of Banking Industry

Banks are generally in satisfactory condition.

All Texas Banks Ratios Nation **Return on Assets** 1.00% 1.10% **Return on Equity** 13.70% 11.67% Source: FDIC. Financial Data as of September 30, 2022 **State-Chartered Problem Banks** 80 70 **Number of Problem Banks** 60 58 50 51 40 41 30 20 10 12 12 11 9 7 5 10 6 7 0 Nov-10 Aug-11 Aug-12 Aug-13 Aug-14 Aug-15 Aug-16 Aug-17 Aug-18 Aug-19 Aug-20 Aug-21 Aug-22

The Department defines problem banks as a 3, 4, or 5 rated financial institution. Source: Texas Department of Banking

Historical Bank Failures

| Year | All Texas Banks | Nation |
|---------------|-----------------|--------|
| 2012 | 0 | 51 |
| 2013 | 2 | 24 |
| 2014 | 0 | 18 |
| 2015 | 0 | 8 |
| 2016 | 0 | 5 |
| 2017 | 0 | 8 |
| 2018 | 0 | 0 |
| 2019 | 1 | 4 |
| 2020 | 0 | 4 |
| 2021 | 0 | 0 |
| 2022 | 0 | 0 |
| As of 2/22/23 | 0 | 0 |

Source: FDIC

Presented by the Texas Department of Banking

Department Initiatives

- ★ Industry leader in Cybersecurity
 - Hosted first Executive Leadership on Cybersecurity event in the nation.
- ★ Recognized nationally on banking and money services business issues.
- ★ Regulatory leader in developing supervisory policies, procedures, and training, and one of the only state regulators to have formal testing program for commissioning examiners.
- ★ Active with:
 - Conference of State Bank Supervisors CSBS
 - Money Transmitter Regulators Association MTRA

Regulatory Concerns for Banking

★ Cybersecurity Risk

★ Economic Uncertainty –

★Are we headed for a recession?

★ Competition for deposits from all sources

★ Regulatory burden

Regulatory Concerns For Money Services Businesses (MSB)

- ★ Technological advances have increased the complexity of the types of products and services being offered:
 - ★ Recently developed cryptocurrency products may be subject to other federal and state regulations.
 - ★ Multiple custody agreements with third-party entities managing assets.
- ★ Cybersecurity Risk
- ★ Unlicensed Activity internet and mobile applications are vehicles for businesses to operate without the required MSB license.
- MSBs facing higher employee turnover resulting in compliance issues.