

FINANCE COMMISSION OF TEXAS
AUDIT COMMITTEE MEETING

Friday, August 21, 2015
8:00 a.m.

Finance Commission Building
William F. Aldridge Hearing Room,
2601 N. Lamar Blvd.
Austin, Texas 78705

Public comment on any agenda item or issue under the jurisdiction of the Finance Commission agencies is allowed unless the comment is in reference to a rule proposal for which the public comment period has ended. However, upon majority vote of the Commission, public comment may be allowed related to final rule adoption.

- A. Review and Approval of Minutes of the June 19, 2015, Audit Committee Meeting
- B. Audit Committee Review of Agencies' Activities
- C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' May 31, 2015 Investment Officer Reports
 - 1. Texas Department of Banking
 - 2. Department of Savings and Mortgage Lending
 - 3. Office of Consumer Credit Commissioner
- D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's 2015 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Office of Consumer Credit Commissioner's 2015 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2015 Third Quarter Financial Statements
 - 1. Texas Department of Banking
 - 2. Department of Savings and Mortgage Lending
 - 3. Office of Consumer Credit Commissioner
- G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2016 Operating Budgets
 - 1. Texas Department of Banking
 - 2. Department of Savings and Mortgage Lending
 - 3. Office of Consumer Credit Commissioner

NOTE: The Audit Committee may go into executive session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551.

Meeting Accessibility: Under the Americans with Disabilities Act, the Finance Commission will accommodate special needs. Those requesting auxiliary aids or services should notify the Texas Department of Banking, 2601 North Lamar Boulevard, Austin, Texas 78705, (512) 936-6222, as far in advance of the meeting as possible. 1

- H. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action to Approve an Amount for the Upcoming 2016-17 Grant Cycle for the Texas Financial Education Endowment Fund

- I. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Revised Texas Financial Education Endowment Fund Grant Administration & Advisory Policy Manual, 2016-17 Funding Priorities, and New Grant Advisory Committee Member

NOTE: The Audit Committee may go into executive session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551.

Meeting Accessibility: Under the Americans with Disabilities Act, the Finance Commission will accommodate special needs. Those requesting auxiliary aids or services should notify the Texas Department of Banking, 2601 North Lamar Boulevard, Austin, Texas 78705, (512) 936-6222, as far in advance of the meeting as possible.

**MINUTES OF THE
AUDIT COMMITTEE MEETING
Friday, June 19, 2015
8:30 a.m.**

The Audit Committee of the Finance Commission of Texas convened at 8:30 a.m. on June 19, 2015, with the following members present: Audit Committee Chair Cindy Lyons, Lori McCool, Susan Burton, and Larry Patton.

Audit Committee Chair Lyons announced that there was a quorum of the Audit Committee of the Finance Commission of Texas with four members present. *(1:00 on audio file)*.

| AGENDA ITEM | ACTION | LOCATION ON AUDIO FILE |
|--|---|---|
| A. Review and Approval of Minutes of the April 17, 2015, Audit Committee Meeting | Susan Burton made a motion to approve the minutes. Larry Patton seconded and the motion passed. | 1:30 start of discussion 1:46 vote |
| B. Audit Committee Review of Agencies' Activities | No Action Required | 2:18 start of discussion |
| C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Revisions to the Investment Policy for: 1. Department of Savings and Mortgage Lending 2. Office of Consumer Credit Commissioner 3. Texas Department of Banking | Lori McCool made a motion to approve the Agencies' Revisions to the respective Investment Policies. Susan Burton seconded and the motion passed. | 5:14 start of discussion 11:05 vote |
| D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Banking's 2015 Annual Internal Audit Report including the Audit of the Revenue Accounting Process as Prepared and Presented by Garza/Gonzalez and Associates | Lori McCool made a motion to approve the Department of Banking's 2015 Annual Internal Audit Report including the Audit of the Revenue Accounting Process as Prepared and Presented by Garza/Gonzalez and Associates. Larry Patton seconded and the motion passed. | 11:35 start of discussion 21:50 vote |

| | | |
|---|--|--|
| <p>E. Discussion of and Possible Vote to Recommend that the Finance Commission approve to Extend the Internal Auditor Contract for Garza/Gonzalez and Associates through Fiscal Year 2016</p> | <p>Lori McCool made a motion to approve to Extend the Internal Auditor Contract for Garza/Gonzalez and Associates through Fiscal Year 2016. Susan Burton seconded and the motion passed.</p> | <p>22:21 start of discussion 27:52 vote</p> |
| <p>F. Report on Activities Relating to the Texas Financial Education Endowment Fund</p> | <p>No Action Required</p> | <p>28:40 start of discussion</p> |

There being no further business of the Audit Committee of the Finance Commission of Texas, Chair Cindy Lyons adjourned the meeting at 8:29 a.m. (29.30 on audio file).

Cindy Lyons, Chair of the Audit Committee
Finance Commission of Texas

Charles G. Cooper, Executive Director
Finance Commission of Texas

Anne Benites, Executive Assistant
Finance Commission of Texas

**Texas Department of Banking
Outstanding Audit Findings Report as of August 2015**

The agency has no outstanding audit issues.

**Texas Department of Savings and Mortgage Lending
Outstanding Audit Issues Report as of July 31, 2015**

| | | |
|---|---|-------------------|
| Auditor | Garza/Gonzales | Audit Report Date |
| Audit Area | Mortgage Examinations | 5/26/2015 |
| Recommendation | Status Update | |
| Strengthen controls to ensure examinations are performed in a timely manner | Completed. Processes and procedures updated to ensure timely examinations. | |

Outstanding Audit Findings Report as of 8/1/2015

| | | |
|--|---|-------------------|
| Auditor | Garza / Gonzalez & Associates | Audit Report Date |
| Audit Area | Professional Licensing | Jun-14 |
| Finding | Status Update | |
| Implement a quality control review process in which RMLO and Pawnshop Employee applications received are sampled and reviewed on a periodic basis. | <p><i>In progress.</i> The agency has modified its procedure to include a second level of review to address the finding. The agency is continuing to study whether a quality control process would be a more efficient and appropriate procedure. While the agency believes that it has addressed the finding, consideration of the recommendation is ongoing with a determination anticipated by December 2015.</p> | |

This page left blank intentionally.

**Trust Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
March 1, 2015 to May 31, 2015**

| <u>Book Value at February 28, 2015</u> | <u>Interest Income Received</u> | <u>Trustee Fees Paid</u> | <u>(1) Other Deductions</u> | <u>(2) Other Additions</u> | <u>Book/Market Value at May 31, 2015</u> | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Accrued Interest on CDs</u> |
|--|---------------------------------|--------------------------|-----------------------------|----------------------------|--|----------------------|----------------------|--------------------------------|
| \$1,290,671.37 | \$1,552.60 | \$45.53 | \$8,328.38 | \$3,990.00 | \$1,287,840.06 | -- | -- | \$1,065.72 |

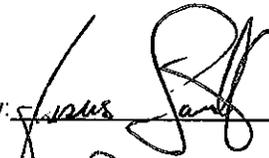
Trust Account Balances at Trustee/Depositories

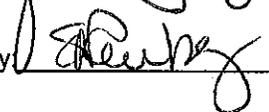
| | | | | |
|--|---------------------|------------|-------|----------|
| Texas Treasury Safekeeping Trust Company * | \$318,543.77 | 6/1/2015 | 0.06% | |
| First Bank and Trust of Childress (CD) | \$240,000.00 | 12/11/2015 | 0.85% | \$168.81 |
| First State Bank of Yoakum (CD) | \$240,000.00 | 12/17/2015 | 0.85% | \$407.91 |
| Citizens State Bank, Buffalo, TX (CD) | \$245,703.11 | 12/26/2015 | 0.97% | \$489.00 |
| Pilgrim Bank (money market) | <u>\$243,593.18</u> | n/a | 0.63% | |
| Subtotal | \$1,287,840.06 | | | |

(1) Other deductions include: (a) \$8,328.38 Guaranty Fund claim paid to servicing funeral home Allcorn Funeral and Cremation Services related to two PFCs sold by Tom G. Walker Funeral Home.

(2) Other additions include: (a) \$600.00 restitution received from Lonnie D. Wright; (b) \$300.00 restitution received from Mr. Dan L. Brothers; (c) \$1,490.00 restitution received from Mr. Kevin Keeney; (d) \$1,500.00 received from Mr. Marc Gonzalez; (e) and \$100.00 received from DJ Turner.

Note: * These funds are held at the Texas Treasury Safekeeping Trust Company in overnight repurchase agreements. The above investments are in compliance with the investment strategies of Administrative Memorandum 2016.

Prepared By:  Date: 6/17/15

Reviewed By:  Date: 6/17/15

**Insurance-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
March 1, 2015 to May 31, 2015**

| <u>Book Value at February 28, 2015</u> | <u>Interest Income Received</u> | <u>Trustee Fees Paid</u> | <u>Other Deductions</u> | ⁽¹⁾ <u>Other Additions</u> | <u>Book/Market Value at May 31, 2015</u> | <u>Maturity Date</u> | <u>Interest Rate</u> |
|--|-------------------------------------|------------------------------|-----------------------------|--|--|--------------------------|--------------------------|
| \$277,632.06 | \$36.59 | \$42.68 | | \$52,670.00 | \$330,295.97 | 1-Jun-2015 | 0.06% |

(1) Other additions include assessments collected from permit holders on new insurance-funded contracts.

Note: These funds are held at the Texas Treasury Safekeeping Trust Company in overnight repurchase agreements.
The above investments are in compliance with the investment strategies of Administrative Memorandum 2016.

Prepared By:  Date: 6/17/15

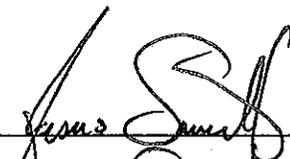
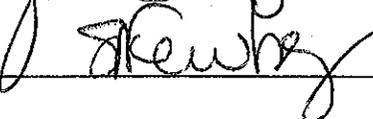
Reviewed By:  Date: 6/17/15

| | Book <u>Value at February 28, 2015</u> | Interest Income <u>Received</u> | Trustee <u>Fees Paid</u> | Other <u>Deductions</u> | 1 Other <u>Additions</u> | Book <u>Value at May 31, 2015</u> |
|--|---|------------------------------------|-----------------------------|----------------------------|--------------------------------|--------------------------------------|
| Seized Prepaid Funeral Funds | | | | | | |
| Shaw's Funeral Home, Inc., PFC Number 1076 | | | | | \$38,244.02 | \$38,244.05 |
| Total Seized Funds | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$38,244.02 | \$38,244.02 |

Notes:

1. The records and funds related to Permit Number 1076 were seized as a result of the funeral home going-out-of-business and not being able to service its outstanding PFCs. Agreed Order Number 2015-010 issued on April 29, 2015 ordered the seizure of the funds and records of the PFCs. The depository was advised on the same day. On June 12, 2015, an invitation to bid on the PFCs sold by Shaw's Funeral Home, Inc. was sent to area funeral homes. The bid deadline for funeral homes to respond is July 6, 2015.

The above investments are in compliance with the investment strategies of Administrative Memorandum 2027.

Prepared By: 
 Reviewed By: 

Date: 6/17/15
 Date: 6/17/15

Department of Banking Quarterly Investment Report
 March 1, 2015 to May 31, 2015

| | <u>Book Value at May 31, 2015</u> | <u>Trustee</u> | <u>Investment Type</u> | <u>Maturity Date</u> | <u>Interest Rate</u> |
|--|---------------------------------------|---------------------------|----------------------------|--------------------------|--------------------------|
| Seized Prepaid Funeral Funds | | | | | |
| Shaw's Funeral Home, Inc., PFC Number 1076 | \$38,244.02 | Legend Bank, Bowie, Texas | savings | 6/1/2015 | 0.05% |
| Total Seized Funds | \$38,244.02 | | | | |

Texas Department of Savings and Mortgage Lending
Mortgage Recovery Trust Fund

Investment Officer Report as of May 31, 2015

Current Investments/Securities as of May 31, 2015

| Purchase Date | Beginning Market Value | Ending Market Value | Accrued Interest - Estimated | Interest Rate | Maturity Date | Description | Fin. Institution |
|---------------|------------------------|---------------------|------------------------------|---------------|---------------|----------------|-------------------------------|
| 6/14/2013 | 247,277.58 | 251,890.35 | 1,267.85 | 1.20% | 6/14/2015 | CD - 24 months | Pioneer Bank SSB |
| 9/5/2013 | 244,097.34 | 244,951.68 | 638.24 | 0.35% | 9/5/2015 | CD - 24 months | Austin Capital SSB |
| 10/2/2013 | 250,000.00 | 250,000.00 | 1,840.97 | 1.10% | 10/2/2015 | CD - 24 months | Cypress Bank SSB |
| 12/13/2013 | 240,000.00 | 240,000.00 | 2,848.00 | 0.80% | 12/13/2015 | CD - 24 months | First Fed Community Bank, SSB |
| 12/15/2013 | 246,271.00 | 248,891.54 | 452.50 | 0.85% | 12/15/2015 | CD - 24 months | Spirit of Texas, SSB |
| 2/4/2014 | 248,867.74 | 251,231.98 | 769.05 | 0.95% | 2/4/2016 | CD - 24 months | Third Coast Bank SSB |
| 6/15/2014 | 245,093.07 | 247,671.91 | - | 1.14% | 6/15/2016 | CD - 24 months | TrustTexas Bank SSB |
| 4/17/2014 | 248,443.47 | 250,937.24 | 320.64 | 1.00% | 4/17/2016 | CD - 24 months | South Star Bank SSB |
| 8/4/2014 | 240,000.00 | 240,000.00 | 107.33 | 0.70% | 8/4/2016 | CD - 24 months | First Bank SSB |
| 4/9/2015 | 245,000.00 | 245,000.00 | 353.89 | 1.00% | 10/9/2016 | CD - 18 months | Capital Bank |
| 10/15/2014 | 249,285.91 | 250,530.48 | 320.12 | 1.00% | 10/15/2017 | CD - 24 months | Texas Star Bank SSB |
| 10/18/2014 | 249,786.42 | 250,000.00 | 571.18 | 1.75% | 10/18/2016 | CD - 24 months | Dalhart Federal Savings |
| 1/31/2015 | 250,000.00 | 250,000.00 | 144.44 | 0.80% | 1/31/2015 | CD - 24 months | Horizon Bank SSB |
| 4/7/2015 | 240,000.00 | 240,000.00 | 378.00 | 1.05% | 4/7/2017 | CD - 24 months | Triumph SSB |
| 4/29/2015 | 240,000.00 | 240,000.00 | 42.67 | 0.20% | 4/29/2017 | CD - 24 months | Angelina Savings Bank |
| Totals | 3,684,122.53 | 3,701,105.18 | 10,054.88 | | | | |

Texas Department of Savings and Mortgage Lending

Mortgage Recovery Trust Fund

Investment Officer Report as of May 31, 2015 (continued)

| Fund Position for the Quarter Ended May 31, 2015 | | Claim Payment History | | |
|---|------------------------|-----------------------|------------------------|----------------------|
| Beginning Cash Balance as of February 28, 2015 | \$ 268,533.57 | Fiscal Year | Total Amount \$ | # of Payments |
| Receipts | | 2000-2006 | 121,243.68 | 5 |
| Licensees' Remittances | 17,850.00 | 2007 | 87,824.08 | 4 |
| Interest from CDs | 2,666.28 | 2008 | 25,488.14 | 3 |
| Interest from overnight repos | 26.47 | 2009 | 100,000.00 | 10 |
| CD - Principal and Interest - Maturity | 260,569.08 | 2010 | 147,033.52 | 16 |
| Total Received | \$ 281,111.83 | 2011 | 22,225.00 | 5 |
| Disbursements | | 2012 | 1,300.00 | 1 |
| CD - Purchase | (485,000.00) | 2013 | 1,465.13 | 1 |
| Transfer of excess to Operating Fund | - | 2014 | - | 0 |
| Bank Fees and Charges | (43.13) | 2015 | - | 0 |
| Total Disbursed | \$ (485,043.13) | Totals | 506,579.55 | 45 |
| Total Cash Balance in Trust and Treasury | 64,602.27 | | | |
| Reserve | | | | |
| Reserved for Potential Payment of Claims w/in 90 days | \$ (28,042.50) | | | |
| Available Cash Balance as of May 31, 2015 | 36,559.77 | | | |
| Total Amount of Investments | 3,701,105.18 | | | |
| Accrued Receivables | 10,514.88 | | | |
| Accrued Payables | - | | | |
| Fund Balance as of May 31, 2015 | \$ 3,776,222.33 | | | |



Antonia Antov, Investment Officer

6/25/2015

Date

Investment Position: The Fund is capable of meeting all known obligations.
 Investment Compliance: The Department's Investment Policy has been followed.

**Office of Consumer Credit Commissioner
Fiscal Year 2015 - 3rd Quarter**

Residential Mortgage Loan Originator Recovery Trust Fund #3008

| Beginning Balance at 03/01/15 | Additions | Interest Paid | Paid Claims | Paid Bank Fees | Ending Balance at 05/31/15 | Current Interest Rate |
|----------------------------------|-------------|---------------|-------------|-------------------|-------------------------------|--------------------------|
| \$ 119,342.64 | \$ 1,025.00 | \$ 14.22 | \$ - | \$ (13.74) | \$ 120,368.12 | .06% |

Investment Officer: Christina Cuellar

Date: 7/31/15

Reviewed By: 

Date: 7.22.15

Note: These funds are held at the Texas Treasury Safekeeping Trust Company in overnight repurchase agreements.
The above investments are in compliance with the agency's investment policy.

Office of Consumer Credit Commissioner
Fiscal Year 2015 - 3rd Quarter

Texas Financial Education Endowment Fund #3071

| | Beginning Balance at 03/01/15 | Additions | Interest Paid | Transfers | Grant Disbursements | Paid Bank Fees | Ending Balance at 05/31/15 | Current Interest Rate |
|---------------------------------|----------------------------------|--------------------|---------------------|----------------------|------------------------|----------------------|-------------------------------|--------------------------|
| Cash | \$ 1,677,037.77 | \$ 3,462.12 | \$ 132.14 | \$ (500,000.00) | \$ (94,931.00) | \$ (462.12) | \$ 1,085,238.91 | .06% |
| Invested Portfolio | Beginning Balance at 03/01/15 | Additions | Change in Value | Transfers | | Paid Fees | Ending Balance at 05/31/15 | |
| Investments - STIF | \$ 36,070.29 | \$ 1,818.76 | \$ 14,124.04 | \$ - | \$ - | \$ (1,499.45) | \$ 50,513.64 | |
| Interest & Dividends Receivable | 2.59 | | 1.21 | | | | 3.80 | |
| Trade Receivables | - | | 329.69 | | | | 329.69 | |
| Investments - Equities | 28,005.44 | | 1,589.45 | | | | 29,594.89 | |
| Investments - Alternatives | 1,317,025.44 | | 14,706.75 | 500,000.00 | | | 1,831,732.19 | |
| Investments - Fixed Income | 155,289.04 | | 6,586.30 | | | | 161,875.34 | |
| Invested Portfolio | \$ 1,536,392.80 | \$ 1,818.76 | \$ 37,337.44 | \$ 500,000.00 | \$ - | \$ (1,499.45) | \$ 2,074,049.55 | |
| Total Endowment Funds | \$ 3,213,430.57 | | | | | | \$ 3,159,288.46 | |

Note: These funds are invested with the Texas Treasury Safekeeping Trust Company.
The above investments are in compliance with the agency's investment policy.

Investment Officer: Christina Cuellar

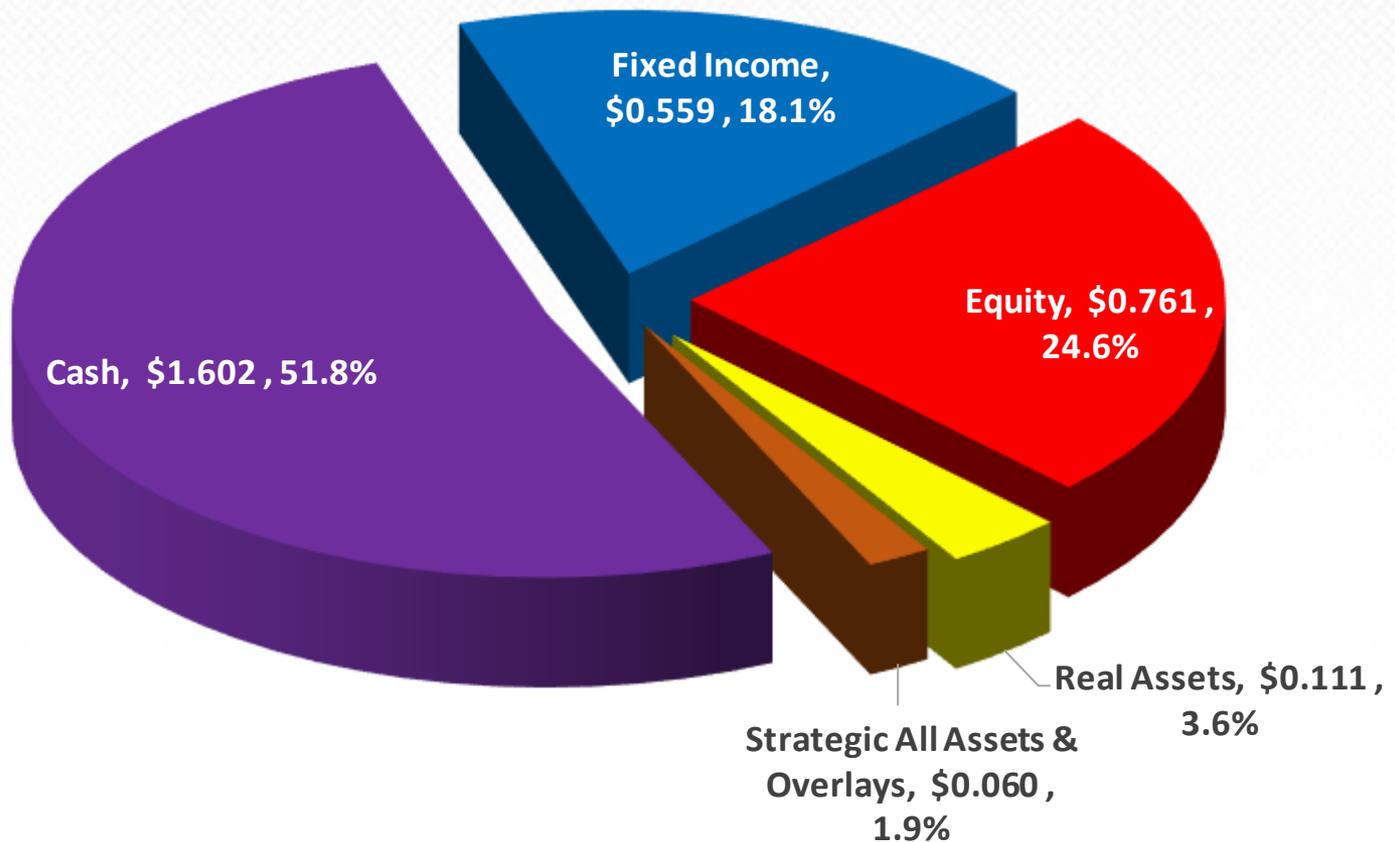
Date: 8/10/15

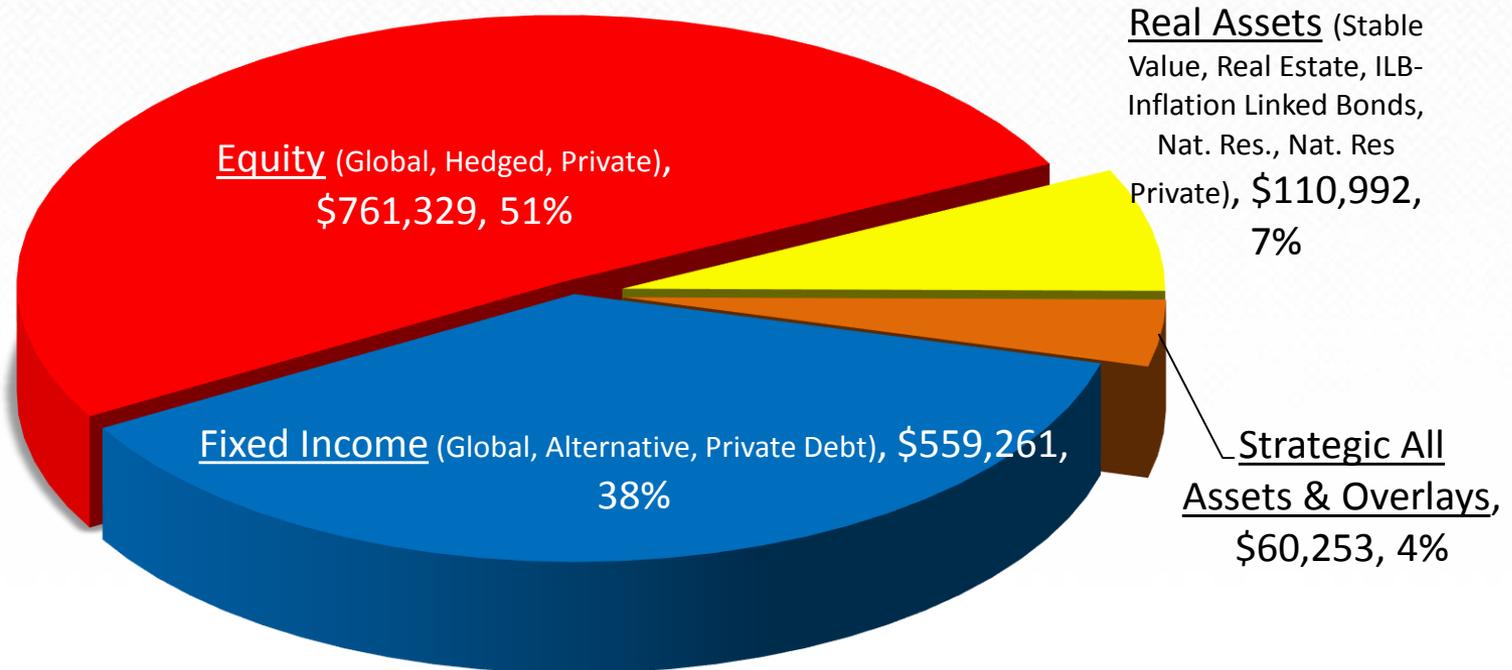
Reviewed By: [Signature]

Date: 8.10.15

Texas Financial Education Endowment Holdings as of 12/31/2014

Total Endowment \$3.093 M



Invested Portfolio \$1.491 M

Total TFEE Endowment \$3.093M
Cash \$1.602 M

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2015



DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2015

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| Internal Auditor's Report..... | 1 |
| Introduction..... | 2 |
| Internal Audit Objectives..... | 3 |
| Executive Summary | |
| Mortgage Examinations | |
| Background..... | 4-7 |
| Audit Scope/Objective..... | 7 |
| I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information | 8 |
| II. Internal Audit Plan for Fiscal Year 2015 | 8-9 |
| III. Consulting and Nonaudit Services Completed | 9 |
| IV. External Quality Assurance Review | 9 |
| V. Observations/Findings and Recommendations | 10-11 |
| VI. Proposed Internal Audit Plan for Fiscal Year 2016..... | 12 |
| VII. External Audit Services Procured in Fiscal Year 2015..... | 12 |
| VIII. Reporting Suspected Fraud and Abuse | 12 |
| IX. Organizational Chart | 13 |

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and
Audit Committee Members
Department of Savings and Mortgage Lending
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the internal control structure over the Mortgage Examinations Area of the Department of Savings and Mortgage Lending (SML); and, its compliance with the Texas Finance Code, the Texas Administrative Code, and SML's established policies and procedures, as applicable to the Mortgage Examinations Area for the 7 months ended March 31, 2015.

The results of our tests disclosed that such controls were adequate and no material instances of noncompliance were noted; however, we noted a certain matter which is included in this report, that is an opportunity for strengthening internal controls and ensuring compliance with SML's established policies and procedures. We also performed a follow-up of the findings that were presented in the prior year annual internal audit report and this report reflects the implementation status of those matters; and, includes all information required for the Annual Internal Audit Report.

We have discussed the comments and recommendations from the Mortgage Examinations Area audit; and, the implementation status from the follow-up performed, with various SML personnel; and, will be pleased to discuss them in further detail; to perform an additional study of these matters; or, to assist you in implementing the recommendations.

*Garza/Gonzalez
& Associates*

May 26, 2015

INTRODUCTION

The Department of Savings and Mortgage Lending (SML) has 2 key areas of regulatory responsibility, the chartering, regulation and supervision of the state's thrift industry; and, the licensing/registration and regulation of the state's mortgage industry. These 2 areas of responsibility cover the vast majority of residential mortgage lending in Texas.

The 58th and 73rd Legislatures, respectively, enacted the Texas Savings and Loan Act and the Texas Savings Bank Act for the chartering, regulation, examination and supervision of state chartered savings banks and savings and loan associations and enforcement of these statutes.

The 76th Legislature enacted the Mortgage Broker License Act for licensing and regulation of first lien residential mortgage brokers and loan officers doing business in Texas. The statute, as amended by the 80th Legislature, applies to all residential mortgages regardless of lien position. The statute prescribes requirements for licensing and inspecting licensees, and processing consumer complaints.

The 78th Legislature enacted the Mortgage Banker Registration Act for registering mortgage bankers conducting business in Texas and providing their borrowers with notice of the process for filing consumer complaints.

The 81st Legislature enacted the Texas SAFE Act (Chapter 180) and other significant modifications to Chapters 156 and 157 of the Texas Finance Code. Compliance with the federal mandates addressed by this legislation expanded the field of individuals subject to residential mortgage licensing.

The 82nd Legislature enacted Senate Bill 17 creating Chapter 158 of the Texas Finance Code calling for the registration of non-depository third party residential mortgage loan servicers. The statute authorizes SML to require registrants to carry a bond or equivalent, and to notify borrowers whose loans they service of the borrower's ability to file a complaint with SML. Additionally, the statute authorized SML to investigate any such complaints. SML is not authorized to initiate examinations of servicing registrants but may participate in multistate examinations.

SML was granted Self-Directed, Semi Independent (SDSI) status in the 81st Legislative Session. As an SDSI agency, SML is not required to have its budget approved by the Legislature; however, the Finance Commission is responsible for setting SML's spending authority or limits. SML's entire operating funds are generated from fees assessed to regulated entities and are used to fund both direct and indirect costs. General revenue funds are not used to support SML's operations.

2015 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in SML's approved 2015 Internal Audit Plan:

- Mortgage Examinations Area
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of our audit of the Mortgage Examinations Area, reflects the follow-up performed in the current year, and meets the Annual Internal Audit Report requirements.

INTERNAL AUDIT OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of SML's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope included the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations, and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

EXECUTIVE SUMMARY

BACKGROUND

Mortgage Examinations Area (Area)

The Department of Savings and Mortgage Lending (SML) promotes compliance of mortgage companies, mortgage bankers, and their sponsored Residential Mortgage Loan Originators (RMLO), with the requirements of various guidelines of consumer protection laws and regulations; such as, the Residential Mortgage Loan Company Licensing and Registration Act, the Real Estate Settlement Procedures Act (RESPA), the Truth in Lending Act (TILA), the Equal Credit Opportunity Act (ECOA), the Fair Credit Reporting Act (FCRA), the Bank Secrecy Act (BSA), and the Gramm-Leah-Bliley Act (GLBA), through supervisory and outreach programs. To promote such compliance, SML conducts three types of supervisory activities, which include compliance examinations, investigations; and, visitations, with compliance examinations being the activity most commonly used. Investigations and visitations are not a common practice and none were conducted during the period from September 1, 2014 through March 31, 2015.

The Area is managed by the Chief Mortgage Examiner and is comprised of one (1) administrative assistant, eleven (11) field examiners, and one (1) Regional Team Leader.

Compliance Examinations

The scheduling of compliance examinations is based on a risk-focused approach that incorporates the consideration of various factors; such as, compliance rating receive on the last compliance examination, consumer complaints, inconsistent licensing information, inaccurate advertising, and the volume of production. Scheduling of compliance examinations is a 2-tier process, where the first step involves the Chief Mortgage Examiner determining, through the risk-focused approach, those mortgage companies, bankers and RMLOs requiring an examination and sending the list to the Regional Team Leader. The second step in the scheduling process is performed by the Regional Team Leader who assigns the individual examinations to the field examiners. Below is the current examination cycle:

| <u>Prior Exam Rating</u> | <u>Examination Cycle</u> |
|--------------------------|--------------------------|
| 5 | 12 months |
| 4 | 18 months |
| 3 | 30 months |
| 2 | 36 months |
| 1 | 48 months |

Compliance examinations may be full-scope or limited-scope. Limited-scope compliance examinations may be performed when mortgage companies, bankers and RMLOs report a cumulative total of fewer than 3 closed loans on the Mortgage Call Reports (MCRs) within 24 months of initial licensure. The Area did not perform any limited-scope compliance examinations during the period from September 1, 2014 to March 31, 2015. Initial full-scope examinations are performed when mortgage companies, bankers and RMLOs report a cumulative total of 3 or more closed loans on the MCRs and are required to be performed within 6 months of reporting the loan closings. The Area performed 225 full-scope compliance examinations; to include, initial examinations and re-examinations, during the period from September 1, 2014 to March 31, 2015.

A full-scope compliance examination involves the following 4 stages:

1. Pre-examination planning and analysis – Performed by the administrative assistant and involves gathering information available in SML records and databases, and preparing an Examination Notification letter, which documents the date and time of the scheduled examination, and an Initial Information Request. Both are sent to the mortgage company's qualifying individual (QI) or mortgage banker's bank representative.
2. On-site examination – Performed by field examiners and involves completion of an Application Compliance Worksheet for each of the loan files selected for examination. A minimum of 5 loans per RMLO, with no maximum; a maximum of 50 per mortgage company, with no minimum; and, a maximum of 250 per mortgage banker, with no minimum, may be selected for examination. Field examiners document an explanation in the Report of Examination (ROE) for the number of loans selected for examination.
3. Reaching conclusions – Performed by field examiners and involves completion of a Summary of Answers Worksheet to summarize the findings of the compliance examination, which include the strengths and weakness of a mortgage company, banker, or RMLO's compliance with relevant laws and regulations.
4. Communicating findings – Performed by field examiners and involves the assignment of a compliance rating to the examination based on the results, discussion of findings and recommendations with the QI or bank representative; and, if needed, obtaining a commitment for action. The ROE is also prepared, which formally communicates the results of the compliance examination.

The ROE is comprised of the following elements:

- Scope of the examination
- Compliance rating
- Loan sample
- Summary and detail of significant violations
- Compliance program and management of the program
- Discussion summary of the exit meeting regarding examiner findings and conclusions
- Management's response to findings with proposed corrective actions (if needed)

SML has adopted, with slight modifications, the compliance rating system established by the Federal Financial Institution Regulatory Agencies, as follows:

- One – Mortgage companies, bankers, and RMLOs in this category are in *strong* compliance position. There is sufficient knowledge of applicable state and federal statutes and regulations, and adequate staff for effectuating compliance;
- Two – Mortgage companies, bankers, and RMLOs in this category are in a *satisfactory* compliance position. Although there are isolated instances of violations, there are no significant issues; and, there is sufficient knowledge of applicable state and federal statutes and regulations, and adequate staff for effectuating compliance;

- Three – Mortgage companies, bankers, and RMLOs in this category are in a *less than satisfactory* compliance position. There is a cause for supervisory concern and require more than normal supervision to remedy deficiencies;
- Four – Mortgage companies, bankers, and RMLOs in this category *require close supervisory attention and monitoring* to promptly correct the serious compliance problems and numerous violations that are present; and,
- Five – Mortgage companies, bankers, and RMLOs in this category are *in need of the strongest supervisory attention and monitoring* for the noncompliance issues identified with consumer laws and regulations.

Upon completion of the ROE by field examiners, an electronic copy, along with the respective workpapers are uploaded to SML's intranet, for access by the administrative assistant. Field examiners are expected to submit ROEs and workpapers within 24 days of the exam start date, per established performance measures. However, due to the high volume of loans processed, bankers and their sponsored RMLOs are provided more flexibility for compliance with the 24-day measure and are not required to provide a response when the completion date exceeds 24 days.

Each ROE is reviewed by the administrative assistant for grammatical, editing, and formatting errors, on a first in, first out, basis. ROEs requiring significant revisions are returned to the respective field examiner for him/her to make the necessary changes.

All ROEs are reviewed by the Chief Examiner and upon completion of his review, a final signed ROE draft with a cover letter and a copy of the Mortgage Company Compliance Examination Rating System, is sent to the QI or bank representative.

If deemed necessary, the Chief Examiner will prepare a Request for Administrative Order for compliance examinations assigned a 4 or 5 compliance rating. The Request for Administrative Order is provided to the Enforcement Division, who is responsible for issuing the Administrative Order; and, if necessary, assessing a penalty. The Administrative Order is signed by SML's Commissioner and issued in conjunction with the ROE.

In accordance with established performance measures, field examiners are required to complete a minimum number of examinations on a quarterly basis, as follows:

| | |
|--|-------------|
| Full Scope Examinations per Quarter | 26 |
| Files turned per Quarter | 195 |
| Limited Scope Examinations per Quarter | as assigned |

Note: 3 limited scope examinations equates to 1 full scope examination

Field examiners (after one year of employment) who fail to meet the above measures, are required to submit a written response to the Chief Mortgage Examiner, explaining the reason(s) for the deficiency and to provide corrective measures to be taken, if needed. If a field examiner does not submit such a response, he/she will be placed on a 6-month probation and will be subjected to more frequent review and monitoring.

Field Examiner Training

Financial examiners have been given a goal of meeting a minimum of 40 hours or 5 days of training per fiscal year. Goals may be met by any combination of available training; including, mandatory, external, in-house, or web; and, attendance at job-related conferences, group meetings of professional organizations, other state agencies, and business groups held during working hours. Training records are maintained by the Chief Mortgage Examiner, who reviews them annually.

Audit Scope/Objective

The scope of our audit was the Mortgage Examinations Area (Area). The objective of our audit was to gain an understanding of the processes and controls in place over the intake, performance, and completion mortgage examinations to determine whether they provide reasonable assurance that the applicable statutes, rules, policies, and procedures are consistently applied.

The procedures performed to achieve the objective of our audit were as follows:

1. Reviewed and obtained an understanding of the laws and regulations provided in the Texas Finance Code and Texas Administrative Code, as applicable to the Area.
2. Obtained and reviewed the Area's written policies and procedures, collected available documentation, and conducted interviews to document formal/informal processes and controls.
3. Obtained a listing of completed full-scope examinations performed for mortgage companies, bankers, and RMLOs during the period from September 1, 2014 to March 31, 2015 and haphazardly selected 15 examinations from the listing to test for the following attributes –
 - a. Ensured the number of months between examination dates was within the prescribed examination cycle, using the prior examination rating as the basis.
 - b. Ensured an Examination Notification letter and Initial Information Request was sent to the mortgage banker's bank representative or the mortgage company's QI prior to examination.
 - c. Ensured the required minimum number of 5 RMLO loan files were reviewed.
 - d. Ensured workpapers were complete.
 - e. Ensured the Application Compliance Worksheet was signed by the field examiner, and QI or bank representative.
 - f. Ensured the ROE was completed within 24 days of the exam start date and signed by the Chief Examiner.
 - g. Ensured an administrative order was issued and penalty assessed for examinations assigned a 4 or 5 compliance rating.
4. Obtained the fiscal year 2015 1st and 2nd quarter reports of examinations completed and ensured performance measures related to the Area were met.
5. Obtained the training records for the period from September 1, 2014 to March 31, 2015 and ensured that the minimum required training hours were obtained by each field examiner.

I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information

To comply with the provisions of Texas Government Code, 2102.015 and the State Auditor’s Office, within 30 days after approval by the Finance Commission, SML will post the following information on its website:

- An approved fiscal year 2016 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2015 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The internal audit annual report includes any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor as well as the summary of the action taken by SML to address such concerns.

II. Internal Audit Plan for Fiscal Year 2015

The Internal Audit Plan (Plan) included one audit to be performed during the 2015 fiscal year. The Plan also included a follow-up of the prior year audit recommendations, as applicable, other tasks as may be assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2015.

Risk Assessment

Utilizing information obtained through the inquiries and background information reviewed, 14 audit areas were identified as potential audit topics. A risk analysis utilizing our 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

Following are the results of the risk assessment performed for the 14 potential audit topics identified:

| HIGH RISK | MODERATE RISK | LOW RISK |
|--|--|---|
| Legal and Enforcement Payroll and Human Resources | Fixed Assets Mortgage Examinations Thrift Examinations Revenue Accounting Process Purchasing and Travel Thrift Supervision and Compliance | Management Information Systems Records Management Consumer Protection Mortgage Licensing Risk Management Financial Reporting |

In the prior 3 years, internal audits were performed in the following areas:

Fiscal Year 2014:

- Consumer Protection

Fiscal Year 2013:

- Thrift Supervision and Compliance

Fiscal Year 2012:

- Mortgage Licensing

The area recommended for internal audit and other tasks to be performed for fiscal year 2015 were as follows:

| <u>Report No.</u> | <u>Audits/Report Titles</u> | <u>Report Date</u> |
|-------------------|--|--------------------|
| 1. | Mortgage Examinations | 5/26/2015 |
| 1. | Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits | 5/26/2015 |
| - | Other Tasks Assigned by the Finance Commission | None |

III. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards, December 2011 Revision*, Sections 3.33-3.58.

IV. External Quality Assurance Review

The internal audit department's most recent *System Review Report*, dated October 26, 2012, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

V. Observations/Findings and Recommendations

| Report No. | Report Date | Name of Report | Observations/Findings and Recommendations | Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other) | Fiscal Impact/Other Impact |
|------------|-------------|-----------------------|--|---|--|
| 1 | 5/26/2015 | Mortgage Examinations | <p>1. Scheduling of Mortgage Examinations</p> <p>Mortgage examinations are required to be performed within a certain time period, dependent on their prior compliance examination rating, as prescribed in the respective Exam Manual. Of the 15 compliance examinations tested, 1 mortgage banker examination was performed 4 months later than required; and, 1 mortgage company examination was performed 5 months later than required.</p> <p>Recommendation We recommend that SML strengthen their controls to ensure that examinations are performed in a timely manner, as prescribed by procedures documented in the Area's Exam Manual(s).</p> <p>Management's Response Management agrees with the one finding that two examinations exceeded the Department's re-examination policy. The Department's re-examination policy is self-imposed and is more rigorous than most state regulatory standards. The CSBS/AAMRMR Performance Standards Committee best practices recommendation is the examinations should occur a minimum of every 60 months.</p> <p>The Department will strengthen controls to ensure that examinations are performed in accordance with established policy and procedures.</p> | | To ensure examinations are performed in accordance with established policies and procedures. |

VI. Proposed Internal Audit Plan for Fiscal Year 2016

The risk assessment performed during the 2015 fiscal year was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2016. The Internal Audit Plan for Fiscal Year 2016 will be developed and presented to the Finance Commission at a meeting to be determined at a later date.

- Legal and Enforcement
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

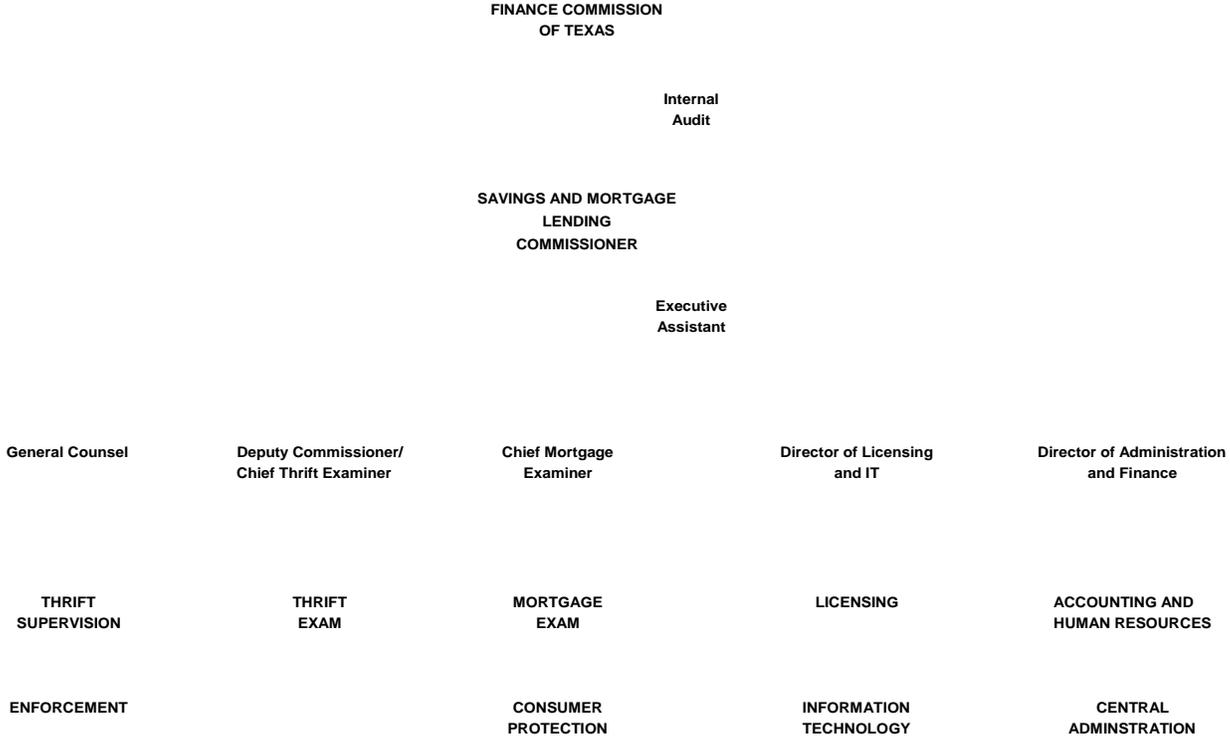
VII. External Audit Services Procured in Fiscal Year 2015

SML procured the internal audit services documented in the Internal Audit Plan for fiscal year 2015.

VIII. Reporting Suspected Fraud and Abuse

SML has provided information on their home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. SML has also developed a Fraud Prevention Policy that provides information on how to report suspected fraud.

IX. Organizational Chart



This page left blank intentionally.

OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2015



TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Internal Auditor’s Report | 1 |
| Introduction | 2 |
| Internal Audit Objectives. | 3 |
| Executive Summary | |
| Texas Financial Education Endowment Fund | |
| Background. | 4-8 |
| Audit Scope/Objective. | 9-10 |
| I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information | 10 |
| II. Internal Audit Plan for Fiscal Year 2015 | 10-11 |
| III. Consulting and Nonaudit Services Completed..... | 12 |
| IV. External Quality Assurance Review..... | 12 |
| V. Observations/Findings and Recommendations. | 13-15 |
| VI. Proposed Internal Audit Plan for Fiscal Year 2016 | 16 |
| VII. External Audit Services Procured in Fiscal Year 2015..... | 16 |
| VIII. Reporting Suspected Fraud and Abuse..... | 16 |
| IX. Organizational Chart | 17 |

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS



Finance Commission Members and
Audit Committee Members
Office of Consumer Credit Commissioner
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the internal control structure over the Texas Financial Education Endowment (TFEE) Fund of the Office of Consumer Credit Commissioner (OCCC); and, its compliance with the Texas Finance Code, and OCCC's established policies and procedures, as applicable to the TFEE Fund, for the 7 months ended March 31, 2015.

The results of our tests disclosed that such controls were adequate and no material instances of noncompliance were noted; however, we noted certain matters, which are included in this report, that are opportunities for strengthening internal controls and ensuring compliance with state requirements and OCCC's established policies and procedures. We also performed a follow-up of the findings that were presented in the prior year annual internal audit report and this report reflects the implementation status of those matters; and, includes all information required for the Annual Internal Audit Report.

We have discussed the comments and recommendations from the TFEE Fund audit; and, the implementation status from the follow-up performed, with various OCCC personnel, and we will be pleased to discuss them in further detail; to perform an additional study of these matters; or, to assist you in implementing the recommendations.

A handwritten signature in black ink that reads "Garza/Gonzalez & Associates".

May 20, 2015

INTRODUCTION

The Office of Consumer Credit Commissioner (OCCC) operates pursuant to Texas Finance Code, §14.001, and under the oversight of the Texas Finance Commission, who appoints the consumer credit commissioner. OCCC has authority to regulate consumer credit transactions and interest rates in Texas, offers protection to consumers, coordinates educational efforts aimed at consumers and industry alike, and advises lenders on compliance issues.

OCCC's primary task is to license and examine finance companies, home equity and junior lien mortgage lenders, residential mortgage loan originators, payday lenders, signature loan companies, motor vehicle sales finance companies, property tax lien lenders, and pawnshops. Pawnshop employees must also be licensed.

OCCC was granted Self-Directed, Semi Independent (SDSI) status in the 81st Legislative Session. As an SDSI agency, OCCC is not required to have their budget approved by the Legislature; however, the Finance Commission is responsible for setting OCCC's spending authority or limits. OCCC's entire operating funds are generated from fees assessed to the businesses it supervises and are used to fund both direct and indirect costs. General revenue funds are not used to support OCCC's operations.

2015 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in OCCC's approved 2015 Internal Audit Plan:

- Texas Financial Education Endowment Fund
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of our audit of the Texas Financial Education Endowment Fund, reflects the follow-up performed in the current year, and meets the Annual Internal Audit Report requirements.

INTERNAL AUDIT OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of OCCC's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope included the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

EXECUTIVE SUMMARY

BACKGROUND

Texas Financial Education Endowment Fund

In 2011, the 82nd Legislature enacted the Texas Financial Education Endowment (TFEE) Fund to be administered by the Finance Commission of Texas, through OCCC, to support statewide programs that would improve consumer credit, provide financial education, and asset-building opportunities. To comply with this mandate, on January 1, 2012, OCCC established the TFEE Fund, which in accordance with Texas Finance Code §393.628, is funded with annual assessment fees collected from credit access businesses (CABs) or CAB license holders.

TFEE Grant Program

Organizational Structure

OCCC implemented the TFEE grant program to award funds, from the TFEE Fund, to organizations that promote, provide, or support financial education or financial literacy initiatives. The TFEE grant program is administered by OCCC, the Grant Advisory Commission (GAC), and the Finance Commission. The Financial Literacy, Credit Education & Public Information Division (Division) at OCCC is responsible for managing the TFEE grant program, and is comprised of a Grant Coordinator, who is supervised by the Director of Strategic Communications, Administration, and Planning (Director), and reports directly to the Commissioner.

The Grant Coordinator makes presentations to the GAC and the Finance Commission regarding grant activity and acts as the liaison between grantees and the GAC. The GAC, who serves in an advisory role to the Grant Coordinator and the Finance Commission, is comprised of 7 members; to include, 2 members of the Finance Commission, and 5 members from various backgrounds in the financial literacy field. The GAC evaluates grant proposals, for recommendation to the Finance Commission, and oversees the development of the TFEE grant program.

Grant Awards

Successful applicants of the TFEE grant program must demonstrate evidence-based programming that increases financial capacity and promotes asset building. The TFEE grant program is a multi-year program; thus, grant awards may be made in 2-year cycles, but grant allocations are funded annually, based on performance and reporting compliance. In fiscal year 2014, the Finance Commission approved a total of \$250,000 from the TFEE Fund to be allocated for the fiscal year 2014-2016 TFEE grant awards.

Applicants interested in a TFEE grant award, are required to complete an application, which is available on the TFEE website. Along with the application, a checklist is provided to assist the applicant with ensuring all documents are submitted. Applications may be submitted online and by mail to the OCCC Grant Coordinator.

The Grant Coordinator and the Executive Assistant perform an initial review of the grant applications to determine eligibility, using the application checklist to ensure all required documents are submitted with the application. Applications with missing documentation or not signed by the organization's authorized individual, are deemed *ineligible* during the initial review process.

The Grant Coordinator and the Executive Assistant log each *eligible* application into a spreadsheet to document the date received, organization and program name, contact information, amount requested by applicant, and whether it is to provide an adult or youth education program. They then assign each *eligible* application an application number.

Fiscal Year 2014-2016 TFEE Grant Awards

Although a number of applications were received by the October 15, 2013 deadline, a total of 33 *eligible* applications (after initial review) were logged into the spreadsheet. Of the 33 applications, 6 were deemed ineligible due to failure to meet the minimum qualifications, and the remaining 27 provided to the GAC for review.

The 27 applications were reviewed by the GAC, the Grant Coordinator and the Executive Assistant. As part of the review process, each application was scored using a 5-point scale, on the following eight components:

1. Alignment with TFEE Objectives – how well does the program support or address one or more of the TFEE objectives.
2. Experience/Effectiveness – evidence of ability to administer funds and implement programs to achieve predicted impact.
3. Value and Program Innovation – long-term, tangible improvements in financial health and use of innovative methods.
4. Target Population – experience reaching this audience; does program and experience meet the TFEE desired populations.
5. Outcomes – clearly defined and achievable objectives and activities and merit of the stated outcomes.
6. Evaluation & Measurement Strategy – clearly defined progress indicators and the ability to objectively measure results.
7. Program Budget & Funding – how realistic is the program budget and how valuable is designated use of desired funds.
8. Sustainability – does the grant help build a program that can be sustained beyond the grant cycle.

Applications with the “highest” overall average total (score) were selected by the GAC for recommendation to the Finance Commission; and, on December 13, 2013, the Finance Commission approved the recommendation to award grants to the following 8 organizations:

1. Financial Mentors of America, Houston - *Game of Real Life*, \$35,000 (2 Year)
2. Independent Bankers Association of Texas Education Foundation, Austin - *IBAT Teach the Teacher Program*, \$30,000 (2 Year)
3. Texas Council on Economic Education, Houston - *Smarter Texas*, \$35,000 (1 Year)
4. Foundation Communities, Austin - *Financial Coaching Program*, \$35,000 (2 Year)
5. United Way of Tarrant County, Ft. Worth – *Financial Education and Coaching*, \$30,000 (1 Year)
6. Goodwill Industries of Central East Texas, Inc., Lufkin - *Workforce Development "Good Sense" Services*, \$25,000 (2 Year)
7. Society of St. Vincent de Paul – Diocesan Council of Austin - *Loan Conversion Program*, \$30,000 (2 Year)
8. Texas State Affordable Housing Corporation - *Texas Statewide Homebuyer Education Program*, \$30,000 (1 Year)

Funding for 1-year grants is for the period January 1, 2014 to December 31, 2014 and for 2-year grants, from January 1, 2014 to December 31, 2015. Award letters, signed by the Commissioner, along with the grant agreement, were sent to the 8 applicants that were approved for grant awards; while, regret letters were sent to the remaining applicants.

Each grant agreement was signed, as required, by the Commissioner and the grantee.

Grantee Reporting

At the request of the GAC, grantees are required to submit a Semi-Annual Grant Report, which reflects the following:

- Quarterly Financial and Program Progress -- number of people served
- Annual Performance and Outcomes Report – budget-to-actual and demographics of people served

To facilitate the reporting requirements, grantees were provided with a checklist to ensure complete and accurate reports were submitted. The Semi-Annual Grant Reports were due June 30, 2014 and December 31, 2014.

In addition to the Semi-Annual Grant Report, the *Grant Program and Advisory Policy* requires that each grantee submit a Longitudinal Follow-up Report, which reports the assessment of consumer behavior and program impact 6 months to one year, upon program completion. As of March 31, 2015, grantees had not submitted Longitudinal Follow-up Reports.

Reimbursement Request

As part of the Semi-Annual Grant Report, grantees were allowed to submit an Expense Reimbursement Request Form for expenditures incurred. The grant agreement(s) define unallowable expenditures; therefore, to be approved for reimbursement, proof of payment (stamped paid invoices or receipts) for all allowable expenditures is required to be submitted with the Expense Reimbursement Request Form.

TFEE Fund

As indicated above, the TFEE Fund is funded with annual assessment fees collected from credit access businesses (CABs) or CAB license holders. Of the \$800 annual assessment fee collected from CABs, \$200 is designated for the TFEE Fund and accounted for separately in OCCC's general ledger. On a monthly basis, the amount recorded in OCCC's general ledger, as collected for the TFEE Fund, is transferred to the TFEE Fund, which is held at the Texas Treasury Safekeeping Trust Company (TTSTC). TTSTC requires that the 2 authorized individuals, the Accounting Manager and the Commissioner, approve the transfer of funds. These 2 individuals have a bank password and safe key, which are required to make transfers. Based on the imbedded controls of each password, the Accounting Manager prepares the transfer while the Commissioner confirms and finalizes it.

Upon receipt of an Expense Reimbursement Request Form from a grantee, approved by the Director, the Accounting Manager will transfer funds from the cash and cash equivalents TTSTC account to a Private Purpose Trust Fund, as established by the Comptroller, which is used to disburse TFEE funds.

On February 15, 2013, the Finance Commission approved the investment of \$1,400,000 of the funds on deposit in the TFEE Fund at TTSTC into the Endowment Program at TTSTC. The funds in the Endowment Program are invested in a diversified manner designed to preserve the purchasing power of the TFEE Fund's assets and provide a stable and growing distribution to beneficiaries. Per the TTSTC website, the investment objectives of the Endowment Program is to earn a long-term annual rate of return of 8.0% to provide a predictable, stable stream of distribution; ensure that the inflation-adjusted value of distributions is maintained over the long-term; and ensure that the inflation-adjusted value of the corpus after distributions is maintained over the long-term. On a periodic basis, the Commissioner will review TFEE Fund's cash equivalent account balance and determine if funds should be transferred for investment in the TFEE Fund's Endowment Program.

The Accounting Manager prepares quarterly TFEE investment reports which are reviewed and approved by the Commissioner before being presented to the Finance Commission. The TFEE investment reports and show fees deposited, interest earned, grant payments made, and bank fees paid.

The following table reflects the cash, cash equivalents, and investment balances in the TFEE Fund at the end of each fiscal year through August 31, 2014, since its inception, and as of March 31, 2015, the latest information available for the fiscal year ended August 31, 2015.

| TTSTC | August 31, 2012 | August 31, 2013 | August 31, 2014 | March 31, 2015 |
|--|----------------------------|----------------------------|----------------------------|---------------------------|
| Cash & Cash Equivalents | | | | |
| Repurchase Agreement | \$ 700,382.01 | \$ 458,870.92 | \$ 1,167,288.47 | \$ 1,119,746.40 |
| Total | \$ 700,382.01 | \$ 458,870.92 | \$ 1,167,288.47 | \$ 1,119,746.40 |
| Investments – Endowment Program | | | | |
| U.S. Government Agency Obligations | \$ - | \$ 32,461.08 | \$ 54,360.45 | \$ 60,849.56 |
| Equity | - | 31,557.82 | 36,428.25 | 35,500.57 |
| Alternative Investments | - | 1,187,566.94 | 1,271,910.74 | 1,731,006.86 |
| Fixed Income | - | 140,572.48 | 167,574.58 | 203,877.28 |
| Total | \$ - | \$ 1,392,158.32 | \$ 1,530,274.02 | \$ 2,031,234.27 |

Audit Scope/Objective

The scope of our audit was the Texas Financial Education Endowment (TFEE) Fund. The objective of our audit was to gain an understanding of the processes and controls in place over the TFEE Fund to determine whether it is being managed in accordance with applicable rules and regulations and established policies and procedures.

The procedures performed to achieve the objective of our audit were as follows:

1. Reviewed and obtained an understanding of the rules, laws and regulations of the Texas Finance Code (TFC), as applicable to the TFEE Fund.
2. Obtained and reviewed the TFEE Fund's written policies and procedures, collected documentation, and conducted interviews to document the formal/informal processes and controls over the TFEE Fund.
3. Obtained statements from the TTSTC for various months to support the establishment and existence of the TFEE Fund account and to confirm account balances.
4. Selected 5 months throughout the existence of the TFEE Fund and obtained the monthly reconciliations, as prepared by the Accountant, to test the following attributes:
 - a. Agreed to bank statement;
 - b. Agreed to general ledger; and,
 - c. Reviewed and approved by the Accounting Manager.
5. Obtained a listing of grant applications received as part of the fiscal year 2014 grant award process, and randomly selected 10 applications to test the following attributes:
 - a. Application was submitted before the October 15, 2013 deadline;
 - b. Application was complete and contained all the required documents as listed on the application checklist;
 - c. A scoring matrix was completed for each application and included a total score, which we recomputed; and
 - d. An award or regret letter, as applicable, was sent to each applicant.
6. From the 8 organizations that were awarded a TFEE grant, as part of the fiscal year 2014-2016 grant award process, we randomly selected 4 grant recipients to test the following attributes:
 - a. Finance Commission approved the organization to receive a grant award;
 - b. Grant agreement was signed by the Commissioner and the grantee;
 - c. Expense Reimbursement Request Forms were properly signed, supported, and Included only allowable expenditures; and,
 - d. Reimbursement was disbursed from the TFEE Fund.
7. Obtained the Semi-Annual Grant Reports submitted by the 4 grantees that were randomly selected for testing above, and ensured they were submitted by the due date, as reflected in the grant agreement, and contained all required information.

8. Obtained a listing of annual assessment fees collected from CAB licensees for the 7 months ended March 31, 2015, and ensured the proper amount was transferred to the TFEE Fund.
9. Agreed TFEE Fund's balances reported in the Annual Financial Report for fiscal years 2012, 2013, and 2014 to the August bank statement for the respective fiscal year.
10. Obtained the 2 quarterly TFEE investment reports prepared in fiscal year 2015 and 3 prepared in fiscal year 2014, and ensured the following:
 - a. Amount reported agreed to the bank statement; and,
 - b. Reports were signed by the Investment Officer, and approved by the Commissioner.

I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information

To comply with the provisions of Texas Government Code 2102.015 and the State Auditor's Office, within 30 days of approval by the Finance Commission, OCCC will post the following information on its website:

- An approved fiscal year 2016 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2015 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The internal audit annual report includes any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor as well as the summary of the action taken by OCCC to address such concerns.

II. Internal Audit Plan for Fiscal Year 2015

The Internal Audit Plan (Plan) included one audit to be performed during the 2015 fiscal year. The Plan also included a follow-up of the prior year audit recommendations, other tasks as may be assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2015.

Risk Assessment

Utilizing information obtained through the inquiries and background information reviewed, 17 audit areas were identified as the potential audit topics. A risk analysis utilizing our 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

Following are the results of the risk assessment performed for the 17 potential audit topics identified:

| HIGH RISK | MODERATE RISK | LOW RISK |
|--|------------------------|---|
| Texas Financial Education Endowment Fund | Fiscal Division | Human Resources |
| Property Tax Lender Examinations | Regulated Examinations | Records Management |
| Motor Vehicle Sales Finance Examinations | Pawn Examinations | Business Licensing |
| Billing and Collection of Fees | Registration | Professional Licensing (Pawnshop Employees & MLO) |
| | Fixed Assets | Credit Access Business Examinations |
| | | Complaint Investigations |
| | | Management Information Systems |
| | | Risk Management |

In the prior 3 years, internal audits were performed in the following areas:

Fiscal Year 2014:

- Professional Licensing

Fiscal Year 2013:

- Credit Access Business Examinations

Fiscal Year 2012:

- Complaint Investigations

The areas recommended for internal audits and other tasks to be performed for fiscal year 2015 were as follows:

| Report No. | Audits/Report Titles | Report Date |
|-------------------|--|--------------------|
| 1. | Texas Financial Education Endowment Fund | 5/20/2015 |
| 1. | Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits | 5/20/2015 |
| - | Other Tasks Assigned by the Finance Commission | None |

III. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards, December 2011 Revision*, Sections 3.33-3.58.

IV. External Quality Assurance Review

The internal audit department's most recent *System Review Report*, dated October 26, 2012, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

V. Observations/Findings and Recommendations

| Report No. | Report Date | Name of Report | Observations/ Findings and Recommendations | Current Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other) | Fiscal Impact/Other Impact |
|------------|-------------|----------------|---|---|--|
| 1 | 5/20/2015 | TFEE Fund | <p>1. Policies and Procedures</p> <ul style="list-style-type: none"> • The reporting requirements, as reflected in the TFEE Fund's policies and procedures, differ from instructions provided in the grant agreements and followed by the grantees. As such, the current practice is for grantees to submit only one semi-annual grant report instead of 2 different reports, which were due quarterly and annually. • The TFEE Fund's policies and procedures state that applications with the highest overall average total (score) are those recommended for TFEE grant awards; however, guidance is not provided for a situation where applicants may receive the same score. • The TFEE Fund's policies and procedures state that OCCC will conduct a follow-up 6 months to one year after program completion to assess the program impact. However, procedures have not yet been developed to perform this function. <p>Recommendation We recommend OCCC, with guidance from the GAC, revise the TFEE Fund's policies and procedures to reflect current practices in place and to include guidance for issues and requirements not currently addressed.</p> <p>Management's Response OCCC recognizes the value in ensuring policies and procedures are complete and accurate and prior to this audit, the Grant Coordinator (GC) had already begun drafting amendments to the program policies for improvement.</p> <p>Amendments reflecting these recommendations along with other recommended policy changes will be submitted to the GAC for review and ultimately approved by the Audit and Finance Committee prior to awarding of the upcoming 2016-17 grant cycle.</p> | | To ensure policies and procedures are complete, accurate, and reflect OCCC's current practices in place. |

| Report No. | Report Date | Name of Report | Observations/ Findings and Recommendations | Current Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other) | Fiscal Impact/Other Impact |
|------------|-------------|----------------|---|---|--|
| 1 | 5/20/2015 | TFEE Fund | <p>2. Grant Award Amounts</p> <p>As part of the 2014–2016 grant award process, 8 organizations were awarded grants ranging in amounts from \$25,000 to \$30,000. However, we were not provided with the basis used to determine the allocation of the amounts to the 8 different organizations.</p> <p>Recommendation We recommend that the rationale used in determining the allocation of grants awarded to various applicants be documented to provide evidence that it was done in a systematic and rational manner.</p> <p>Management’s Response The amount grantees could request ranged from \$5,000 to \$40,000. Each of the grantees that were selected requested \$40,000; however, the total fund amount was \$250,000. In an effort to fund more programs, the GAC decided to grant more programs at a lesser amount than requested.</p> <p>For future grant cycles, GC will document the rationale for which funds are allocated for each grantee. In addition, GAC will determine fund allocations based on “<i>the proposed grantees application with its ability and scope to reach the most consumers, and evaluate community and statewide impact.</i>” This process is consistent with the way organizations with identical scores are evaluated.</p> <p>Amendments reflecting these changes will be submitted to the GAC for review and ultimately approved by the Audit and Finance Committee prior to awarding of the upcoming 2016-17 grant cycle.</p> | | To provide evidence that grants are awarded in a systematic and rational manner. |

VI. Proposed Internal Audit Plan for Fiscal Year 2016

The risk assessment performed during the 2015 fiscal year was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2016. The Internal Audit Plan for Fiscal Year 2016 will be developed and presented to the Finance Commission at a meeting to be determined at a later date.

- Property Tax Lender Examinations
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

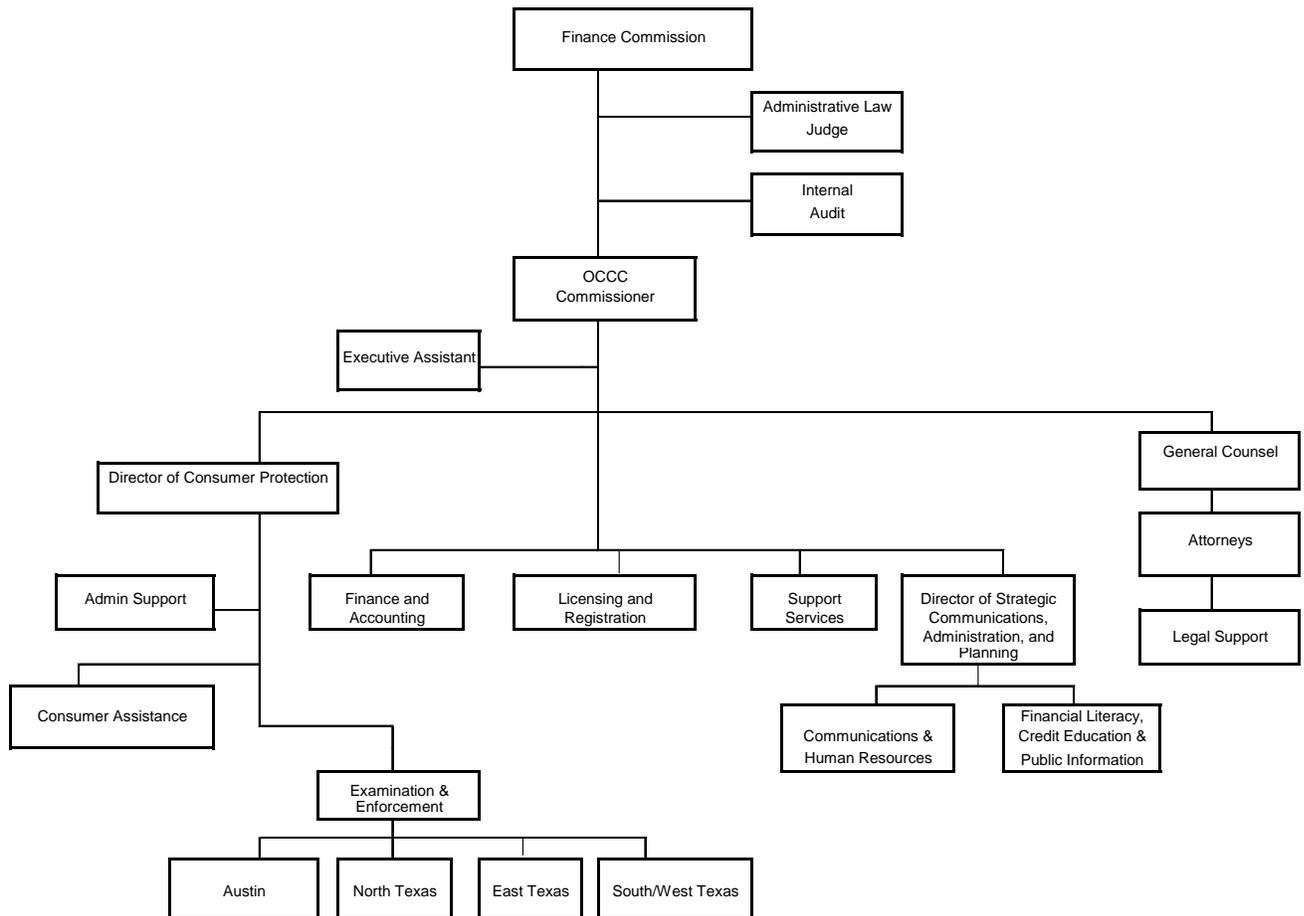
VII. External Audit Services Procured in Fiscal Year 2015

OCCC procured the internal audit services documented in the Internal Audit Plan for fiscal year 2015.

VIII. Reporting Suspected Fraud and Abuse

OCCC has provided information on their home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. OCCC has also developed a Fraud Policy that provides information on how to report suspected fraud.

IX. Organizational Chart



OFFICE OF CONSUMER CREDIT COMMISSIONER
Annual Internal Audit Report
Fiscal Year 2015

Finance Commission Members and
Audit Committee Members
Office of Consumer Credit Commissioner
Austin, Texas

We are providing the following observation for information purposes only, as it relates to our audit of the Texas Financial Education Endowment (TFEE) Fund.

Observation (Investments)

The TFEE Fund is administered by the Finance Commission and is one of 13 endowment funds managed by the Texas Treasury Safekeeping Trust Company (TTSTC). Under 393.638 of the Texas Finance Code, the funds are to be deposited with TTSTC and amounts in the account may be invested and reinvested in the same manner as funds of the Employees Retirement System of Texas.

Our review of the TTSTC website indicated that TTSTC adheres to 3 investment objectives, which are: (1) preservation of capital and protection of principal, (2) maintenance of sufficient liquidity to meet the operating needs, and (3) maximization of return. Our review also indicated that the TFEE investment objective is to earn a long-term annual rate-of-return of 8.0%. We note that a significant amount of the fund is invested in alternative investments, which generally do not have a readily available and determinable fair value and; therefore, are of higher risk than other types of investments since estimated fair values could differ materially from a readily available and determinable fair value. As such, they may result in losses that could have a negative impact to the TFEE Fund.

Management's Response

TFEE funds are invested in a diversified manner designed to preserve the purchasing power of the funds' assets and also to provide a stable and growing distribution to the fund. The TFEE fund currently has half of its funds in investments while the other half is cash. Because TFEE is an endowment, long-term goals were setup in order for the fund to exist for an infinite period of time. And since the TFEE fund does not require the distribution of cash on a daily basis, the funds were specifically setup to be invested and grow with time. By doing so, it helps ensure that the endowment fund investments earn enough to maintain the spending policy. Moving forward, the Finance Commission will be provided with more detailed asset allocation information on an annual basis to review the diversification of the endowment funds.


May 20, 2015

**Texas Department of Banking
Operating Statement and Budget Analysis
For Period Ending May 2015**

| | FY 2014 ACTUAL | FY 2015 BUDGET | QUARTER PERFORMANCE | | | | FY 2015 PERFORMANCE | | | | |
|---|------------------------|------------------------|-----------------------|-----------------------|------------------------|-------------------|------------------------|------------------------|------------------------|-------------------|--|
| | | | 3rd Quarter BUDGET | 3rd Quarter ACTUAL | (OVER)/UNDER BUDGET | PERCENT BUDGET | YTD BUDGET | YTD ACTUAL | (OVER)/UNDER BUDGET | PERCENT BUDGET | |
| REVENUE: | | | | | | | | | | | |
| Bank & Trust Regulation | \$22,629,774.91 | \$22,675,128.00 | \$5,535,618.00 | \$5,671,699.49 | (\$136,081.49) | 102.5% | \$16,902,721.00 | \$16,918,509.66 | (\$15,788.66) | 100.1% | |
| Nonbank Regulation | 2,738,492.14 | 2,855,678.23 | 454,055.00 | 601,542.62 | (147,487.62) | 132.5% | 2,321,875.80 | 2,702,384.04 | (380,508.24) | 116.4% | |
| Miscellaneous Revenues | 10,911.72 | 7,560.00 | 1,640.00 | 2,859.74 | (1,219.74) | 174.4% | 5,420.00 | 7,773.84 | (2,353.84) | 143.4% | |
| TOTAL REVENUES: | \$25,379,178.77 | \$25,538,366.23 | \$5,991,313.00 | \$6,276,101.85 | (\$284,788.85) | 104.8% | \$19,230,016.80 | \$19,628,667.54 | (\$398,650.74) | 102.1% | |
| EXPENDITURES: | | | | | | | | | | | |
| Salaries and Wages | | | | | | | | | | | |
| Exempt Salaries | \$224,683.34 | \$233,007.96 | \$58,251.99 | \$57,250.00 | \$1,001.99 | 98.3% | \$174,755.97 | \$173,750.00 | \$1,005.97 | 99.4% | |
| Classified Salaries | 15,340,173.83 | 16,396,119.26 | 4,170,982.21 | 3,962,086.01 | 208,896.20 | 95.0% | 12,100,488.44 | 11,851,613.87 | 248,874.57 | 97.9% | |
| Longevity | 196,880.00 | 207,000.00 | 52,920.00 | 51,620.00 | 1,300.00 | 97.5% | 153,940.00 | 153,940.00 | (860.00) | 100.6% | |
| Other | 241,741.88 | 209,859.95 | 32,481.49 | 69,748.05 | (37,266.56) | 214.7% | 70,369.21 | 135,592.79 | (65,223.58) | 192.7% | |
| Payroll Health Ins/Retire Contrib | 215,476.94 | 248,267.66 | 63,438.51 | 57,934.43 | 5,504.08 | 91.3% | 184,128.67 | 171,662.88 | 12,465.79 | 93.2% | |
| | \$16,218,955.99 | \$17,294,254.83 | \$4,378,074.20 | \$4,198,638.49 | \$179,435.71 | 95.9% | \$12,682,822.29 | \$12,486,559.54 | \$196,262.75 | 98.5% | |
| Travel | | | | | | | | | | | |
| In-State | \$1,497,385.37 | \$1,583,275.06 | \$437,689.28 | \$351,724.13 | \$85,965.15 | 80.4% | \$1,104,308.42 | \$973,580.95 | \$130,727.47 | 88.2% | |
| Out-of-State | 560,051.71 | 639,734.00 | 170,573.00 | 169,271.73 | 1,301.27 | 99.2% | 409,059.22 | 409,318.95 | (259.73) | 100.1% | |
| | \$2,057,437.08 | \$2,223,009.06 | \$608,262.28 | \$520,995.86 | \$87,266.42 | 85.7% | \$1,513,367.64 | \$1,382,899.90 | \$130,467.74 | 91.4% | |
| Other Expenditures | | | | | | | | | | | |
| Professional Fees & Services | \$114,086.06 | \$118,240.00 | \$23,910.00 | \$16,628.34 | \$7,281.66 | 69.5% | \$50,430.00 | \$32,526.37 | \$17,903.63 | 64.5% | |
| Postage | 12,238.51 | 14,985.00 | 4,075.00 | 3,888.80 | 186.20 | 95.4% | 10,490.00 | \$9,285.13 | 1,204.87 | 88.5% | |
| Consumable Supplies | 235,156.81 | 199,444.00 | 19,820.96 | 15,419.61 | 4,401.35 | 77.8% | 147,649.34 | \$139,122.00 | 8,527.34 | 94.2% | |
| Telephone | 224,621.86 | 225,222.83 | 49,062.53 | 50,537.52 | (1,474.99) | 103.0% | 177,255.38 | \$199,929.76 | (22,674.38) | 112.8% | |
| Utilities | 47,261.46 | 48,516.00 | 11,323.00 | 11,373.76 | (50.76) | 100.4% | 43,897.00 | \$43,033.75 | 863.25 | 98.0% | |
| Rent - Buildings | 295,911.96 | 303,361.51 | 79,908.25 | 73,291.05 | 6,617.20 | 91.7% | 242,943.01 | \$237,700.25 | 5,242.76 | 97.8% | |
| Rent - Machinery & Other | 35,445.48 | 39,768.00 | 9,942.00 | 7,956.71 | 1,985.29 | 80.0% | 26,826.00 | \$22,992.90 | 3,833.10 | 85.7% | |
| Other Operating | 356,673.66 | 453,861.00 | 38,941.00 | 36,318.33 | 2,622.67 | 93.3% | 194,269.00 | \$207,127.50 | (12,858.50) | 106.6% | |
| Subscriptions | 16,216.63 | 17,687.00 | 4,938.00 | 4,602.59 | 335.41 | 93.2% | 13,692.00 | \$13,218.39 | 473.61 | 96.5% | |
| Employee Training / Reg. Fees | 162,908.91 | 256,732.75 | 72,664.50 | 74,055.75 | (1,391.25) | 101.9% | 162,452.50 | \$164,440.90 | (1,988.40) | 101.2% | |
| Claims/SORM Assessment | 15,877.25 | 18,200.00 | 3,000.00 | 10,222.12 | (7,222.12) | 340.7% | 18,200.00 | \$29,087.73 | (10,887.73) | 159.8% | |
| Capital / Other IT Expenditures | 35,115.44 | 97,679.43 | 0.00 | 0.00 | 0.00 | 0.0% | 44,310.43 | 44,249.26 | 61.17 | 99.9% | |
| | \$1,551,514.03 | \$1,793,697.52 | \$317,585.24 | \$304,294.58 | \$13,290.66 | 95.8% | \$1,132,414.66 | \$1,142,713.94 | (\$10,299.28) | 100.9% | |
| Employee Benefits (Less BRP) | \$3,833,622.37 | \$4,227,404.82 | \$1,070,029.65 | \$1,048,782.64 | \$21,247.01 | 98.0% | \$3,099,676.02 | \$3,095,741.25 | \$3,934.77 | 99.9% | |
| TOTAL EXPENDITURES: | \$23,661,529.47 | \$25,538,366.23 | \$6,373,951.37 | \$6,072,711.57 | \$301,239.80 | 95.3% | \$18,428,280.61 | \$18,107,914.63 | \$320,365.98 | 98.3% | |
| EXPENDITURES (OVER) / UNDER REVENUE: | \$1,717,649.30 | \$0.00 | (\$382,638.37) | \$203,390.28 | (\$586,028.65) | | \$801,736.19 | \$1,520,752.91 | (\$719,016.72) | | |

Texas Department of Banking

Overview of Budget Variances for the Third Quarter of Fiscal 2015 - (Variances in excess of \$1,000 and 5% from budget are reported).

Nonbank Regulation – The variance relates to: (1) unanticipated collected penalties from unlicensed money service businesses and prepaid funeral contract permit holders and (2) the collection of higher than budgeted prepaid funeral contract examination and travel fees.

Miscellaneous Revenue – The positive variance relates to higher interest payments from the Treasury than budgeted.

Classified Salaries and Payroll Health Insurance – The positive variance relates to new and vacant positions that were not filled.

Salaries and Wages, Other – The negative variance relates to unbudgeted lump sum payments due to retirements.

In-State Travel – The positive variance relates to lower than budgeted expenditures. This is due to: (1) vacant examiner positions; (2) rotating review examiner travel that did not occur; (3) lower expenditures than budgeted for specialist travel; and (4) overall efficient use of staff.

Professional Fees and Services – The positive variance relates to: (1) lower expenditures than budgeted for Administrative Law Judge and outside counsel fees and (2) unused funds for the agency's website redesign.

Consumable Supplies – The positive variance relates to lower than budgeted replacement printer expenditures for IT specialists.

Rent – Building – The positive variance is due to: (1) no rental space needed for FE I/II school and (2) one town hall meeting held instead of three.

Rent – Machinery & Other – The positive variance is due to audio visual expenditures that were not incurred for the town hall events previously discussed.

Other Operating – The positive variance is due to: (1) Lubbock office move expenditures that were not incurred and (2) lower than budgeted shipping expenditures for Special Audits.

Claims/SORM Assessment – The negative variance relates to an anticipated unemployment claim payment.

TEXAS DEPARTMENT OF BANKING

Changes in Cash Balance

For the Quarter Ending May 31, 2015

| | <u>Actual</u> |
|---|--------------------------------|
| Cash at Beginning of Period | \$14,627,079.16 |
| Revenues Over (Under) Expenditures | \$203,390.28 |
| Increase (Decrease) in Payables/Encumbrances | \$76,148.12 |
| (Increase) Decrease in Receivables | <u>\$2,971.75</u> |
| Cash at End of Period | <u><u>\$ 14,909,589.31</u></u> |
| | |
| Restricted Cash Balance: | |
| Payroll and Related Payables | \$1,924,515.39 |
| Reserve for Building | <u>5,000,000.00</u> |
| Total Restricted Cash Balance | <u><u>\$ 6,924,515.39</u></u> |
| | |
| Assigned Cash Balance: | |
| Retirements | \$683,422.21 |
| Future Operations | <u>7,301,651.71</u> |
| Total Assigned Cash Balance | <u><u>\$ 7,985,073.92</u></u> |
| | |
| Total Restricted and Assigned Cash Balance | \$ 14,909,589.31 |
| | |
| Assigned Cash Balance/FY2015 Monthly Budget | 3.75 months |

Note:

In the fourth quarter, the final bank assessment was reduced 13% or approximately \$700,000 and the final assessments for the Special Audits areas were completely forgiven which ranged from a 30%-36% annual reduction totaling approximately \$450,000.

TEXAS DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

OPERATING STATEMENT AND BUDGET ANALYSIS

For the Period Ended May 31, 2015

| | FY 2014 EXPENDED | FY 2015 BUDGET | FY 2015 PERFORMANCE | | | |
|---|------------------------|----------------------|---------------------|------------------|------------------------|-------------------|
| | | | YTD BUDGET | YTD EXPENDED* | (OVER)/UNDER BUDGET | PERCENT BUDGET |
| REVENUE: | | | | | | |
| Annual Assessment | 1,153,876 | 1,146,354 | 1,146,354 | 1,190,853 | (\$44,499) | 103.9% |
| Thrift Application Fees | 20,600 | 20,000 | 15,000 | 10,600 | 4,400 | 70.7% |
| Licensing Fees | 4,308,955 | 3,747,325 | 3,336,569 | 3,600,391 | (263,822) | 107.9% |
| Fines and Penalties | 472,330 | 155,000 | 128,750 | 568,832 | (440,082) | 441.8% |
| Recovery Fund Offset | 12,984 | 15,000 | 0 | 0 | 0 | 0.0% |
| Depository Interest | 2,179 | 2,000 | 1,750 | 2,649 | (899) | 151.3% |
| Miscellaneous | 6,752 | 3,000 | 300 | 371 | (71) | 123.8% |
| Judgments and Settlements | 0 | 0 | 0 | 60,000 | (60,000) | 0.0% |
| TOTAL REVENUE | 5,977,676 | 5,088,679 | 4,628,723 | 5,433,696 | (804,973) | 117.4% |
| EXPENDITURES: | | | | | | |
| Salaries and Wages- | | | | | | |
| Exempt | 192,392 | 190,000 | 142,500 | 142,500 | 0 | 100.0% |
| Classified | 3,615,890 | 3,873,154 | 2,840,841 | 2,602,228 | 238,613 | 91.6% |
| Other Personnel Costs | 178,738 | 101,790 | 76,796 | 65,902 | 10,894 | 85.8% |
| | 3,987,020 | 4,164,944 | 3,060,137 | 2,810,630 | 249,507 | 91.8% |
| Travel- | | | | | | |
| Transportation & Mileage | 386,395 | 394,000 | 286,500 | 240,921 | 45,579 | 84.1% |
| | 386,395 | 394,000 | 286,500 | 240,921 | 45,579 | 84.1% |
| Other Expenditures- | | | | | | |
| Professional Services/Fees | 41,450 | 57,950 | 35,200 | 20,487 | 14,713 | 58.2% |
| Consumable Supplies | 10,752 | 11,000 | 9,000 | 9,069 | (69) | 100.8% |
| Utilities | 24,015 | 23,117 | 17,275 | 16,702 | 573 | 96.7% |
| Rent-Space & Equipment | 4,317 | 6,000 | 4,500 | 2,148 | 2,352 | 47.7% |
| Other Operating Expenses | 255,898 | 244,982 | 166,925 | 155,737 | 11,188 | 93.3% |
| | 336,432 | 343,049 | 232,900 | 204,144 | 28,756 | 87.7% |
| Other Agency Costs | | | | | | |
| Employee Benefits | 1,032,190 | 1,196,774 | 874,320 | 775,566 | 98,754 | 88.7% |
| SWCAP Indirect Costs | 18,480 | 19,404 | 14,553 | 21,661 | (7,108) | 148.8% |
| | 1,050,670 | 1,216,178 | 888,873 | 797,227 | 91,646 | 89.7% |
| TOTAL EXPENDITURES | 5,760,517 | 6,118,171 | 4,468,410 | 4,052,922 | 415,488 | 90.7% |
| EXPENDITURES (OVER)/ UNDER REVENUE | 217,159 | (1,029,492) | 160,313 | 1,380,774 | (\$1,220,461) | N/A |

* Amounts include accruals and encumbrances.

Texas Department of Savings and Mortgage Lending

Budget Variance Analysis as of May 31, 2015

Revenues:

Overall revenues are at 117% of budget.

Licensing Revenues – Revenues from license and registration fees are 8% over budget. The overage is mostly due to very high volume of new individual license applications.

Fines and Penalties – Actual amounts collected are 442% over budget due to collections of penalties assessed for unlicensed activities.

Judgments and Settlements – In June, the Department received a \$60,000 as a part of the New Day Financial settlement; they will be added to the amounts earmarked for Mortgage Enforcement.

Expenditures:

Overall expenditures are at 91% of budget.

Employees' Salaries and Related Benefits – These categories are at 91% of budget, due to multiple vacancies.

Travel – This category is at 84% of budget due to lower travel costs incurred during the first three quarters.

SWCAP Indirect Costs – The category is over budget due to the allocation amount being higher than budgeted. The trend will continue throughout the year.

TEXAS DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

CHANGES IN CASH BALANCE

For the Quarter Ending May 31, 2015

| | Actual |
|---|---------------------|
| Cash at Beginning of Period | \$ 10,084,130 |
| Revenues Over (Under) Expenditures CY | \$ (105,437) |
| Revenues Over (Under) Expenditures PY | \$ (54) |
| (Increase) Decrease in Receivables | \$ 19,421 |
| Increase (Decrease) in Payables/Encumbrances | \$ (6,326) |
| Cash at End of Period | \$ 9,991,733 |
| | |
| Restricted Cash Balance: | |
| Payroll Payable | \$ 392,300 |
| Other Payables (Net of Receivables) | \$ 49,487 |
| Building | \$ 5,000,000 |
| Total Restricted Cash Balance | \$ 5,441,787 |
| | |
| Assigned Cash Balance: | |
| Retirements | \$ 100,000 |
| Mortgage Enforcement Funds | \$ 560,000 |
| Future Operations | \$ 3,889,946 |
| Total Assigned Cash Balance | \$ 4,549,946 |
| Total Restricted and Assigned Cash Balance | \$ 9,991,733 |
| | |
| Assigned Cash Balance/FY2015 Monthly Budget | 8.9 months |

OFFICE OF CONSUMER CREDIT COMMISSIONER
OPERATING STATEMENT & BUDGET ANALYSIS
For the Period Ended May 31, 2015

75%

| | FY | FY | FY 2015 PERFORMANCE | | | |
|--|---------------------|---------------------|-----------------------|---------------------|----------------------|-------------------|
| | 2014 ACTUAL | 2015 BUDGET | YTD BUDGET | YTD ACTUAL | (OVER)/UND BUDGET | PERCENT BUDGET |
| REVENUES: | | | | | | |
| Regulated Lenders | \$ 1,075,765 | \$ 1,787,413 | \$ 1,733,494 | \$ 1,737,243 | \$ (3,749) | 100.2% |
| Pawn Industry | 611,313 | 890,280 | 363,560 | 633,568 | (270,008) | 174.3% (1) |
| MV Industry | 2,206,465 | 3,472,036 | 807,521 | 553,740 | 253,781 | 68.6% (2) |
| Credit Access Industry | 2,139,745 | 2,100,130 | 2,063,908 | 1,816,470 | 247,438 | 88.0% (3) |
| Penalties | 780,764 | - | - | 453,318 | (453,318) | 100.0% (4) |
| Debt Management Services | 44,487 | 44,880 | 42,111 | 38,055 | 4,056 | 90.4% |
| RAL Assessment | 36,150 | 32,500 | 32,455 | 45,525 | (13,070) | 140.3% |
| Precious Metals | 89,475 | 76,450 | 68,269 | 44,750 | 23,519 | 65.5% |
| Tax Liens | 63,817 | 66,436 | 65,707 | 63,468 | 2,239 | 96.6% |
| Sale of Publications | 1,692 | - | - | 782 | (782) | 100.0% |
| Creditor Registration | 102,470 | 80,531 | 75,281 | 95,740 | (20,459) | 127.2% |
| Mortgage Loan Originators | 131,550 | 113,600 | 102,072 | 86,775 | 15,297 | 85.0% |
| Other Revenue | 6,931 | - | - | (1,966) | 1,966 | 100.0% |
| Investment / Interest Income | 2,262 | - | - | 2,444 | (2,444) | 100.0% |
| TOTAL REVENUES | \$ 7,292,886 | \$ 8,664,256 | \$ 5,354,378 | \$ 5,569,912 | \$ (215,534) | 104.0% |
| EXPENDITURES: | | | | | | |
| Salaries and Wages- | | | | | | |
| Base Pay | \$ 4,190,671 | \$ 4,931,455 | \$ 3,698,591 | \$ 3,530,496 | \$ 168,095 | 95.5% (5) |
| Benefit Replacement Pay | 9,498 | 8,250 | 6,188 | 6,161 | 27 | 99.6% |
| Longevity | 61,400 | 72,250 | 54,188 | 47,220 | 6,968 | 87.1% |
| | \$ 4,261,569 | \$ 5,011,955 | \$ 3,758,966 | \$ 3,583,877 | \$ 175,089 | 95.3% |
| Travel- | | | | | | |
| Public Transportation, Lodging, Meals & Mileage | 844,860 | 970,512 | 727,884 | 712,867 | 15,017 | 97.9% |
| | \$ 844,860 | \$ 970,512 | \$ 727,884 | \$ 712,867 | \$ 15,017 | 97.9% |
| Other Expenditures- | | | | | | |
| Professional Services & Fees | 299,800 | 433,500 | 325,125 | 272,154 | 52,971 | 83.7% (6) |
| Consumable Supplies | 27,707 | 30,300 | 22,725 | 16,928 | 5,797 | 74.5% |
| Postage & Freight | 46,143 | 49,400 | 37,050 | 23,788 | 13,262 | 64.2% |
| Telephone & Communications | 62,093 | 84,000 | 63,000 | 47,435 | 15,565 | 75.3% |
| Bldg. & Utilities | 63,873 | 119,000 | 89,250 | 55,831 | 33,419 | 62.6% |
| Publication / Printing & Reproduction | 4,835 | 2,000 | 1,500 | 3,321 | (1,821) | 221.4% (7) |
| Other Operating | 85,529 | 305,550 | 229,163 | 176,004 | 53,159 | 76.8% (8) |
| | \$ 589,980 | \$ 1,023,750 | \$ 767,813 | \$ 595,461 | \$ 172,352 | 77.6% |
| Acquisition of Info Technology | \$ 144,182 | \$ 145,500 | \$ 109,125 | \$ 45,402 | \$ 63,723 | 41.6% (9) |
| Development in Progress | - | 450,000 | 337,500 | 60,101 | 277,399 | 17.8% (10) |
| Employee Benefits | 1,274,432 | 1,516,110 | 1,137,083 | 1,149,115 | (12,033) | 101.1% |
| SWCAP Reimb to Unapp Gr 0001 | 31,682 | 30,000 | 22,500 | 30,083 | (7,583) | 133.7% |
| SORM Assessment | 4,855 | 6,000 | 4,500 | 4,984 | (484) | 110.8% |
| Unemployment Benefits | 3,703 | 5,000 | 3,750 | - | 3,750 | 0.0% |
| | \$ 1,458,854 | \$ 2,152,610 | \$ 1,614,458 | \$ 1,289,685 | \$ 324,773 | 79.9% |
| TOTAL EXPENDITURES | \$ 7,155,263 | \$ 9,158,827 | \$ 6,869,120 | \$ 6,181,890 | \$ 687,231 | 90.0% |
| EXCESS REVENUES | \$ 137,623 | \$ (494,571) | \$ (1,514,742) | \$ (611,978) | \$ (902,765) | |

Office of Consumer Credit Commissioner

Overview of Budget Variances for 3rd qtr. FY 2015

Revenues- 104% of budget

- 1.) Pawn industry is above budget due to the timing of the renewal cycle. The renewal period ends June 30.
- 2.) Motor Vehicle is below budget due to cyclical reasons with July 31 being the end of the renewal cycle.
- 3.) Credit Access Business Industry is below budget due to a decline in the number of licenses. This is due in part to the industry uncertainty related to municipal ordinances and anticipated federal regulations.
- 4.) The Penalty Revenue is comprised of approximately 28% Penalties and 72% late filing fees.

Expenditures- 90% of budget

- 5.) Personnel & Employee Benefit costs are just slightly below budget due to the staged hiring of vacant positions and turnover.
- 6.) Professional Fees – is under budget due to legal services not incurring expenses as of year to date for services by the Attorney General's Office.
- 7.) Publication / Printing & Reproduction is over its annual budget due to the purchase of brochures written in English and Spanish for the Financial Education Department.
- 8.) Other Operating is under budget because the agency budgeted maintenance for the ALECS system for the entire year. The agency actually did not go into maintenance until about 2 months into the year.
- 9.) Acquisition of Information Technology is below budget due to the delayed purchase of office computers that will occur in the 4th qtr. Also, there is a delay in the purchase of replacement servers.
- 10.) Development in Progress is under budget due to the postponement of Phase II of the ALECS system.

**Office of Consumer Credit Commissioner
Changes in Cash Balance
For the Quarter Ending May 31, 2015**

| | Actual |
|--|------------------------|
| Cash at Beginning of Period | \$ 9,345,297.74 |
| Revenues Over (Under) Expenditures CY | (1,073,188.00) |
| Increase (Decrease) in Payables | (39,334.79) |
| (Increase) Decrease in Receivables | (40,233.06) |
| Cash at End of Period | \$ 8,192,541.89 |
| Restricted Cash Balance | |
| Payroll and Payroll Related Payables | \$ 660,524.45 |
| Reserve for Building | 4,500,000.00 |
| Total Restricted Cash Balance | \$ 5,160,524.45 |
| Assigned Cash Balance | |
| Retirement | 75,182.00 |
| Information Technology | 350,000.00 |
| Future Operations | 2,606,835.44 |
| Total Assigned Cash Balance | \$ 3,032,017.44 |
| Total Restricted and Assigned Cash Balance | \$ 8,192,541.89 |
| Assigned Cash Balance / FY 2015 Monthly Budget | 3.42 |

This page left blank intentionally.

**Texas Department of Banking
Budget FY 2016**

| | FY 2015* | % of 2015 Budget | Budget 2015 | Budget 2016** | \$ Change Budget 2015 to Budget 2016 | % Change Budget 2015 to Budget 2016 |
|---|------------------------|------------------|------------------------|-------------------------|--------------------------------------|-------------------------------------|
| REVENUE: | | | | | | |
| Bank & Trust Regulation | \$22,000,159.09 | 97.0% | \$22,675,128.00 | \$23,335,260.00 | \$660,132.00 | 2.9% |
| Nonbank Regulation | 2,850,281.11 | 99.8% | 2,856,678.23 | 3,009,190.03 | 152,511.80 | 5.3% |
| Miscellaneous Revenues | 8,745.87 | 133.3% | 6,560.00 | 8,000.00 | 1,440.00 | 22.0% |
| TOTAL REVENUES: | \$24,859,186.07 | 97.3% | \$25,538,366.23 | \$26,352,450.03 | \$814,083.80 | 3.2% |
| EXPENDITURES: | | | | | | |
| Salaries and Wages | | | | | | |
| Exempt Salaries | \$229,000.00 | 98.3% | \$233,007.96 | \$229,000.00 | (\$4,007.96) | -1.7% |
| Classified Salaries | 16,161,674.50 | 98.6% | 16,396,119.26 | 16,975,619.19 | 579,499.93 | 3.5% |
| Longevity | 204,672.00 | 98.9% | 207,000.00 | 207,120.00 | 120.00 | 0.1% |
| Other | 234,190.34 | 111.6% | 209,859.95 | 256,131.57 | 46,271.62 | 22.0% |
| Payroll Hlth Care/Retirement Cont. | 244,915.12 | 98.6% | 248,267.66 | 256,858.79 | 8,591.13 | 3.5% |
| | \$17,074,451.96 | 98.7% | \$17,294,254.83 | \$17,924,729.55 | \$630,474.72 | 3.6% |
| Travel | | | | | | |
| In-State | \$1,304,308.97 | 82.4% | \$1,583,275.06 | \$1,664,611.47 | \$81,336.41 | 5.1% |
| Out-of-State | 590,827.19 | 92.4% | 639,734.00 | 695,721.28 | 55,987.28 | 8.8% |
| | \$1,895,136.16 | 85.3% | \$2,223,009.06 | \$2,360,332.75 | \$137,323.69 | 6.2% |
| Other Expenditures | | | | | | |
| Professional Fees & Services | \$79,184.93 | 67.0% | \$118,240.00 | \$149,660.00 | \$31,420.00 | 26.6% |
| Postage | 12,769.76 | 85.2% | 14,985.00 | 14,985.00 | 0.00 | 0.0% |
| Consumable Supplies | 194,869.50 | 97.7% | 199,444.00 | 515,017.00 | 315,573.00 | 158.2% |
| Telephone | 242,139.46 | 107.5% | 225,222.83 | 265,636.04 | 40,413.21 | 17.9% |
| Utilities | 44,255.52 | 91.2% | 48,516.00 | 53,952.00 | 5,436.00 | 11.2% |
| Rent - Buildings | 315,488.73 | 104.0% | 303,361.51 | 421,229.00 | 117,867.49 | 38.9% |
| Rent - Machinery & Other | 29,748.36 | 74.8% | 39,768.00 | 56,560.00 | 16,792.00 | 42.2% |
| Other Operating | 392,726.20 | 86.5% | 453,861.00 | 482,509.00 | 28,648.00 | 6.3% |
| Subscriptions | 16,598.87 | 93.8% | 17,687.00 | 20,682.00 | 2,995.00 | 16.9% |
| Employee Training / Reg. Fees | 280,298.37 | 109.2% | 256,732.75 | 283,443.20 | 26,710.45 | 10.4% |
| Claims/SORM Assessment | 29,087.73 | 159.8% | 18,200.00 | 18,229.00 | 29.00 | 0.2% |
| Capital Expenditures | 62,749.26 | 64.2% | 97,679.43 | 60,000.00 | (37,679.43) | -38.6% |
| | \$1,699,916.69 | 94.8% | \$1,793,697.52 | \$2,341,902.24 | \$548,204.72 | 30.6% |
| Employee Benefits (Less BRP) | \$4,218,813.59 | 99.8% | \$4,227,404.82 | \$4,858,664.46 | \$631,259.64 | 14.9% |
| TOTAL EXPENDITURES: | \$24,888,318.40 | 97.5% | \$25,538,366.23 | \$27,485,629.00 | \$1,947,262.77 | 7.6% |
| EXPENDITURES (OVER) / UNDER REVENUE: | (\$29,132.33) | | \$0.00 | (\$1,133,178.97) | (\$1,133,178.97) | |

FTEs

201.00

199.00

* FY 2015 forecasted using a combination of estimated projections and annualized June 30, 2015 actuals.

** The 2016 budget deficit can: (1) be offset by an increase in bank assessments; (2) be absorbed by the agency's Unassigned Fund Balance; or (3) be a combination of (1) and (2). The agency intends to present an updated assessment rule at the August Finance Commission meeting that would cover the shortfall.

July 30, 2015

William J. "Bill" White
Chair, The Finance Commission of Texas
2601 N Lamar Blvd
Austin, TX 78795-4260

Dear Mr. Chairman,

The Texas Bankers Association is pleased to submit the following comments on the Department of Banking's (DOB) proposed fiscal year 2016 budget in advance of next week's public hearing on the proposed budgets of the Office of Consumer Credit Commissioner, the Department of Savings and Mortgage Lending, and the Texas Department of Banking.

In short, TBA supports the DOB's proposed budget. We find the major increase in budget to come from the 2.5% salary increase and the 2.5% retirement plan contribution increase the legislature required for state employees.

Understandably, these legislatively mandated increases will require the DOB to increase assessments for the state chartered banks it regulates. However, since the DOB has not increased assessments since 2003, we feel the 12.5% increase found in the Department's fiscal year 2016 budget is appropriate and fair. We are also pleased to see the inclusion of an inflation adjustment for future years because we believe this should negate the need for large adjustments in the future.

I'd also like to bring to your attention one final matter, namely that the DOB's proposed budget does not include a salary increase for Commissioner Cooper. TBA believes we have the best banking regulators in the nation, and we feel it is imperative we spend what is necessary to retain the high caliber of talent we have in Commissioner Cooper. We think the Finance Commission should acknowledge the national recognition the DOB receives because of Commissioner Cooper's leadership role in the State Conference of Bank Supervisors and take that into consideration during its budget discussions.

With this being said, please know that the Texas Bankers Association is in full support of the proposed budget presented by the Texas Department of Banking for fiscal year 2016.

I would be happy to discuss this in further detail at your convenience. Thank you in advance for your consideration.

Sincerely,



J. Eric T. Sandberg, Jr.
President & CEO

cc: Members of The Finance Commission of Texas



IBAT

**INDEPENDENT BANKERS
ASSOCIATION OF TEXAS**

1700 RIO GRANDE STREET
SUITE 100
AUSTIN, TEXAS 78701
P: 512.474.6889
F: 512.322.9004
WWW.IBAT.ORG

JOHN W. JAY
IBAT CHAIRMAN
JWJAY@ROSCOESTATEBANK.COM
ROSCOE STATE BANK, ROSCOE

ROGERS POPE, JR.
IBAT CHAIRMAN-ELECT
RPOPEJR@TEXASBANKANDTRUST.COM
TEXAS BANK AND TRUST, LONGVIEW

DARLA ROOKE
IBAT SECRETARY-TREASURER
DROOKE@JUNCTIONNATIONAL.COM
JUNCTION NATIONAL BANK

MICHAEL R. MOORES
LEADERSHIP DIVISION CHAIRMAN
MMOORES@CNBTexas.COM
CITIZENS NATIONAL BANK, HENDERSON

WILLARD J. STILL
IBAT EDUCATION FOUNDATION CHAIRMAN
WSTILL@AMBANKWACO.COM
AMERICAN BANK, N.A., WACO

JAY M. GOBER
IMMEDIATE PAST CHAIRMAN
JGOBER@FSBGRAHAM.COM
FIRST STATE BANK, GRAHAM

CHRISTOPHER L. WILLISTON, CAE
PRESIDENT AND CEO
CWILLISTON@IBAT.ORG

STEPHEN Y. SCURLOCK
EXECUTIVE VICE PRESIDENT
SSCURLOCK@IBAT.ORG

JANE HOLSTIEN
SENIOR VICE PRESIDENT
JHOLSTIEN@IBAT.ORG

URSULA L. JIMENEZ, CAE
SENIOR VICE PRESIDENT
UJIMENEZ@IBAT.ORG

CHRISTOPHER L. WILLISTON, VI, CAE
SENIOR VICE PRESIDENT
CLWILLISTON@IBAT.ORG

CURT NELSON
IBAT SERVICES
PRESIDENT
CNELSON@IBAT.ORG

MARY E. LANGE, CAE
IBAT EDUCATION FOUNDATION
PRESIDENT
MLANGE@IBAT.ORG

JULIE COURTNEY, CAE, OMP
IBAT EDUCATION FOUNDATION
SENIOR VICE PRESIDENT
JCOURTNEY@IBAT.ORG

August 10, 2015

Members of the Finance Commission
State of Texas
2601 North Lamar Blvd.
Austin, Texas 78705

RE: Banking Department FY 2016 Budget

Ladies and Gentlemen:

The Independent Bankers Association of Texas (IBAT) is pleased to offer our comments and observations on the Texas Banking Department's FY 2016 budget on behalf of the community banks in Texas.

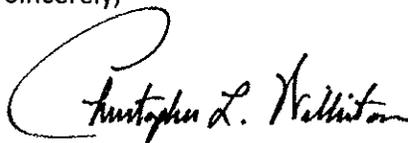
We have met with key officials of the agency and reviewed the budget information provided by the Department. The Executive Committee of IBAT unanimously approved our support of this budget at a meeting held on August 4, 2015.

Given the ever-increasing demands placed upon the Department due to an improving but still challenging economic environment and the growing complexity in our industry, we are very comfortable with the proposed budget. The increases in spending and corresponding proposed assessment increases are a result primarily of overdue changes to adequately fund the retirement system. We appreciate the Texas Legislature seriously addressing this shortfall, and are supportive of these increases to provide appropriate resources to continue the outstanding level of regulatory oversight the state banks in Texas have come to expect.

IBAT continues to appreciate the efficient and effective regulation of our state-chartered banks in Texas, and the outstanding working relationship we have with the Texas Department of Banking.

Thank you for considering our comments, and for your service to Texas.

Sincerely,



Christopher L. Williston, CAE
President and CEO



Stephen Y. Scurlock
Executive Vice President

TEXAS DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
BUDGET INFORMATION FY2015-2016

| Revenue/Expenditure Category | Estimated* | Estimated to | Approved | Proposed | \$ Increase/ (Decrease) | % Increase/ (Decrease) |
|--|------------|----------------------|------------------|--------------------|---|---------------------------|
| | FY2015 | Budget (%) FY2015 | Budget FY2015 | Budget** FY2016 | Proposed Budget FY16 to Approved Budget FY15 | |
| REVENUES: | | | | | | |
| Annual Thrift Assessment | 1,190,853 | 104% | 1,146,354 | 1,420,213 | 273,859 | 23.9% |
| Thrift Application and Exam Fees | 12,600 | 63% | 20,000 | 12,000 | (8,000) | -40.0% |
| Licensing Fees | 4,155,694 | 111% | 3,747,325 | 4,161,600 | 414,275 | 11.1% |
| Fines and Penalties | 758,443 | 489% | 155,000 | 155,000 | 0 | 0.0% |
| Recovery Fund Offset | 11,043 | 74% | 15,000 | 15,000 | 0 | 0.0% |
| Depository Interest | 3,531 | 177% | 2,000 | 3,000 | 1,000 | 50.0% |
| Miscellaneous | 4,991 | 166% | 3,000 | 3,000 | 0 | 0.0% |
| Settlements and Judgements | 60,000 | 0% | 0 | 0 | 0 | 0.0% |
| TOTAL REVENUES: | 6,197,155 | 122% | 5,088,679 | 5,769,813 | 681,134 | 13.4% |
| EXPENDITURES: | | | | | | |
| Salaries and Wages | | | | | | |
| Exempt Salaries | 190,000 | 100% | 190,000 | 190,000 | 0 | 0.0% |
| Employees' Salaries | 3,577,216 | 92% | 3,873,154 | 3,991,708 | 118,554 | 3.1% |
| Other Personnel Costs | 88,777 | 87% | 101,790 | 100,315 | (1,475) | -1.4% |
| Subtotal Salaries and Wages | 3,855,993 | 93% | 4,164,944 | 4,282,024 | 117,080 | 2.8% |
| Travel | 319,392 | 81% | 394,000 | 367,500 | (26,500) | -6.7% |
| Subtotal Travel | 319,392 | 81% | 394,000 | 367,500 | (26,500) | -6.7% |
| Other Expenditures | | | | | | |
| Professional Fees & Services | 37,169 | 64% | 57,950 | 53,540 | (4,410) | -7.6% |
| Consumable Supplies | 11,092 | 101% | 11,000 | 12,500 | 1,500 | 13.6% |
| Utilities | 22,269 | 96% | 23,117 | 36,252 | 13,135 | 56.8% |
| Rent - Buildings | 3,469 | 58% | 6,000 | 5,000 | (1,000) | -16.7% |
| Other Operating Expenditures | 224,459 | 92% | 244,982 | 233,539 | (11,442) | -4.7% |
| Capital Expenditures | 0 | 0% | 0 | 12,000 | 12,000 | 0.0% |
| Subtotal Other Expenditures | 298,458 | 87% | 343,049 | 352,832 | 9,783 | 2.9% |
| Subtotal Operating Expenditures | 4,473,843 | 91% | 4,901,993 | 5,002,355 | 100,363 | 2.0% |
| Employee Benefits (Less BRP) | 1,047,014 | 87% | 1,196,774 | 1,313,260 | 116,486 | 9.7% |
| SWCAP | 28,881 | 149% | 19,404 | 26,000 | 6,596 | 34.0% |
| Subtotal Other Direct and Indirect | 1,075,895 | 88% | 1,216,178 | 1,339,260 | 123,082 | 10.1% |
| TOTAL EXPENDITURES: | 5,549,738 | 91% | 6,118,171 | 6,341,615 | 223,444 | 3.7% |
| EXPENDITURES (OVER)/ UNDER REVENUES | 647,417 | | (1,029,492) | (571,803) | | |
| Budgeted FTE Count | | | 64 | 62 | | |

* Estimated Expenditures for FY2015 based on Actual Expenditures through the 3rd quarter.

** The FY2016 deficit will be absorbed by the agency's Unassigned Fund Balance.



July 30, 2015

William J. "Bill" White
Chair, The Finance Commission of Texas
2601 N Lamar Blvd
Austin, TX 78795-4260

Dear Mr. Chairman,

As you know, the Office of Consumer Credit Commissioner, the Department of Savings and Mortgage Lending, and the Texas Department of Banking will conduct a hearing to receive public comment on their proposed budgets for fiscal year 2016 on Thursday, August 6. The Texas Bankers Association is pleased to submit the following comments on the Department of Savings and Mortgage Lending's (TDSML) proposed budget for your consideration.

For the past four years the Department has granted a 100% waiver of fourth quarter assessments; we understand the fiscal year 2016 budget only includes a 50% waiver of the fourth quarter assessments. We believe this to be a very sound course of action because it gives the Department the flexibility to budget for unexpected circumstances.

As with all state agencies, TDSML must comply with actions taken by the 84th Legislature. Namely, last session the legislature not only required state agency pension contributions to increase by 2.5%, it also authorized a 2.5% salary increase for state employees, both of which TDSML must budget for. The costs associated with complying with these legislative mandates are the largest driver in the proposed budget, and, again, they are outside of the control of TDSML.

Even with the reduced waiver in assessments, the costs associated with being a state chartered institution governed by the TDSML continue to be less than one half of the fees levied by the Office of the Comptroller of Currency for federally chartered institutions. TBA believes our state chartered savings banks are getting much more bang for their buck.

Before I close, I would like to bring one matter to your attention, which is that TDSML's proposed budget does not budget for a salary increase for Commissioner Jones. TBA believes we have the best banking regulators in the nation, and we feel it is imperative we spend what is necessary to retain the high caliber of talent we have in Commissioner Jones.

With this being said, please know that the Texas Bankers Association is in full support of the proposed budget presented by the Department of Savings and Mortgage Lending for fiscal year 2016.

I would be happy to discuss this in further detail at your convenience. Thank you in advance for your consideration.

Sincerely,

J. Eric T. Sandberg, Jr.
President & CEO

cc: Members of The Finance Commission of Texas

TEXAS MORTGAGE BANKERS ASSOCIATION

823 CONGRESS AVE, STE 220, AUSTIN, TEXAS 78701 | 512/480-8622 P | 512/480-8621 F | WWW.TEXASMBBA.ORG | WWW.TEXASMORTGAGELICENSING.ORG

July 30, 2015

Honorable Chairman William J. White
Finance Commission of Texas
2601 N. Lamar
Austin, Texas, 78705

Re: Proposed FY2016 Budget for Department of Savings and Mortgage Lending

Dear Chairman White:

On behalf of the Texas Mortgage Bankers Association and our membership of over 200 companies, I am pleased to write in support of the proposed budget for the Department of Savings and Mortgage Lending for fiscal year 2016. TMBA believes that the Department continues to be good stewards of the Department's resources.

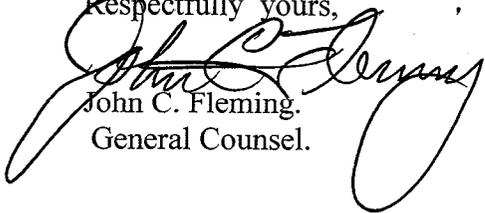
The proposed budget appears to continue the recent trend from previous years that projects no increase in licensing fees. TMBA applauds the conservative approach taken by the Department that provides Texas licensed originators with one of the lowest license fees in the country.

We also support the staff salary increases as reflected in the proposed budget. We believe the Finance Commission's attention to providing competitive salaries insures that Department employees can be retained, and that employee turnover is diminished.

We do have one request. We note that the proposed budget does not include an adjustment to exempt executive salaries. The Finance Commission is currently well served by three able agency Commissioners. We hope that as part of the Finance Commission's review, appropriate consideration will be given to insuring that the agency executives compensation is not overlooked, and that their compensation does not fall behind their peers in federal agencies or other large states.

Although TMBA's interaction is primarily with the Department of Savings and Mortgage Lending, we do from time to time interact with both the Department of Banking and Office of Consumer Credit Commissioner. While we are not as intimately familiar with their budget and operational issues, we do believe that those agencies are likewise effectively managed in a cost efficient way. The State of Texas is privileged to have all three of these agencies as stewards of its resources.

Respectfully yours,


John C. Fleming
General Counsel.





**INDEPENDENT BANKERS
ASSOCIATION OF TEXAS**

1700 RIO GRANDE STREET
SUITE 100
AUSTIN, TEXAS 78701
P: 512.474.8889
F: 512.322.9004
WWW.IBAT.ORG

JOHN W. JAY
IBAT CHAIRMAN
JWJAY@ROSCOESTATEBANK.COM
ROSCOE STATE BANK, ROSCOE

ROGERS POPE, JR.
IBAT CHAIRMAN-ELECT
RPOPEJR@TEXASBANKANDTRUST.COM
TEXAS BANK AND TRUST, LONGVIEW

DARLA ROOKE
IBAT SECRETARY-TREASURER
DROOKE@JUNCTIONNATIONAL.COM
JUNCTION NATIONAL BANK

MICHAEL R. MOORES
LEADERSHIP DIVISION CHAIRMAN
MMOORES@CNBTXAS.COM
CITIZENS NATIONAL BANK, HENDERSON

WILLARD J. STILL
IBAT EDUCATION FOUNDATION CHAIRMAN
WSTILL@AMBANKWACO.COM
AMERICAN BANK, N.A., WACO

JAY M. GOBER
IMMEDIATE PAST CHAIRMAN
JGOBER@FSBGRAHAM.COM
FIRST STATE BANK, GRAHAM

CHRISTOPHER L. WILLISTON, CAE
PRESIDENT AND CEO
CWILLISTON@IBAT.ORG

STEPHEN Y. SCURLOCK
EXECUTIVE VICE PRESIDENT
SSCURLOCK@IBAT.ORG

JANE HOLSTIEN
SENIOR VICE PRESIDENT
JHOLSTIEN@IBAT.ORG

URSULA L. JIMENEZ, CAE
SENIOR VICE PRESIDENT
UJIMENEZ@IBAT.ORG

CHRISTOPHER L. WILLISTON, VI, CAE
SENIOR VICE PRESIDENT
CLWILLISTON@IBAT.ORG

CURT NELSON
IBAT SERVICES
PRESIDENT
GNELSON@IBAT.ORG

MARY E. LANGE, CAE
IBAT EDUCATION FOUNDATION
PRESIDENT
MLANGE@IBAT.ORG

JULIE COURTNEY, CAE, OMP
IBAT EDUCATION FOUNDATION
SENIOR VICE PRESIDENT
JCOURTNEY@IBAT.ORG

August 10, 2015

Members of the Finance Commission
State of Texas
2601 North Lamar Blvd.
Austin, Texas 78705

RE: Savings and Mortgage Lending Department FY 2016 Budget

Ladies and Gentlemen:

The Independent Bankers Association of Texas (IBAT) is pleased to offer our comments and observations on the Texas Savings and Mortgage Lending Department's FY 2016 budget on behalf of our member state savings banks in Texas.

We have reviewed the budget information provided by the Department, and are comfortable that the Department continues to run a very efficient operation. We are advised that no increases in assessments for state savings banks are contemplated. It is our understanding that fourth quarter thrift assessments will be waived again for FY 2015.

Further, we are advised that the budgeted deficit of \$572,000 will be adequately covered by existing cash reserves.

The IBAT Executive Committee met on August 4, 2015, and approved our support of this budget proposal.

IBAT continues to appreciate the outstanding working relationship we have with the Texas Department of Savings and Mortgage Lending.

Thank you for considering our comments, and for your service to Texas.

Sincerely,

Christopher L. Williston, CAE
President and CEO

Stephen Y. Scurlock
Executive Vice President



Dallas Fort Worth Association of Mortgage Brokers

The Brokers' Choice

Affiliated with: National Federation of Mortgage Professionals, Washington, D.C.

President

Marty Sisk
(469) 767 7577

August 11, 2015

Vice President

Norma Minnis
(214-887-9544)

Commissioner Caroline Jones
Texas Department of Savings and Mortgage Lending
2601 N. Lamar
Suite 201
Austin, Texas 78705

Secretary

Mike Morrow
(214) 363 7987

Dear Commissioner Jones:

Directors

Norma Minnis
(214) 887-9544

We offer our continued support of your administrative efforts and certainly your proposed budget which remains a self funding department and helpful to a balanced budget for the state of Texas.

Connie Hearn
(972) 991-0080

DFWAMB is the oldest mortgage broker association in the state at 26 continued years of activity and some members have been there close to all 26 years.

Robert Gray, Jr.
(972) 392-9600

Our relationship with Texas Department of Savings and Mortgage Lending began in 1989 prior to the 1999 successful licensing of Mortgage Brokers in the State of Texas. The mutual respect between our association and the state has been productive for our industry and has served the citizens of Texas well.

Malcolm Duke
(972) 392-9600

TDSML has established high goals for business and ethics standards. Where there have been violations, offenders have been penalized. TDSML has limited fraud and other unscrupulous activities that have occurred in other states. The continued existence of TDSML ensures the financial well-being of Texans as they finance properties.

Joanne Tucker
(817) 329-3487

It is with these thoughts and past experience that the Dallas/Ft. Worth Association of Mortgage Brokers supports the proposed budget by TDSML for the coming fiscal year. Its continue goal of fair lending practices and equitable treatment in mortgage lending is an important benefit to the citizens of Texas.

Legal Counsel
Tom Kapioltas
(214) 764-9232

Very truly yours

Martin J. Sisk
President

Dallas/Fort Worth Association of Mortgage Brokers is a non-profit professional organization dedicated to advancing the mortgage broker profession through the promotion of education, ethical practices, consumer fairness and political activism. Member mortgage brokers and loan officers are not only licensed by the State of Texas and registered with the National Mortgage Licensing System but are required to take continuing education courses and subscribe to a strict code of ethics.

**Office of Consumer Credit Commissioner
Proposed Fiscal Year 2016 Budget**

| | *Annualized 2015 | % of 2015 Budget | Budget 2015 | Budget 2016 | \$ Change Budget 2015 to Budget 2016 | % Change Budget 2015 to Budget 2016 |
|---|-----------------------------|-----------------------------|------------------------|------------------------|---|--|
| REVENUE: | | | | | | |
| Regulated Lenders | \$ 1,976,269 | 101.0% | \$ 1,957,450 | \$ 2,260,950 | \$ 303,500 | 15.5% |
| Credit Access Industry | 1,888,288 | 91.0% | 2,075,200 | 1,629,200 | (446,000) | -21.5% |
| MV Industry | 3,686,592 | 106.9% | 3,448,206 | 4,163,840 | 715,634 | 20.8% |
| Pawn Industry | 964,942 | 109.1% | 884,625 | 1,067,825 | 183,200 | 20.7% |
| Registered Industry | 361,611 | 121.0% | 298,775 | 283,050 | (15,725) | -5.3% |
| TOTAL REVENUES: | \$ 8,877,702 | 102.5% | \$ 8,664,256 | \$ 9,404,865 | \$ 740,609 | 8.5% |
| EXPENDITURES: | | | | | | |
| Salaries and Wages | | | | | | |
| Exempt Salaries | \$ 190,000 | 100.0% | \$ 190,000 | \$ 190,000 | - | 0.0% |
| Classified Salaries | 4,530,630 | 95.8% | 4,731,455 | 5,155,395 | 423,940 | 9.0% |
| Other Personnel Costs | 101,496 | 112.2% | 90,500 | 114,970 | 24,470 | 27.0% |
| | 4,822,126 | 96.2% | 5,011,955 | 5,460,365 | 448,410 | 8.9% |
| Travel | | | | | | |
| In-State Examinations and Training | 941,992 | 97.1% | 970,512 | 989,922 | 19,410 | 2.0% |
| Out-of-State Examinations | 44,789 | 64.0% | 70,000 | 70,000 | - | 100.0% |
| Out-of-State Exam Reimbursements | (44,789) | 64.0% | (70,000) | (70,000) | - | 100.0% |
| | 941,992 | 97.1% | 970,512 | 989,922 | 19,410 | 2.0% |
| Other Expenditures | | | | | | |
| Professional Fees & Services | 372,296 | 86.9% | 428,500 | 212,515 | (215,985) | -50.4% |
| Consumable Supplies | 27,910 | 92.1% | 30,300 | 30,300 | - | 0.0% |
| Utilities | 23,517 | 91.5% | 25,700 | 26,350 | 650 | 2.5% |
| Rent - Buildings | 37,671 | 95.4% | 39,500 | 40,000 | 500 | 1.3% |
| Other Operating | 448,553 | 92.3% | 485,750 | 572,418 | 86,668 | 17.8% |
| Capital Expenditures | 246,388 | 144.5% | 170,500 | 140,500 | (30,000) | -17.6% |
| | 1,156,336 | 98.0% | 1,180,250 | 1,022,083 | (158,167) | -13.4% |
| Employee Benefits | 1,476,672 | 102.4% | 1,442,289 | 1,796,204 | 353,915 | 24.5% |
| 1.5% Payroll Assessment | 69,117 | 93.6% | 73,822 | 80,181 | 6,359 | 8.6% |
| SWCAP | 40,111 | 133.7% | 30,000 | 35,000 | 5,000 | 16.7% |
| | 1,585,900 | 102.6% | 1,546,111 | 1,911,385 | 365,274 | 23.6% |
| TOTAL EXPENDITURES: | \$ 8,506,354 | 97.7% | \$ 8,708,827 | \$ 9,383,755 | \$ 674,928 | 7.7% |
| EXPENDITURES (OVER)/UNDER REVENUE: | \$ 371,348 | | \$ (44,571) | \$ 21,110 | \$ 65,681 | |
| IT RESERVE: | | | | | | |
| Amount Reserved for Future Capital Expenditure from IT Reserve | | | \$ (450,000) - | \$ - (410,000) | | |

FTE's

93.5

93.5

94.5

* Revenue includes penalties that are not budgeted

**Office of Consumer Credit Commissioner
Proposed Fiscal Year 2016 Budget - Revised**

| | *Annualized | % of 2015 Budget | Budget 2015 | Proposed 2016 | \$ Incr (Decr) (2015 to 2016) | % Increase (Decrease) |
|--|---------------------|------------------|---------------------|---------------------|-------------------------------|-----------------------|
| REVENUE: | | | | | | |
| Regulated Lenders | \$1,976,269 | 100.96% | \$ 1,957,450 | \$ 2,260,950 | \$ 303,500 | 15.50% |
| Credit Access Industry | 1,888,288 | 90.99% | 2,075,200 | 1,423,400 | (651,800) | -31.41% |
| MV Industry | 3,686,592 | 106.91% | 3,448,206 | 4,163,840 | 715,634 | 20.75% |
| Pawn Industry | 964,942 | 109.08% | 884,625 | 1,067,825 | 183,200 | 20.71% |
| Registered Industry | 361,611 | 121.03% | 298,775 | 283,050 | (15,725) | -5.26% |
| TOTAL REVENUES: | \$8,877,702 | 102.46% | \$ 8,664,256 | \$ 9,199,065 | \$ 534,809 | 6.17% |
| EXPENDITURES: | | | | | | |
| Salaries and Wages | | | | | | |
| Exempt Salaries | \$ 190,000 | 100.00% | \$ 190,000 | \$ 190,000 | - | 0.00% |
| Classified Salaries | 4,565,630 | 96.50% | 4,731,455 | 5,125,328 | 393,874 | 8.32% |
| Other Personnel Costs | 101,496 | 112.15% | 90,500 | 113,770 | 23,270 | 25.71% |
| | \$4,857,126 | 96.91% | 5,011,955 | 5,429,098 | 417,144 | 8.32% |
| Travel | | | | | | |
| In-State Examinations and Training | 941,992 | 97.06% | 970,512 | 971,922 | 1,410 | 0.15% |
| Out-of-State Examinations | 44,789 | 63.98% | 70,000 | 70,000 | - | 100.00% |
| Out-of-State Exam Reimbursements | (44,789) | 63.98% | (70,000) | (70,000) | - | 100.00% |
| | 941,992 | 97.06% | 970,512 | 971,922 | 1,410 | 0.15% |
| Other Expenditures | | | | | | |
| Professional Fees & Services | 388,707 | 90.71% | 428,500 | 212,515 | (215,985) | -50.40% |
| Consumable Supplies | 27,910 | 92.11% | 30,300 | 30,300 | - | 0.00% |
| Utilities | 23,517 | 91.51% | 25,700 | 26,350 | 650 | 2.53% |
| Rent - Buildings | 37,671 | 95.37% | 39,500 | 40,000 | 500 | 1.27% |
| Other Operating | 489,264 | 100.72% | 485,750 | 572,418 | 86,668 | 17.84% |
| Capital Expenditures | 85,795 | 50.32% | 170,500 | 140,500 | (30,000) | -17.60% |
| *Capital Expenditures-IT Legacy Modernization | \$60,101 | 13.36% | 450,000 | - | (450,000) | -100.00% |
| | 1,112,966 | 68.27% | 1,630,250 | 1,022,083 | (608,167) | -37.31% |
| Employee Benefits | 1,479,350 | 102.57% | 1,442,289 | 1,787,635 | 345,346 | 23.94% |
| 1.5% Payroll Assessment | 69,117 | 93.63% | 73,822 | 79,279 | 5,457 | 7.39% |
| SWCAP | 40,111 | 133.70% | 30,000 | 35,000 | 5,000 | 16.67% |
| | 1,588,578 | 102.75% | 1,546,111 | 1,901,914 | 355,803 | 23.01% |
| TOTAL EXPENDITURES: | \$ 8,500,662 | 92.81% | \$ 9,158,827 | \$ 9,325,017 | \$ 166,190 | 1.81% |
| EXPENDITURES (OVER)/UNDER REVENUE: | \$ 377,040 | | \$ (494,571) | \$ (125,952) | \$ 368,619 | |
| IT RESERVE: | | | | | | |
| Amount Reserved for Future Capital Expenditure from IT Reserve | | | | \$ - | (410,000) | |

FTE's

93.5

93.5

93.5

* Revenue includes penalties that are not budgeted

**Office of Consumer Credit Commissioner
Proposed Fiscal Year 2016 Budget - Revised**

| | Proposed Budget 2016 posted July 28, 2015 | Revised Proposed Budget 2016 | \$ Incr (Decr) (2016 July 28 to Revised 2016) |
|---|---|------------------------------------|---|
| REVENUE: | | | |
| Regulated Lenders | \$ 2,260,950 | \$ 2,260,950 | \$ - |
| Credit Access Industry | 1,629,200 | 1,423,400 | (205,800) |
| MV Industry | 4,163,840 | 4,163,840 | - |
| Pawn Industry | 1,067,825 | 1,067,825 | - |
| Registered Industry | 283,050 | 283,050 | - |
| TOTAL REVENUES: | \$ 9,404,865 | \$ 9,199,065 | \$ (205,800) |
| EXPENDITURES: | | | |
| Salaries and Wages | | | |
| Exempt Salaries | \$ 190,000 | \$ 190,000 | - |
| Classified Salaries | 5,155,395 | 5,125,328 | (30,067) |
| Other Personnel Costs | 114,970 | 113,770 | (1,200) |
| | 5,460,365 | 5,429,098 | (31,267) |
| Travel | | | |
| In-State Examinations and Training | 989,922 | 971,922 | (18,000) |
| Out-of-State Examinations | 70,000 | 70,000 | - |
| Out-of-State Exam Reimbursements | (70,000) | (70,000) | - |
| | 989,922 | 971,922 | (18,000) |
| Other Expenditures | | | |
| Professional Fees & Services | 212,515 | 212,515 | - |
| Consumable Supplies | 30,300 | 30,300 | - |
| Utilities | 26,350 | 26,350 | - |
| Rent - Buildings | 40,000 | 40,000 | - |
| Other Operating | 572,418 | 572,418 | - |
| Capital Expenditures | 140,500 | 140,500 | - |
| *Capital Expenditures-IT Legacy Modernization | - | - | - |
| | 1,022,083 | 1,022,083 | - |
| Employee Benefits | 1,796,204 | 1,787,635 | (8,569) |
| 1.5% Payroll Assessment | 80,181 | 79,279 | (902) |
| SWCAP | 35,000 | 35,000 | - |
| | 1,911,385 | 1,901,914 | (9,471) |
| TOTAL EXPENDITURES: | \$ 9,383,755 | \$ 9,325,017 | \$ (58,738) |
| EXPENDITURES (OVER)/UNDER REVENUE: | \$ 21,110 | \$ (125,952) | \$ (147,062) |
| IT RESERVE: | | | |
| Amount Reserved for Future Capital Expenditure from IT Reserve | \$ - (410,000) | \$ - (410,000) | |

| | | | |
|-------|------|------|-----|
| FTE's | 94.5 | 93.5 | (1) |
|-------|------|------|-----|

* Revenue includes penalties that are not budgeted



Date: August 7, 2015

To: Commissioner Leslie Pettijohn
Office of the Consumer Credit Commissioner

From: Consumer Service Alliance of Texas

Re: Office of Consumer Credit Commissioner Proposed Budget – Fiscal Year 2016

These comments are provided by the Consumer Service Alliance of Texas (“CSAT”) regarding the Office of the Consumer Credit Commissioner’s proposed budget for fiscal year 2016.

CSAT appreciates the opportunity to participate in the budget process and is available to answer any questions the Finance Commission or the Office of the Consumer Credit Commission (“OCCC”) may have about these comments.

Information about CSAT

CSAT is a non-profit trade association that advocates for the protection of financial choice based on informed decision-making and personal responsibility for Texas consumers. CSAT represents the interests of consumers and credit access businesses in the Texas marketplace.

A credit access businesses (“CAB”) provides retail financial products and services to Texas consumers. From stores in neighborhoods across the state, hardworking Texans have access to small, short-term loans; motor vehicle title loans; money orders; pre-paid telephone and debit cards; and other services to help them manage their finances.

CSAT’s mission is to work cooperatively with industry, consumers, and government officials to help ensure Texans have access to short-term credit through financial services products in compliance with the law.

CSAT Comments

CSAT supports the OCCC’s proposed budget.

In the 2011 legislative session, the Texas Legislature gave the Texas Finance Commission and the Office of the Consumer Credit Commissioner (OCCC) comprehensive licensing, examination, and

enforcement authority over CABs. The legislation preserves access to credit and consumer choice while establishing a rigorous system of supervision checks and balances to protect small loan borrowers in Texas. Important new consumer protections related to transparency, disclosures and contractual requirements were also imposed.

Consumer confidence in the way regulatory agencies perform supervisory responsibilities is critical for an efficiently functioning marketplace. CABs frequently offer new products and new features for existing products that benefit customers. Customers are more willing to try innovative, beneficial products and services if they feel comfortable with the oversight and complaint resolution processes of the state's regulator.

Staff competence and stability are also critical attributes for effective interaction with regulated entities. The processes of licensing and regulating CABs are often complex. Competition for quality examiners and enforcement staff is intense between federal agencies and other states. The OCCC must have the budget capability and flexibility to hire and retain qualified personnel.

Given the need for competent, experienced staff with a goal of as little turnover as can reasonably be expected, CSAT supports the OCCC proposed budget.

For More Information

For more information about these comments by CSAT, please contact the following: Robert W. Norcross, Jr., Vianovo, LP, 2225 W. Southlake Blvd., Suite 423, Southlake, Texas 76092, telephone 817-491-7110, fax 817-719-9200, email rnorcross@vianovo.com; Adam Burkland, Burkland Consulting, 1122 Colorado Street, Suite 2320, Austin, TX 78701, telephone 512-476-1117, email adam@burklandconsulting.com.



Texas Property Tax Lienholders Association

August 1, 2015

Commissioner Leslie Pettijohn
Office of Consumer Credit Commissioner
2601 N. Lamar Blvd.
Austin, Texas 78705

Re: Proposed Office of Consumer Credit Commissioner 2016 budget

Dear Commissioner Pettijohn:

Thank you for the opportunity to comment on the Office of Consumer Credit Commissioner's (OCCC) proposed budget for fiscal year 2016.

The Texas Property Tax Lienholders Association supports the OCCC's 2016 budget as proposed.

The Texas Property Tax Lienholders Association is comprised of those companies across the state which lead the property tax transfer industry in Texas. Our association believes it is very important that the OCCC has the ability to hire and retain experienced, competent staff. The benefits of retaining an experienced staff means citizens are better protected, less cost to re-train staff, and the regulated industries are more closely supervised and encouraged to follow the rules and regulations. The examinations that your staff conducts on the businesses in our industry better serve the state and our association members when conducted by senior and experienced staff. The quality of the audits and the time it takes to conduct an audit both improve with quality staff. We thank for your efforts to hire and retain experienced and well-trained staff.

We understand that the proposed budget for fiscal year 2016 provides increased funding for classified salaries. We believe this increased funding is important to the agency to attract and retain qualified staff to perform licensing, examination and enforcement activities in the upcoming fiscal year. We also understand that the proposed budget for 2016 does not anticipate any significant fee increases for our industry in order to fund the budget.

As a result, we are very pleased with the budget proposed by the OCCC and urge the Finance Commission of Texas to approve it as proposed.

Best Regards,

Jack Nelson
President

July 31, 2015

Commissioner Leslie Pettijohn
Office of Consumer Credit Commissioner
2601 N. Lamar Blvd.
Austin, TX 78705

Dear Commissioner Pettijohn:

I am writing regarding the proposed fiscal year 2016 budget for the Office of Consumer Credit Commissioner. In the association's opinion, based on the information provided, the proposed budget reflects the administration's efforts to judiciously allocate agency resources.

TIADA was glad to meet with you and your staff this month, and we look forward to continuing our conversation on dealer education. We are also interested in continuing to discuss various licensing fee options and the appropriate allocation of costs across the MVSF licensee body.

As always, we appreciate the opportunity to engage in productive stakeholder dialogue with the agency.

Sincerely,

A handwritten signature in black ink that reads "Jeffery Lee Martin". The signature is written in a cursive, flowing style.

Jeffery Lee Martin
Executive Director
Texas Independent Automobile Dealers Association
800.442.5944 o / 512.560.4904 m



4600 Spicewood Springs Rd. #103
Austin, TX 78759
512-346-5820

August 7, 2015

Leslie Pettijohn, Commissioner
Office of Consumer Credit Commissioner
2601 N. Lamar Blvd.
Austin, TX 78705

Dear Commissioner Pettijohn:

On behalf of the Texas Consumer Finance Association (TCFA) representing over 1,100 + retail locations throughout Texas, we are writing in support of the Office of Consumer Credit Commissioner's budget request for FY 2016.

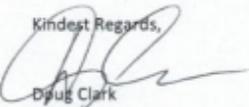
We have reviewed the budget information provided by the OCCC, and are comfortable that the agency continues to run a very efficient operation. Both revenues and expenses reflect modest and seemingly appropriate increases. In addition, our Chapter 342F Texas Lenders support the OCCC's budget because we believe it will continue to fund the mission of the OCCC, which is to regulate the credit industry and educate consumers and creditors, fostering a fair and lawful, and healthy credit environment for economic prosperity in Texas. Also, we believe it will be sufficient to maintain compliance with the industry and ensure the OCCC's ability to retain experienced, competent staff.

We at TCFA want to thank you for making us part of the budgeting process and our members appreciate the availability, responsiveness, and outstanding working relationship we have with you and the OCCC staff, which interacts with our member lenders on a daily basis.

Thank you for the opportunity to offer comments and your willingness to have our voice heard during the budget process.

Please let me know if we can provide any other information.

Kindest Regards,


Doug Clark
President
Texas Consumer Finance Association

76

H. TEXAS FINANCIAL EDUCATION ENDOWMENT

1. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on Approval of an Amount for the Upcoming 2016-2017 Grant Cycle for the Texas Financial Education Endowment (TFEE) Fund.

PURPOSE: The purpose of the discussion is to review and recommend a funding amount for the 2016-2017 TFEE grant cycle.

RECOMMENDED ACTION: The agency requests that the Audit Committee recommend that the Finance Commission approve the recommended grant amount of \$250,000 for the 2016-2017 grant cycle.

RECOMMENDED MOTION: I move that the Audit Committee recommend that the Finance Commission approve \$250,000 to be announced as available for TFEE grant awards for the 2016-2017 grant cycle.

Texas Financial Education Endowment Report

Staff sent out the third installation of grant report and request for reimbursement forms to TFEE recipients. These reports were due on July 1. Upon completion of the January – June funding cycle there is one reporting period remaining for two-year grantees. Staff will prepare a summary of reported information at the October Audit Committee meeting.

TFEE was recently audited and staff incorporated two observations in the final policy draft for Finance Commission approval. Proposed program policies and procedures were reviewed and developed with input from the Grant Advisory Committee “GAC.”

The GAC held a conference call on August 4 to discuss the following for the 2016-17 grant cycle: proposed revisions to TFEE policies and procedures manual, proposed a total award amount of \$250,000, and recommended Eric Norrington of Ace Cash Express as a replacement GAC member for the CAB industry representative.

Proposed revisions include:

TFEE Grant Administration & Advisory Policy Manual

1. Define roles and responsibilities of Finance Commission, Audit Committee, Grant Advisory Committee, OCCC as grant administrator, and Grant Coordinator (Pg. 1, Section B)
2. Define the grantee and GAC member selection process (Pg. 2, Section B.d)
3. Clarify procedures to reflect date stamp and received dates to include “digital” stamp. (Pg. 3, Section 5.C)
4. Create “Conflict of Interest” form for GAC members and define process for new member selection (Pg. 4, Section C)
5. Document the rationale for which funds are allocated to each grantee. [audit] (Pg. 8, D.2.1.a)
6. Determine process for selecting grantees with identical scores [audit] (Pg. 8, Section D.2.1.b)
7. Clarify language for longitudinal report submission [audit] (Pg. 11, E.1)

Grant Agreement

8. Longitudinal reports are a requirement on the reporting chart in the grant agreement (Pg. 4, Section 6.1)
9. Require sign-in sheets to verify participant attendance (Pg. 4, Section 6.1)
10. Standardized Pre-and-Post Participant Survey to be used to assess knowledge gained for grant funded activities (Pg. 4, Section 6.1)
11. Mileage log for grantees to complete when submitting travel reimbursement (Pg. 7, Section 8.4)
12. Set mileage amount consistent with Texas Comptroller of Public Accounts (Pg. 7, Section 8.4)

TEXAS FINANCIAL EDUCATION ENDOWMENT FUND

| FUND BALANCE PROJECTIONS | YEAR 1 9/13-8/14 | YEAR 2 9/14-8/15 | YEAR 3 9/15-8/16 | YEAR 4 9/16 - 8/17 | YEAR 5 9/17-8/18 |
|-----------------------------------|---------------------|---------------------|---------------------|-----------------------|---------------------|
| Beginning balance | 1,850,318 | 2,696,769 | 3,138,693 | 3,465,418 | 4,065,857 |
| Contributions | | | | | |
| 1st Quarter | 18,663 | 5,947 | 5,000 | 3,750 | 3,750 |
| 2nd Quarter | 677,505 | 595,532 | 538,400 | 469,800 | 469,800 |
| 3rd Quarter | 8,617 | 3,462 | 3,462 | 2,597 | 2,597 |
| 4th Quarter | 7,337 | 2,909 | 2,909 | 2,182 | 2,182 |
| Earnings/Chg in Value | 134,330 | 18,687 | 92,340 | 122,111 | 152,774 |
| Requested Grant Awards | | | (250,000) | | |
| Grant Payments Made or to be Made | | (184,613) | (65,387) | | |
| Ending balance | <u>2,696,769</u> | <u>3,138,693</u> | <u>3,465,418</u> | <u>4,065,857</u> | <u>4,696,959</u> |
| HOLDINGS | | | | | |
| Endowment Fund - invested * | 1,529,481 | 2,052,011 | 2,713,571 | 3,394,978 | 4,096,828 |
| Cash and Short Term Investment | <u>1,167,288</u> | <u>1,086,682</u> | <u>751,846</u> | <u>670,878</u> | <u>600,131</u> |
| | <u>2,696,769</u> | <u>3,138,693</u> | <u>3,465,418</u> | <u>4,065,857</u> | <u>4,696,959</u> |

| | | | | | |
|--|---------|--------|--------|---------|---------|
| Estimated earnings reinvested | | 45,884 | 61,560 | 81,407 | 101,849 |
| Earnings eligible for distribution | 134,330 | 68,827 | 92,340 | 122,111 | 152,774 |
| Earning assumptions: | | | | | |
| Earnings rate of 7.5% | | | | | |
| earnings distribution of 4.5% | | | | | |
| Earnings of 3% reinvested to protect against inflation | | | | | |

Assumptions

Investment grows at 3% a year for inflation protection

Additional annual contributions to endowment investment of \$600,000

Lawsuit settlement proceeds are used to seed initial grants and smooth funding - \$250K in YR1, 100K in YR3

This page left blank intentionally.

I. TEXAS FINANCIAL EDUCATION ENDOWMENT

1. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Revised Texas Financial Education Endowment (TFEE) Fund Grant Administration & Advisory Policy Manual and 2016-2017 Funding Priorities.

PURPOSE: The purpose of the revised policy manual is to clarify and better document TFEE fund administration and distribution, incorporating audit recommendations. Some of the amendments respond to internal audit recommendations.

RECOMMENDED ACTION: The agency requests that the Audit Committee recommend that the Finance Commission approve the revised manual and funding priorities.

RECOMMENDED MOTION: I move that the Audit Committee recommend that the Finance Commission approve the revised TFEE Grant Administration & Advisory Policy Manual and 2016-2017 funding priorities.

2. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Appointment of a New Grant Advisory Committee Member.

PURPOSE: The purpose of the motion is to fill the current industry representative vacancy on the Grant Advisory Committee.

RECOMMENDED ACTION: The agency recommends that the Audit Committee recommend that the Finance Commission approve Eric Norrington to the Grant Advisory Committee, filling the industry representative position.

RECOMMENDED MOTION: I move that the Audit Committee recommend that the Finance Commission approve Eric Norrington as the industry representative to the Grant Advisory Committee.



Texas Financial Education Endowment Grant Administration

&

Advisory Policy Manual

(Proposed: August 21, 2015)



Table of Contents

- I. Purpose 1
 - A. Background 1
 - B. Roles and Responsibilities..... 1
 - 1. Finance Commission (FC)..... 1
 - 2. Audit Committee 1
 - 3. Grant Advisory Committee (GAC)..... 1
 - 4. Office of Consumer Credit Commissioner (OCCC)..... 2
 - 5. Grant Coordinator (GC) 2
 - C. Conflict of Interest 3
 - D. TFEE Funds Oversight 3
- II. Process Overview 4
 - A. Intention 4
 - B. Stage 1 – Administration..... 4
 - C. Stage 2 – Policy Development and Implementation 4
 - D. Stage 3 – Determine Funding Decisions 4
 - E. Stage 4 – Manage Grant and Measure Progress..... 5
- III. Funding Priorities and Goals 5
 - A. Scope..... 5
 - B. Goals 5
- IV. Pre-Award Requirements..... 6
 - A. Organizational Eligibility 6
 - B. Program Criteria & Grant Application..... 6
 - C. Application Submission 7
 - D. Application Review and Selection Process 7
 - E. Public Records 7
- V. Post Award Requirements 7
 - A. Definitions..... 7
 - B. Grant Agreements..... 8
 - C. TFEE’s (Grantor) Obligation 8
 - D. Grantee’s Obligation..... 8
 - E. Grantee’s Reporting Requirements 9

| | |
|--|-------------------------------------|
| VI. Recordkeeping and Monitoring | 10 |
| A. Duty to Maintain Records | 10 |
| B. Record Retention | 10 |
| C. Access by Grantor and State Auditor’s Office | 10 |
| D. Audits or Investigations | 11 |
| E. Location | 11 |
| F. Disallowance of Grant Funds..... | 11 |
| VII. Use of Grant Funds and Property | 11 |
| A. Allowable Expenditures | 11 |
| B. Salaries | 12 |
| C. Consultant Services | 12 |
| D. Allowable Travel Expenditures | 13 |
| E. Disbursement of Grant Funds | 13 |
| F. Misuse of Grant Funds | 13 |
| G. Use of Property..... | 14 |
| H. Records of Property | 14 |
| I. Purchase of Equipment; Title Upon Termination | 14 |
| J. Intellectual Property | 14 |
| VIII. Grant Agreement Termination | 14 |
| A. Termination for Convenience | 14 |
| B. Termination for Cause | 15 |
| C. No Reimbursement Upon Termination | 15 |
| IX. Dispute Resolution | 15 |
| A. Mediation; Noncompliance Actions | 15 |
| B. Resolution of Certain Claims Against Grantor | Error! Bookmark not defined. |

Appendices

I. Purpose

The purpose of this document is to establish a guide for the administration of the Texas Financial Education Endowment (“TFEE”) grant program. This policy lays out the parameters for executing the administrative and management components of the TFEE.

A. Background

TFEE was developed under the authority of Chapter 393 of the Texas Finance Code during the 82nd Legislature. Section 393.628 of the Texas Finance Code provides that TFEE will be administered by the Finance Commission (FC) to support statewide financial capability and consumer credit building activities and programs.

B. Roles and Responsibilities

1. Finance Commission (FC)

- a) Approve fund amounts recommended by the Audit Committee. The FC determines the total fund amount before the start of the selection process.
- b) Review Recommendations. The FC reviews recommendations from the Audit Committee regarding program improvements.
- c) Identify Program Objectives. The FC identifies methods to support statewide financial education and consumer credit building activities.
- d) Award Funds. The FC will award grant funds to organizations based on recommendations from the Audit Committee. The FC will approve fund allocations and amendments. The FC may request presentations from the organizations selected for final review.

2. Audit Committee (AC)

- a) The Audit Committee makes program and grant proposal recommendations to the Finance Commission with input from the Grant Advisory Committee and oversees the administration of the grant program.
- b) The Audit Committee makes program and funding recommendations to the FC based on recommendations from the Grant Advisory Committee.

3. Grant Advisory Committee (GAC)

- a) The GAC serves in an advisory role to the Grant Coordinator. The GAC: makes program recommendations to the GC and Audit Committee; evaluates grant proposals; and advises the development of the grant program.
- b) Prospective GAC members are recommended to the Audit Committee and approved by the Finance Commission.
- c) The GAC consists of seven members:
 1. Financial Education Consultant. – informs the group of existing programs and advocates for the needs of the financial education community.
 2. Educational Consultant – understands best practices for impacting education for both youth and adults. Assesses the program proposals for effective measures of knowledge gained. Has knowledge of financial education curriculum standards (Texas Essential Knowledge & Skills “TEKS”) and helps ensure that

funding school-based financial education programs cover requirements consistent with Texas Education Agency “TEA” standards.

3. Accountant (FC member): - assesses proposed program budgets and financial documents to determine financial structure.
 4. Auditor (FC member) – ensures TFEE objectives and goals align with Finance Commission intentions. Evaluate proposed program and business structure.
 5. Grant Administrator - objectively assesses, evaluates, and makes recommendations regarding the grant administration process.
 6. Consumer Advocate – advocates for consumers based on community engagement and needs assessment.
 7. Credit Access Business (CAB) industry representative – serves as a stakeholder for the CAB industry and assists in funding decisions.
- d) The GAC meets during the grant-funding cycle for the following purposes:
- (1) Provide consultation and technical assistance to GC
 - (2) Assist with major project management decisions associated with awarded grants, including:
 - (a) Selecting grant recipients and providing recommendations to the Audit Committee.
 - (b) Monitoring grantee project’s unspent funds and associated funding.
 - (c) Offering input, interviewing, and recommending new GAC members to GC
 - (3) The GAC makes recommendations to the Audit Committee for consideration of specific award allocations, termination of grant agreements for noncompliance, and amendments to program policies and procedures.
4. Office of Consumer Credit Commissioner (OCCC)
- a) OCCC is responsible for:
 - (1) Collecting assessment fees, the endowment fund, and maintaining reconciliation of funds
 - (2) Maintaining financial records of revenue and expenditures
 - (3) Serving as investment officer and maintaining compliance with the investment policy in accordance with state of Texas regulations;
 - (4) Disbursing and tracking funds; and
 - (5) Grant coordination oversight.
5. Grant Coordinator (GC)
- The GC works under the direction and oversight of the OCCC Commissioner or the Commissioner’s designee. The GC makes presentations to the GAC and the Finance Commission regarding grant activity and serves as the liaison between grantees and the GAC.
- a) The GC is responsible for monitoring the following regarding program development:
 - (1) Program objectives and goals
 - (2) Grant administration and oversight practices
 - (3) Recommendations for program needs to the GAC and FC

- b) The GC is responsible for ensuring and developing procedures to provide evidence of timely submission for required documents, including, but not limited to, applications and grant reports.
- c) The GC maintains the electronic records of all documentation submitted by grantees regardless of the delivery method. Hard copy submissions of applications, reports, and other documentation will receive a date stamp prior to being scanned and saved electronically.
- d) The GC will recommend policies and procedure amendments in order to ensure successful and effective implementation of the grant program. The GC will advise and assist in the maintenance of the following:
 - (1) Track, evaluate and monitor progress at each phase of the grant cycle;
 - (2) Revise official grant documentation, policies and procedures;
 - (3) Coordinate systems for tracking grant applications, awards, and major project management decisions associated with awarded grants;
 - (4) Adhere to processes for dispute resolution with grantees;
 - (5) Implement awarded grant funds according to terms and conditions of program policy;
 - (6) Maintain established operations and system to ensure objectives and goals are being met; and
 - (7) Monitor GAC process and procedures.
- e) As the liaison for the GAC, the GC will monitor the need for and composition of members to the GAC. Should a vacancy need to be filled during a grant cycle, the GC will work to identify suitable candidates. The GC will make the recommendation to the GAC to recommend a new member to the FC.
- f) Publicizing and promoting TFEE grant application opportunities.

C. Conflict of Interest

1. A GAC member may not derive any personal profit or gain, directly or indirectly, by participating with the Texas Financial Education Endowment (TFEE).
2. Each GAC member must sign a Conflict of Interest form prior to participating in the grantee selection process.
3. Each GAC member must disclose to the GC any personal or professional interests that may pose a potential conflict and shall refrain from participation in any discussion related to the conflict of interest or funding decisions.
4. Each GAC member must refrain from obtaining applicant information for personal or private solicitation purposes at any time during the term of their affiliation with TFEE.

D. TFEE Funds Oversight

1. TFEE funds are used to support the goals and strategies for the TFEE set by the Finance Commission. The priorities of the endowment for the early funding cycles focus on school and youth based financial literacy, capability programs, as well as financial coaching and consumer counseling initiatives. Prohibited and permissible uses of grant funds are defined in the grant agreement.

2. The OCCC Commissioner, Audit Committee, or Finance Commission may request an internal or external audit to examine compliance and when deemed necessary.
3. Reimbursement requests will be executed pursuant to the grant agreement and are based upon satisfactory compliance and performance outcomes.

II. Process Overview

A. Intention

Grant funding cycles commence every two years. Announcements for grant proposals will be made in September, and selected grantees will be announced in December.

B. Stage 1 – Administration

Grant Coordinator is responsible for the following:

1. The GC refines, revises and makes policy recommendations based on observed program need.
2. Further develops allocations and administrative processes.
3. Further revises grantee application, grant agreements, grant reports, evaluation and tracking tool.
4. Creates timeline for grant cycle.
5. Identifies and invites qualified professionals to serve on the GAC (should existing member(s) need to be replaced).
6. Publicizes opportunities with a goal to increase the number of applicants each grant cycle.

C. Stage 2 – Policy Development and Implementation

1. The GAC advises on, oversees and approves program development.
2. The GAC makes recommendations to the Audit Committee to approve program development. The Audit Committee makes recommendations for the FC to approve program modifications.
3. Upon FC approval, the GC ensures all administrative and grantee documentation are in place for grant announcement, such as applications, webinars, grant reports, grant agreements, and policies and procedures.
4. The GC updates TFEE web page with program information and materials.

D. Stage 3 – Grantee Selection

1. The GC receives and prepares applications for first phase of screening: confirms tax status, ensures applications are complete and have been timely submitted, logs applicant information, and makes recommendations for GAC review.
2. The GAC will provide recommendations to Audit Committee upon review of the TFEE budget, grant structure, number of awards and amounts to be funded, method of funding, and reporting requirements.
3. The AC makes recommendations to the FC based on the information presented by the GAC.

4. FC reviews the recommendations from the AC to select grantees. Winning grant recipients are announced in December.
5. Once selected, each grantee is sent an award letter. Those not selected for funding will receive a regret letter both signed by the GC.
Grant agreements must be signed by both the OCCC Commissioner (FC appointed TFEF representative) and the grantee, then submitted to the GC before funded activities can commence. Grant Agreements further define the intended grant results, payment schedules, allowable costs and reporting requirements.

E. Stage 4 – Manage Grant and Measure Progress

1. In collaboration with the GAC, the GC will develop a strategy for ongoing grant management and ensure timely report submission.
2. Funding is dependent on program impact and compliance.
3. The Grantee is responsible for tracking and reporting program progress, as well as assessing and communicating program success, challenges, and impact.
4. The GC provides technical assistance to grantees and offers opportunities for regular consultation.
5. The Grantees submit a final report summarizing the impact, results, and consumer follow-up surveys (six months after the program completion).
6. Program evaluation addresses issues of non-compliance, identifies risks, and recommends specific deliverables.
7. The GC manages conflict honestly and directly with grantee. The GAC assists with recommendations to rectify issues of non-compliance.
8. Conduct evaluation to determine the length of GAC member terms and structure of the committee.

III. Funding Priorities and Goals

A. Scope

This section identifies four categories that support statewide financial education and consumer credit building activities. With recommendations from the GAC, the FC will select which categories TFEF's efforts will be focused on prior to the start of a new grant award cycle.

B. Goals

1. Produce and disseminate approved financial education materials at licensed locations.
Identify and support educational programs specific to the subprime demographic, including general information to be made available through state agency partners, financial service providers, trade organizations, and community events.

2. Public awareness campaigns to improve credit profiles and credit scores of Texas consumers.
 - a) Savings campaigns to promote employee incentives.
 - b) Identify outreach opportunities to the unbanked and encourage lending institutions to allow low- to moderate-income citizens to open accounts and waive the required minimum balance and fees.
3. Adult, school, and youth-based financial literacy and capability
 - a) Teacher training programs that increase educational awareness for adults and youth.
 - b) Encourage lending institutions to offer classes on financial education.
4. Financial coaching and consumer counseling

Identify opportunities for individuals to participate in one-on-one financial counseling and coaching programs.

IV. Pre-Award Requirements

A. Organizational Eligibility

Non-profit organizations, governmental organizations, schools, and for-profit entities are eligible to apply for grant funding. Eligibility is NOT open to financial service providers and entities regulated by the Finance Commission.

B. Program Criteria & Grant Application

1. The TFEЕ Guidelines and Instructions for application submission will be posted on the TFEЕ website.
2. Applicants may submit applications via mail, fax, or email. Documents submitted by email receive an automatic date stamp upon receipt; this “digital” date stamp provides sufficient and accurate evidence of timely submission.
3. Applicant’s program must:
 - a) Align with TFEЕ goals or strategies
 - b) Demonstrate effective evaluative tools and metrics
 - c) Predict or provide evidence of program impact
 - d) Provide longitudinal evidence of performance and outcomes
 - (1) Demonstrate adequate return-on-investment
 - (2) Document strategic goals
 - (3) Demonstrate capacity to collect and report the following data: number of people served, training hours, pre-and-post survey data, demographic information, and sign-in sheets to justify amount of funds requested
 - e) Provide evidence that programming will begin when the grant is awarded
4. Applicants must read and follow all application instructions and guidelines. Applications that do not comply with these instructions may be delayed or not accepted for review.

C. Application Submission

1. Grant funding cycles commence every two years. Announcements for grant proposals will be made in September, and selected grantees will be announced in December.
2. The GC confirms receipt of grant applications by email. Applications will only be accepted on, or prior to the due date. Late and incomplete applications will be rejected.

D. Application Review and Selection Process

1. Funding consideration will be given to organizations that promote, provide, or support financial education or financial literacy initiatives. Successful applicants must demonstrate evidence-based programming that increases financial capacity and promotes asset building. Reimbursement allocations are to be funded semi-annually, based on performance and reporting compliance.
2. The application review and selection process consists of four steps:
 - (1) The GC will collect and assess each application for eligibility
 - (2) The GC will recommend appropriate applications to the GAC
 - (3) The GAC reviews applications and selects programs for funding consideration to the Audit Committee.
 - (a) GAC will determine fund allocations based on the applicant's application and demonstration to meet program eligibility criteria.
 - (b) If two or more applicants receive the same score, the GAC will select an applicant using the following criteria: (1) ability to impact the most consumers, (2) stability of the funding structure, (3) the needs based on the target population.
 - (4) The FC will make the final selections of winning organizations to be awarded grant funds.
3. Upon completion of the competitive application and review process, successful grant applicants will be notified, in writing, no later than December of odd number years.

E. Public Records

1. Texas Public Information Act: All information, documentation, and other material submitted are subject to public disclosure under the *Texas Public Information Act*.
2. A full list of individuals and organizations selected for an award will be published on the TFEE web site.
3. Information may be publicly available and published online (TFEE webpage, OCCC or Finance Commission website).

V. Post Award Requirements

A. Definitions

1. "Grantee" means applicant.
2. "Grantor" means the Finance Commission of Texas and the Texas Financial Education Endowment. The Commission may authorize one or more persons, including the Grant

Coordinator, to perform any action that the Commission is authorized to perform as Grantor under the Agreement.

B. Grant Agreements

1. Once a grantee has been selected, and prior to initiating any grant funded activities, grantees and the FC appointed administrator, usually the OCCC Commissioner or the Commissioner's designee, must sign the grant agreement.
2. The terms of the Grant will be defined in the Grant Agreement, and terminate either one or two years after the grant has been awarded, unless it is terminated earlier in accordance with another provision.
3. Expenses that were incurred before the beginning or after the termination of Agreement are not eligible for reimbursement.
4. Grantees are expected to continue to report grant funded activities until the end of the term of the agreement.

C. TFEE's (Grantor) Obligation

1. Grantor will reimburse Grantee for actual, allowable, and allocable costs incurred by Grantee pursuant to Agreement up to the maximum amount of the grant award.
2. Grantor is not obligated to pay unauthorized costs. Prior written approval from Grantor is required if Grantee anticipates any of the following: (1) altering the scope of the Grant, (2) adding funds to previously unapproved budget categories, (3) changing funds in any awarded budget category by more than 10% of the total amount awarded, or (4) adding new line items to any awarded budget category.
3. Grantor's maximum liability under the Agreement is the "Amount Awarded."
4. Reimbursement of awarded funds is not an entitlement or right. Reimbursement depends, among other things, upon strict compliance with all terms, conditions, and provisions of the Grant Agreement.

D. Grantee's Obligation

1. Grantee may use the Grant only to create, deliver, or expand Grantee's financial education, literacy, and capability building programs within the State of Texas.
2. Grantee must use the Grant in accordance with all of the following: (1) the terms of Agreement, (2) TFEE Grant Administration & Advisory Policy Manual as defined in the application guidelines and instructions, and (3) Grantee's application.
3. The Uniform Grant Management Standards (UGMS) provides parameters by which the GC can work to ensure consistency with state practices.
4. Grantee must cooperate fully with Grantor.
5. Grantee must notify Grantor within 30 days of significant changes or events occurring during the term of Agreement that could potentially impact the progress or outcome of the Grant, including, but not limited to, the following changes: (1) Grantee's management personnel, (2) physical or mailing address, (3) loss of funding, and (4) changes to Grantee's status with the Internal Revenue Service.
6. Failure to submit the required 30-day notice of significant change or events will be grounds for termination of Agreement.

7. The fiscal and programmatic management of the Grantee will include accountability for all funds and materials received from Grantor; compliance with Grantor's rules, policies, and procedures, as well as applicable federal and state laws and regulations; and correction of fiscal and program deficiencies identified through self-evaluation or Grantor's monitoring processes.
8. Grantee must develop, implement, and maintain all of the following: (1) financial management and control systems that include appropriate financial planning, including the development of budgets that adequately reflect all functions and resources necessary to carry out authorized activities and the adequate determination of costs; (2) financial management systems, including accurate and complete payroll, accounting, and financial reporting records; (3) cost source documentation; (4) effective internal and budgetary controls; (5) documentation regarding determination of reasonableness, allocation of costs, and timely and appropriate audits and resolution of any findings; and (6) annual financial statements, including statements of financial position, activities, and cash flows, prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) or other recognized accounting principles.
9. The format for submitting disbursement requests will be provided in the grant report. Each disbursement request must contain supporting documentation or back-up documentation for all amounts shown on the request, including receipts for all materials and supplies, all Grantee staff time shown by number of hours worked and hourly rate, and all contractor or sub-contractor services, which can be identifiable to reconcile expenditures.
10. Grantees must comply with all laws, regulations, requirements, and guidelines applicable to a Grantee providing services to the State of Texas, as these laws, regulations, requirements, and guidelines currently exist and as they are amended throughout the term of the Agreement.
11. If a Grantee fails to use Grant funds to create, deliver, or expand financial education, literacy, and capability building programs as described in Grantee's application, then Grantor may do one or more of the following: (1) terminate the Agreement, (2) withhold the Grant funds, (3) require that Grantee refund Grant funds received, (4) submit an amended report, and (5) determine that Grantee is ineligible for future TFEE funds.
12. If the Texas Comptroller's Office forfeits a Grantee's right to transact business in Texas due to failure to pay a franchise tax or for any other reason, then Grantor may do one or more of the following: (1) terminate the Agreement, (2) suspend the Agreement until Grantee returns to good standing with the Comptroller's Office, or (3) take any other action described in paragraph 5.6 of the Agreement.

E. Grantee's Reporting Requirements

1. As part of a Grantee's proposed application, Grantees will provide the detailed measurable outcomes that Grantee expects to achieve through use of the Grant funds during the Term of the Agreement. Grantees must submit to Grantor a report on or before each due date specified, and must use the standard TFEE grant report template.

Grantee also agrees to submit a longitudinal report to assess changes in consumer behavior and program impact six months upon program completion.

2. For adult financial education programs, reimbursement reports will be considered incomplete if they do not include participant sign-in sheets and aggregate pre-and-post survey data. Grantee must retain copies of the pre-and-post surveys for a period of three years after the end of the term of the Agreement.
3. Grantee must provide a written explanation to Grantor for any variances on the periodic reports for any performance by Grantee that varies from projected performance. In addition to the written explanation, Grantee must promptly answer any questions by Grantor, whether in writing or otherwise, in connection with the periodic reports presented to Grantor.
4. If Grantee exhausts all funds prior to the completion of the grant term the Grantee is obligated to continue to track and report grant related activities for the remaining duration of the term outlined in the agreement.
5. If Grantee fails to comply with any of the reporting requirements, then Grantor may do one or more of the following: (1) terminate the Agreement, (2) withhold the Grant funds, (3) require that Grantee refund Grant funds received, (4) submit an amended report, and (5) determine that Grantee is ineligible for future TFEF funds.
6. Grantee shall request disbursement of grant funds by submitting a Grant Reimbursement Report to Grantor for approved budget work performed on the project. Disbursement is contingent upon approval of the disbursement request by Grantor.

VI. Recordkeeping and Monitoring

A. Duty to Maintain Records

Grantee must maintain adequate records to support its charges, procedures, and performance for all work related to the Agreement. Grantee must also maintain records that are deemed necessary by Grantor, the State Auditor's Office, other auditors of the State of Texas, or any other persons designated by Grantor, to ensure proper accounting for all costs and performances related to the Agreement.

B. Record Retention

For a period of three years after the end of the term of the Agreement, or until full and final resolution of all audit or litigation matters that arise after the expiration of the term, whichever is later, Grantee must maintain any records that are necessary to fully disclose the extent of services provided under the Agreement, including but not limited to any daily activity reports, time distribution and attendance records, and other records that may show the basis of the charges made or performance delivered.

C. Access by Grantor and State Auditor's Office

1. During the Term and for at least three years thereafter, Grantee must allow Grantor and the State Auditor's Office access to and the right to examine the organization, program, premises, books, accounts, records, files, and other papers or property belonging to or in use by Grantee and pertaining to the Agreement or the use of funds pursuant to the

Agreement, in order to ascertain complete compliance with the provisions of the Agreement and with TFEF program guidelines.

2. Grantee must maintain these records at a location that is readily accessible to Grantor.
3. Grantor has the right to make a visual inspection of any assets, goods, or products purchased with Grant funds.

D. Audits or Investigations

Acceptance of Grant funds under the Agreement acts as acceptance of the authority of the Grantor to conduct an audit or investigation in connection with Grant funds. Grantee further agrees to cooperate fully with the Grantor and the State Auditor's Office, or their successors, in the conduct of any audit or investigation, including providing all records requested. Grantee will ensure that this clause concerning the authority to audit the funds received by Grantee is included in any subcontract it awards.

E. Location

Any audit of records may be conducted at Grantee's principal place of business or a location of Grantee's operations during Grantee's normal business hours.

F. Disallowance of Grant Funds

Grantee will be liable to the Grantor for any costs disallowed as a result of any audit or investigations, and must, upon demand, immediately reimburse the Grantor for disallowed costs.

VII. Use of Grant Funds and Property

A. Allowable Expenditures

1. Grantee may use the Grant funds only for allowable expenditures as identified in Grantee's application and authorized pursuant to the Uniform Grant Management Standards for the State of Texas, as adopted pursuant to Chapter 783 of the Texas Government Code.
2. Grant funds may not be used for capital expenditures (land or any items over \$5,000).
3. Grantee must produce proof of payment (stamped paid invoices or receipts) of all allowable expenditures.
4. All costs must be directly attributable to the project that is the subject of the Agreement.
5. Grantee may not use Grant funds for any of the following: (1) entertainment or alcoholic beverages, (2) to directly fund class action suits, lawsuits against governmental entities, or lobbying for or against any candidate or issue, or (3) to sue or otherwise support a cause of action, claim, or defense against Grantor or the State of Texas.

B. Salaries

Salary costs may be reimbursed for direct program activity. Any salary charged to grant must be accurately recorded. Grantee must submit timesheets with specific duties performed in relation to grant activity in order for salary to be considered for reimbursement. This documentation must be submitted with grant reimbursement report.

C. Consultant Services

1. Grantees normally are expected to utilize the services of their own officers or employees to the maximum extent in managing and performing the activities supported by TFEE grant. Where it is necessary for a grantee to enter into a sub-award for the services of persons who are not its officers or employees, it is expected to do so in accordance with its own written organizational standards.
2. If the need for consultant services is anticipated, the proposal narrative should provide appropriate rationale, and the summary proposal budget should estimate the amount of funds that may be required for this purpose. To the extent possible, consultant rates should show separate amounts for actual services and each of the components of the rate (such as fringe benefits, indirect costs, and other expenses).
3. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the performing organization are allowable when reasonable in relation to the services rendered. However, payment for a consultant's services may not exceed more than 30% of actual award.
4. In determining the allowable costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors, among others, are relevant:
 - a) The nature and scope of the service rendered in relation to the service required;
 - b) The necessity of issuing a sub award for the service considering the organization's capability in the particular area;
 - c) The past pattern of such costs, particularly in the years prior to the award of grant
 - d) The impact of government contracts and grants on the organization's total activity (e.g., what new problems have arisen)
 - e) The service can be performed more economically by employment rather than by consulting
 - f) The qualifications of the individual or concern rendering the service and the normal/customary fees charged and received by the individual for comparable services
 - g) The adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation and termination provisions)
 - h) Costs of legal or lobbying services are unallowable in the grant.

D. Allowable Travel Expenditures

1. Travel costs may be reimbursed for certain expenses at the rates authorized by the Agreement and limited by rules and rates promulgated by the Comptroller of Public Accounts.
2. All travel must be performed in conjunction with official TFEE business. It is the responsibility of each grantee to track and submit (with grant reports) the completed mileage log for travel reimbursement. Failure to comply with the travel guidelines will result in delay of payment or rejection of travel reimbursement. When tracking mileage grantees must use Mileage Log included with the grant report.
3. Grantees should use online mapping tools to compare and commute point-to-point mileage. The allowable reimbursement is determined using the lower of the actual miles driven or the mileage calculated, point to point. The Grantor is not required to reimburse grantees at the maximum rate. The Grantor's maximum mileage reimbursement rate for travel by grantees is in accordance with the Texas Comptroller of Public Accounts. Mileage to and from ordinary in-town errands will not be reimbursed.
4. Mileage is consistent with state reimbursement rates set by the State Comptroller and is subject to change. Refer to Uniform Grant Management Standards (UGMS) for conditions related to all travel, lodging, and food related reimbursement expenses. Refer to the State Comptroller for specific travel allowances, definitions, and restrictions.
5. Parking is eligible for reimbursement as long as it is incurred for official TFEE business.
6. Grantees are encouraged to compare airline costs and use the lesser amount. To be reimbursed for airline travel a Grantee must submit the receipts that contain the following information: grantee (employee) name, airline, cost of airfare, travel dates, destinations, ticket number, and seating class. Grantees must also show proof of payment for airfare.

E. Disbursement of Grant Funds

1. Payments are made on a reimbursement basis after Grantor receives Grantee's Account and Report on Use of Grant Funds including receipts and invoices for all expenditures and accompanying reports.
2. Receipts and invoices must match the funds requested on Grantee's initial budget, unless otherwise approved in writing by the Grantor.
3. Advance payments that have not been used must be returned to the Grantor within 30 days of termination.

F. Misuse of Grant Funds

1. Grantor may require a refund of Grant funds already disbursed to Grantee if one or more of the following events occur: (1) Grant funds are misused, (2) Grant funds are used in an illegal manner, (3) Grant funds are used for non-allowable expenses, (4) Grantee violates the terms or conditions of the Agreement, or (5) Grantor discovers that Grantee made any misrepresentations to Grantor in obtaining this Grant.

2. This provision is not exclusive of other grounds for withholding or refunding of funds or any other remedy, civil or criminal, which may be available to Grantor.

G. Use of Property

Any property acquired with Grant funds must be used in accordance with the Agreement, to accomplish the purposes of the Grant and the Program.

H. Records of Property

Grantee must maintain appropriate records of goods or property purchased with Grant funds and must develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of these goods or property.

I. Purchase of Equipment; Title Upon Termination

1. Grantee may not give any security interest, lien or otherwise encumber any item of equipment purchased with funds.
2. Grantee must permanently identify all equipment purchased under this contract by appropriate tags or labels affixed to the equipment.
3. Grantee must maintain a current inventory of all equipment or assets, which is available to Grantor at all times upon request. Grantee must administer a program of maintenance, repair, and protection of equipment or assets under this contract so as to ensure the full availability and usefulness of the equipment or assets.
4. If Grantee is indemnified, reimbursed, or otherwise compensated for any loss of, destruction of, or damage to the assets provided under this contract, it must use the proceeds to repair or replace these equipment or assets. To the extent that Grantor reimburses Grantee for its purchase of equipment and supplies with funds from this contract. Upon termination of the contract, title to or ownership of all purchased equipment and supplies, at the sole option of Grantor, will remain with Grantor.

J. Intellectual Property

1. Where funds obtained under the Agreement may be used to produce original books, manuals, films, or other original material and intellectual property, Grantee may copyright such material subject to the royalty-free, non-exclusive, and irrevocable license that is reserved by Grantor.
2. Grantor has the unrestricted right to use, copy, modify, prepare derivative works, publish, and distribute, at no additional cost to Grantor, in any manner that Grantor deems appropriate at its sole discretion, any component of intellectual property which is the property of the grant project.

VIII. Grant Agreement Termination

A. Termination for Convenience

1. The Grantor or Grantee may terminate an Agreement before the end of the Term, without cause, by delivering a written notice of termination to the other party at least 30 days before the termination.

2. Early termination of an Agreement will not relieve Grantee from reporting requirements, recordkeeping requirements, or liability to refund Grant funds in the event of misuse.
3. If Grantee terminates the agreement after receiving reimbursements in an amount that exceeds a pro rata portion of the total awarded amount over the elapsed Term of the Agreement, then Grantee must refund the portion of the reimbursement that exceeds the pro rata portion of the total awarded amount.

B. Termination for Cause

In the event that Grantee fails to perform or comply with an obligation of the terms, conditions, and provisions of the Agreement, Grantor may, upon written notice of the breach to Grantee, immediately terminate all or any part of the Agreement.

C. No Reimbursement Upon Termination

1. In the event of termination of the Agreement, Grantor will make no further disbursement of Grant funds to Grantee beyond those already approved at the time of termination, and Grantee specifically waives all rights to any these funds.
2. Grantee must refund the Grantor any unused funds at the time of termination.

IX. Dispute Resolution

Mediation; Noncompliance Actions

1. To the extent authorized by law, Grantor and Grantee may use a dispute resolution process before pursuing termination or litigation.
2. Grantor and Grantee may sign an amended Grant Agreement or Noncompliance Action Plan agreeing to the amended terms.
3. The Noncompliance Action Plan may include increased communications between Grantor and Grantee, site visits, audits, and additional reports.
4. The dispute may be mediated by a mutually acceptable third party.
5. If mediation occurs, Grantor and Grantee will pay all costs of any mediation equally.
6. Grantor's participation in any mediation or nonbinding dispute resolution process will not be construed as a waiver by Grantor of any of the following: (1) any rights, privileges, defenses, remedies, or immunities available to Grantor as an agency of the State of Texas or otherwise available to Grantor, (2) Grantor's termination rights, or (3) other termination provisions or expiration dates of the Agreement.

Appendices

(Not attached in order to conserve paper. Documents are available upon request.)

1. Grant Request Application Pre-Screen (9 pages)
2. Grant Program Guidelines & Instructions (4 pages)
3. Grant Agreement (13 pages)

Eric C. Norrington, ACE Cash Express, Inc.
CAB Industry Representative

Eric C. Norrington serves as Senior Vice President of Public Affairs at ACE Cash Express, Inc. He joined ACE Cash Express in 1993 as Vice President of Marketing. Eric previously served as the Vice President of Communications and Government Relations of ACE Cash Express, Inc. He is an attorney and has been the primary point of contact for ACE in all of their philanthropic and community outreach efforts.

Eric has also served as director of the Financial Service Centers of America, Inc. In 2004, Eric was named Financial Service Provider of the Year by Financial Service Centers of America (FiSCA) and Checklist magazine. He was recognized for his many years of service to the industry, his dedicated commitment to FiSCA as a board member and committee leader and for his outstanding contributions to several prominent association and industry projects. Prior to joining ACE, Eric was Director of Public Affairs for The Southland Corporation (7-Eleven Stores) and held various marketing and public relations positions during his 17-year tenure at the worldwide retailer.