

MINUTES OF THE
FINANCE COMMISSION MEETING
FRIDAY, APRIL 11, 2014

The Finance Commission of Texas met Friday, April 11, 2014, in the Finance Commission Building, William F. Aldridge Hearing Room, 2601 North Lamar Boulevard, Austin, Texas.

Finance Commission Members in attendance:

Bill White, Chairman
Paul Plunket, Vice Chairman
Susan Burton
Stacy London
Will Lucas
Lori McCool
Larry Patton
Jay Shands

Others in attendance:

Doug Foster, Executive Director, Finance Commission and
Commissioner, Texas Department of Savings and Mortgage Lending (SML)
Charles G. Cooper, Commissioner, Texas Department of Banking (DOB)
Leslie Pettijohn, Commissioner, Office of Consumer Credit Commissioner (OCCC)
Karl Hubenthal, Financial Analyst, (OCCC)
Laurie Hobbs, Assistant General Counsel, (OCCC)
Stephanie Newberg, Deputy Commissioner (DOB)
Bob Bacon, Deputy Commissioner (DOB)
Daniel Wood, Assistant General Counsel (DOB)
Debby Loomis, Deputy General Counsel (DOB)

Finance Commission Chairman Bill White announced a quorum with eight members present and called the meeting to order at 9:00 a.m.

Chairman White congratulated Finance Commission Members Stacy London, Lori McCool, Larry Patton, and Paul Plunket upon their reappointment by the Governor.

Discussion of and Possible Vote to Excuse the Absence of a Commission Member.

Bill White made a motion to excuse Cindy Lyons, Jonathan Newton and Victor Leal from the Finance Commission meeting held on April 11, 2014. Susan Burton seconded and the motion was adopted.

Finance Commission Matters:

General Public Comment.

Mr. Ronnie Lawson submitted public testimony as a homeowner on the administrative hearings process and his desire to appeal a decision and/or file a complaint with the Finance Commission.

There was discussion with Commissioner Foster addressing the questions.

Consent Agenda.

Jay Shands made a motion that the Finance Commission approve consent agenda items A1; B2; and D4. Will Lucas seconded and the motion was adopted. (A copy of the consent agenda is attached).

Finance Commission Operations – Legislative Issues; Testimonies and Correspondence; and Agency Complaints.

Doug Foster as Executive Director to the Finance Commission opened with discussion regarding legislative testimony and the agencies' upcoming quarterly updates to be provided to the Senate Committee on Business and Commerce.

He also notified the Commission that the Interim Charges of the House Investments and Financial Services Committee would be discussed at the upcoming legislative hearing on the on May 21, 2014. One of the interim charges relates to the review of Texas home equity laws.

The Commissioner concluded with a summary of the agencies' upcoming budget process and timeline.

Audit Committee Report

Audit Committee Member McCool reported that a quorum was not present at the Audit Committee meeting held on April 11, 2014. Therefore, all voting items would be presented and voted on during the Finance Commission meeting.

Review and Approval of Minutes of the February 21, 2014, Audit Committee Meeting

Committee Member McCool made a motion to approve the minutes of the February 21, 2014, Audit Committee meeting. Will Lucas seconded and the minutes were adopted.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' February 28, 2014, Investment Officer Reports.

Committee Member McCool made a recommendation on behalf of the Audit Committee that the Finance Commission approve the Agencies' February 28, 2014, Investment Officer Reports. Susan Burton seconded and the motion was adopted.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Second Quarter Financial Statements.

Committee Member McCool made a recommendation on behalf of the Audit Committee that the Finance Commission approve the agencies' Second Quarter Financial Statements. Jay Shands seconded and the motion was adopted.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Financial Education Endowment Fund.

Committee Member McCool made a recommendation on behalf of the Audit Committee that the Finance Commission approve the Texas Financial Education Endowment Fund report. Will Lucas seconded and the motion was adopted.

Discussion of and Possible Vote Taking Action on the Finance Commission Agency Heads' Fiscal Year 2014 Mid-Term Accomplishment Reports.

Office of Consumer Credit Commissioner

Commissioner Pettijohn provided an overview of the progress on the agency's priorities for FY14. She highlighted areas within the motor vehicle sales finance and the credit access businesses (CAB) examination process.

The Commissioner continued with an update of the regulatory and CAB licensing areas. The implementation and project goals of the new online licensing and registration system were also discussed.

Commissioner Pettijohn highlighted the accomplishments and objectives for the Texas Financial Education Endowment Fund. She concluded her report with discussion of the agency's stakeholder outreach and communication efforts. The agency continues to be very active in this area and to work closely with the targeted audience groups.

Department of Banking

Commissioner Cooper provided an overview of the progress on the agency's priorities for FY14. He continued with a discussion of the agency's state and national legislative activities.

The Commissioner highlighted the regulatory activities noting the examination activity and enforcement action areas. He commented on Stephanie Newberg being the President of the Money Transmitter Regulators Association (MTRA), and the positive relationships the agency has established at the national supervisory levels.

Department of Savings and Mortgage Lending

Commissioner Foster provided an overview of progress on the agency's priorities for FY14. He continued by highlighting the objectives and goals for the departments legislative agenda.

The Commissioner summarized the two areas where the agency's lack of statutory and legislative authority within mortgage servicers and mortgage banker entities. These shortfalls in supervisory authority will lead to requested legislative changes in 2015, and have been previously discussed in both the prior Finance Commission meeting and with the agency's Mortgage Industry Advisory Committee.

He commented on the lack of coordination and participation with the Attorney General's Mortgage Fraud Task Force to expedite a final resolution of regulatory concerns.

Commissioner Foster summarized the objectives and goals within the licensing area to ensure compliance, accuracy and needed penalty assessment for the Mortgage Call Reports (MCR).

Stacy London made a motion that the Finance Commission accept the Finance Commission Agencies' Fiscal Year 2014 Mid-Term Accomplishment Reports. Larry Patton seconded and the motion was adopted.

Discussion of the Report of the Financial Condition of the State Banking System. (Bound separately from the packet)

Chairman White commended the Texas Department of Banking on the educational and informative report.

Bob Bacon provided an overview of the March 2014 Texas State Banking System report. He highlighted the condition of the state bank system and compared it to previous years while discussing the general improvement of the industry.

There was discussion among members with Bob Bacon and Commissioner Cooper addressing the questions.

Office of Consumer Credit Commissioner

Industry Status and Departmental Operations:

Commissioner Pettijohn discussed the agency's executive summary report and highlighted the first six months results of the examination and enforcement areas. The monies returned to consumers through the examination and restitution process was also discussed.

The Commissioner provided an update of the consumer protection activities while providing an overview and comparison of examinations between September 2013- February 2014. She noted the agency's production hours and agency staff training to assist with the examinations process. She discussed the continued and significant improvement and acceptable levels of compliance within all examinations.

Commissioner Pettijohn highlighted the investigations completion report and assessed pending issues in the enforcement actions area. She discussed the standard complaints report noting an increase in complaints from law enforcement relating to pawn shop descriptions of pledged merchandise. A notable

decline in complaints within the motor vehicle sales financing area was also discussed. There was discussion among members with Commissioner Pettijohn addressing the questions.

The Commissioner summarized the licensing report commenting on the strength and growth within the regulated lender and motor vehicle sales financing areas. A significant decline of mortgage loan originators licenses was also addressed.

She discussed the CAB report and noted possible upcoming rulemaking actions from the Consumer Financial Protection Bureau (CFPB) regarding payday lending. There was discussion among members with Commissioner Pettijohn and Karl Hubenthal addressing the questions.

Commissioner Pettijohn continued with an update and progress report of the agency's information and technology projects. She discussed her agency's participation along with other state agencies at a forum related to cybersecurity issues sponsored by the Department of Information Resources (DIR) . A new requirement that all state agencies file a very detailed security plan with DIR is mandated by the middle of October 2014. She also stated that the agency continues to receive positive user feedback regarding the new (ALECS) online portal system.

The Commissioner provided an overview of the strategic planning process and stakeholder group participation. She commented on the request from the Crafted Precious Metals Dealer Stakeholders focus group to meet and discuss the effective regulation of the industry.

She continued with an update of the agency's human resources report highlighting the staffing and employee data.

The Commissioner concluded her discussion by providing an overview of the legal report and highlighting the agency's enforcement actions.

Discussion of and Possible Vote to Take Action on the Publication for Comment of Proposed Amendments to 7 TAC, Chapter 83, Subchapter A, Concerning Rules for Regulated Lenders, Resulting from Rule Review.

Laurie Hobbs provided an overview of the proposed rule.

Will Lucas made a motion to approve the Publication for Comment of Proposed Amendments to 7 TAC, Chapter 83, Subchapter A, Concerning Rules for Regulated Lenders, Resulting from Rule Review.

Jay Shands seconded and the motion was adopted.

Department of Banking

Industry Status and Department Operations:

Commissioner Cooper provided an overview of banking administrative actions and the agency's compliance with examination priorities.

The Commissioner continued with a summary of the CAMEL ratings noting the total number of banks is now 282, continuing to decline primarily due to bank consolidations. Problem banks have been reduced currently to 15, and this continues to be a positive trend within the banking industry. He commented that currently there were two FDIC past due bank examinations.

Commissioner Cooper discussed the agency's participation in the annual Conference of State Bank Supervisors (CSBS) Legislative Fly-in conference held in Washington, D.C. There were 37 states represented at the conference making legislative contacts.

The Commissioner gave an update on the 2013 Rate the Department Survey and noted almost all responses reflected positive feedback or comments from the supervised banking entities.

Commissioner Cooper provided an overview of the agency's corporate activities and detailed the applications for mergers and conversions. There have been four banks convert from a national bank charter to a state bank charter.

The Commissioner provided an update of the special audit division activities report. He summarized the department's past due examination report noting a decrease in delinquent examinations.

Commissioner Cooper introduced Daniel Wood. Mr. Wood provided a summary of the digital money and network payment process. There was discussion among members regarding the virtual currency system with Mr. Wood and Commissioner Cooper addressing the questions.

Commissioner Cooper provided an overview of strategic support and other divisional activity items. He commented on the launch of the agency's redesigned website and also mentioned the upcoming financial literacy webinar.

The Commissioner further reported on the agency's staffing while providing current employee hiring data information. He introduced the agency's new General Counsel Catherine Reyer and announced the promotion of Debby Loomis to Deputy General Counsel.

Debby Loomis concluded the discussion by providing an update on the legal division report.

Discussion of and Possible Vote to Take Action on the Proposal and Publication for Comment of Amendments to 7 TAC §25.1, Concerning Prepaid Funeral Contract Forms – Definitions.

Debby Loomis provided an overview of the proposed rule.

Jay Shands made a motion to approve the Publication for Comment of Proposed Amendments to 7 TAC §25.1, Concerning Prepaid Funeral Contract Forms – Definitions. Will Lucas seconded and the motion was adopted.

Department of Savings and Mortgage Lending

Industry Status and Departmental Operations:

Commissioner Foster provided an overview of the agency's executive summary report while highlighting the improvements within the CAMELS ratings. He further reported on the continual improving industry conditions and discussed the thrift assessment chart with current calculations.

The Commissioner provided a summary of the residential mortgage loan originators activity report. He discussed the legislative authority for mortgage entities regarding changes in filing mortgage call reports. The agency may now block renewals for a company license and assess administrative penalties due to not filing timely reports. There continues to be a trend of receiving over 500 new license applications with the department consecutively reaching these total numbers for the past thirty months, which has led to higher than anticipated revenue levels.

He continued with an update on the mortgage examinations area reporting the number had decreased compared to fiscal year 2013, although the number of individual licensees covered had increased by 30%.

Commissioner Foster provided an overview of the consumer complaints area and reported an increase to 62% of total complaints within mortgage servicing. The agency will now send out a satisfaction survey every 60 days, which significantly increases the consumer complaints response rate.

The Commissioner highlighted the recent Mortgage Industry Advisory Committee meeting held on March 19, 2014, and commented on the discussion of suggestions for penalty assessments.

Commissioner Foster concluded his discussion by providing an overview of the agency's performance and efficiency measures.

Finance Commission Matters (Continued)

Chairman White called for an Executive Session at 11:18 a.m.

Chairman White reconvened the Open Meeting of the Finance Commission at 11:46 p.m.

Discussion of and Possible Action Regarding Personnel Matters Pursuant to Section 551.074, Texas Government Code: Deliberations with Respect to the Duties of a Person Holding the Position of Executive Director of the Finance Commission, Deliberations with Respect to the Duties of Persons Holding the Position of Agency Commissioner Positions, and Other Staff.

There was discussion with voting on the agenda item.

Stacy London made a motion to grant authority to the ad hoc search committee and/or Chair of the Finance Commission to negotiate as appropriate with final candidates to extend the Texas Department of Savings and Mortgage Lending Commissioner employment offer. Susan Burton seconded and the motion was adopted.

Jay Shands made a motion that the Executive Director's compensation of \$12,000 for each fiscal year (or \$1,000 per month) move with the position change to Commissioner Cooper, effective May 1, 2014. Susan Burton seconded and the motion was adopted.

Discussion of and Possible Action Regarding Facility Planning and Real Property Matters Pursuant to Section 551.072, Texas Government Code: Deliberations Regarding the Purchase, Exchange, Lease or Value of Real Property.

There was no discussion or vote on the agenda item.

Discussion of and Possible Action Regarding Anticipated and Pending Litigation Pursuant to Section 551.071, Texas Government Code, for the purpose of seeking the advice or attorney-client privileged communications from our attorneys regarding pending and contemplated litigation.

There was no discussion or vote on the agenda item.

There being no further business, Commission Chairman Bill White adjourned the meeting of the Finance Commission at 11: 48 a.m.

Bill White, Chairman
Finance Commission of Texas

Doug Foster, Executive Director of the
Finance Commission of Texas

Tammy Wooten, Executive Assistant
Finance Commission of Texas