2013-2017

FINANCE COMMISSION OF TEXAS STRATEGIC PLAN

Member Name	Term Expiration	Hometown
William J. (Bill) White, Chair	February 1, 2016	Georgetown
Susan H. Burton	February 1, 2016	Addison
Darby Byrd	February 1, 2018	Orange
Victor E. Leal	February 1, 2018	Amarillo
Stacy G. London, CMC	February 1, 2014	Houston
Cindy F. Lyons, CPA	February 1, 2016	El Paso
Lori B. McCool	February 1, 2014	Boerne
Jonathan B. Newton	February 1, 2016	Houston
Larry Patton	February 1, 2014	El Paso
Paul Plunket	February 1, 2014	Dallas
Hilliard J. (Jay) Shands, III	February 1, 2018	Lufkin

August 2012

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PREFACE

In accordance with Section 11.002(a) and (b) of the Texas Finance Code, the Finance Commission of Texas (Commission) has developed this Strategic Plan for 2013 – 2017. In supporting the merits of sound strategic planning, the Commission also adopted an internal policy statement as part of its internal operating policies and procedures that requires adoption of a five-year strategic plan beginning in August 2002 and each two-year period thereafter. The statute and policy statement are shown below:

TEXAS FINANCE CODE, Sec. 11.002. Purpose of Commission; Strategic Plan

> *(a) The finance commission is responsible for overseeing and coordinating the Texas Department of Banking, the Department of Savings and Mortgage Lending, and the Office of Consumer Credit Commissioner and serves as the primary point of accountability for ensuring that state depository and lending institutions function as a system, considering the broad scope of the financial services industry. The finance commission is the policy-making body for those finance agencies and is not a separate state agency. The finance commission shall carry out its functions in a manner that protects consumer interests, maintains a safe and sound banking system, and increases the economic prosperity of the state.*
>
> *(b) The finance commission shall prepare and periodically update a strategic plan for coordination of the state financial system. Each finance agency shall cooperate in preparation of the plan.*

Policy Statement

The Finance Commission recognizes the benefit of sound short-term and long-term planning and the need to provide oversight for the regulatory responsibilities of each Finance Commission agency in a manner intended to protect the integrity of the state's financial system as well as to promote economic prosperity. In this regard, the Finance Commission will prepare and adopt a five-year strategic plan each biennium. Revisions and updates to the plan are permitted, but shall be limited to items that are material in nature and that will result in significant changes to the goals and objectives of the Finance Commission.

The chair of the Finance Commission will appoint three members to serve on a strategic planning committee. The strategic planning committee shall be responsible for the oversight of the preparation and update of the strategic plan so that it encompasses the goals and objectives of the Finance Commission. At a minimum, the strategic plan shall address the following:

- The current and forecasted condition of the state's economic and financial systems considering global and national policies and influences;
- The effectiveness of regulatory statutes in providing guidelines that ensure a safe and sound financial services industry and financial environment for the citizens and businesses of the state;
- The condition and effectiveness of the three finance agencies in meeting their goals and objectives as stipulated in their respective strategic plans; and
- Any enhancements to the regulatory framework of the three finance agencies.

STATE VISION, MISSION, AND PHILOSOPHY

STATE VISION

Over the last several years, families across this nation have tightened their belts to live within their means, and Texas followed suit. Unlike people in Washington, D.C., here in Texas we believe government should function no differently than the families and employers it serves. As we begin this next round in our strategic planning process, we must continue to critically examine the role of the state government by identifying the core programs and activities necessary for the long-term economic health of our state, while eliminating outdated and inefficient functions. We must continue to adhere to the priorities that have made Texas a national economic leader:

- ensuring the economic competitiveness of our state by adhering to principles of fiscal discipline, setting clear budget priorities, living within our means and limiting the growth of government;

- investing in critical water, energy and transportation infrastructure needs to meet the demands of our rapidly growing state;

- ensuring excellence and accountability in public schools and institutions of higher education as we invest in the future of this state and make sure Texans are prepared to compete in the global marketplace;

- defending Texans by safeguarding our neighborhoods and protecting our international border; and

- increasing transparency and efficiency at all levels of government to guard against waste, fraud and abuse, ensuring that Texas taxpayers keep more of their hard-earned money to keep our economy and our families strong.

I am confident we can address the priorities of our citizens with the limited government principles and responsible governance they demand. I know you share my commitment to ensuring that this state continues to shine as a bright star for opportunity and prosperity for all Texans. I appreciate your dedication to excellence in public service and look forward to working with all of you as we continue charting a strong course for our great state.

~ Rick Perry, Governor

STATE MISSION

Texas state government must be limited, efficient, and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

Aim high...we are not here to achieve inconsequential things!

STATE PHILOSOPHY

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise, we will promote the following core principles:

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics, or individual recognition.

- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.

- Decisions affecting individual Texans, in most instances, are best made by those individuals,
their families, and the local government closest to their communities.

- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. Just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future and the future of those they love.

- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.

- State government has responsibility to safeguard taxpayer dollars by eliminating waste and abuse, and providing efficient and honest government.

- Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

STATE PRIORITY GOALS AND BENCHMARKS

STATE PRIORITY GOALS

The following statewide priority goals and related benchmarks are particularly relevant and provide guidance to the Commission in establishing its goals and objectives. These goals and benchmarks appear in the strategic plans of the Texas Department of Banking, the Department of Savings and Mortgage Lending, and the Office of the Consumer Credit Commissioner.

GOAL: REGULATORY

To ensure Texans are effectively and efficiently served by high-quality professionals and businesses by:

- ✪ Implementing clear standards;
- ✪ Ensuring compliance;
- ✪ Ensuring market-based solutions; and
- ✪ Reducing the regulatory burden on people and business.

BENCHMARKS

- ✔ Percent of state financial institutions and credit providers rated "safe and sound" and/or in compliance with state requirements
- ✔ Percent of documented complaints to professional licensing agencies resolved within six months
- ✔ Percent of state professional licensee population with no documented violations
- ✔ Percent of new professional licensees as compared to the existing population
- ✔ Percent of individuals given a test for professional licensure who received a passing score
- ✔ Percent of new and renewed professional licenses issued via Internet
- ✔ Number of new business permits issued online
- ✔ Percent of increase in utilization of the state business portal

GOAL: ECONOMIC DEVELOPMENT

To provide an attractive economic climate for current and emerging industries and market Texas a premier business expansion and tourist destination that fosters economic opportunity, job creation, and capital investment by:

- ✪ Promoting a favorable and fair system to fund necessary state services;
- ✪ Addressing transportation needs;
- ✪ Maintaining economic competitiveness as a key priority in setting State policy; and
- ✪ Developing a well-trained, educated, and productive workforce.

BENCHMARKS

- ✔ Texas unemployment rate
- ✔ Median household income
- ✔ Per capita gross state product
- ✔ Number of new small businesses created

GOAL: GENERAL GOVERNMENT

To provide citizens with greater access to government services while reducing service delivery costs and protecting the fiscal resources for current and future taxpayers by:

- ✪ Supporting effective, efficient, and accountable state government operations;
- ✪ Ensuring the state's bonds attain the highest possible bond rating; and
- ✪ Conservatively managing the state's debt.

BENCHMARKS

- ✔ Total state spending per capita
- ✔ Percent change in state spending, adjusted for population and inflation
- ✔ Number of state employees per 10,000 population
- ✔ Number of state services accessible by Internet
- ✔ Total savings realized in state spending by making reports/documents/processes available on the Internet and accepting information in electronic format
- ✔ Affordability of homes as measured by the Texas Housing Affordability Index

FINANCE COMMISSION MISSION AND PHILOSOPHY

MISSION

The mission of the Finance Commission of Texas is to ensure that the financial service providers and other regulated entities chartered or licensed under state law operate as sound and responsible institutions that enhance the financial well-being of the citizens of Texas.

PHILOSOPHY

In fulfilling our mission, we will oversee the agencies under our supervision in a manner that:

- Provides a regulatory framework that protects the rights of depositors, consumers, and shareholders in Texas;
- Promotes a fair and stable financial services environment in which the credit and financial needs of the citizens and businesses of Texas are fulfilled;
- Advocates and exercises a system of open communication and unbiased consideration for rulemaking;
- Mandates a fair and efficient supervisory environment;
- Ensures safety and soundness in the financial service industries; and
- Requires its agencies operate honestly and professionally in conducting their affairs with the public, the industries, and the legislature.

FINANCE COMMISSION OVERVIEW AND COMMITTEES

Entities Regulated by Agencies of the Finance Commission

Department of Banking	Savings and Mortgage Lending	Office of Consumer Credit Commissioner
➢ Commercial Banks[1] ➢ Foreign Bank Agencies ➢ Public Trust Companies ➢ Prepaid Funeral Licensees ➢ Perpetual Care Cemeteries ➢ Money Services Businesses ➢ Private Child Support Agencies ➢ Check Verification Entities	➢ State Savings Banks[2] ➢ Mortgage Bankers ➢ Mortgage Companies ➢ Residential Mortgage Loan Originators ➢ Third Party Mortgage Loan Servicers	➢ Finance Companies ➢ Home Equity Lenders ➢ Secondary Mortgage Lenders ➢ Residential Mortgage Loan Originators ➢ Credit Access Businesses (Payday and Auto Title) ➢ Signature Loan Companies ➢ Pawnshops ➢ Pawnshop Employees ➢ Motor Vehicle Sales Finance ➢ Property Tax Lien Lenders ➢ Retail Installment Creditors ➢ Sellers of Consumer Goods and Services ➢ Manufactured Housing Creditors ➢ Debt Management & Debt Settlement Service Providers ➢ Refund Anticipation Loan Facilitators ➢ Crafted Precious Metal Dealers

[1]Includes all State Banking Activity [2]Includes all State Savings Bank Activity

The Commission was established in 1943 and derives its authority from Chapter 11 of the Texas Finance Code. The Commission consists of eleven members who are private citizens appointed by the Governor of Texas, subject to Senate confirmation.

The composition of the Commission includes:

- two state bankers,
- one state savings executive,
- one consumer credit executive,
- one residential mortgage loan originator, and
- six public members, one of whom must be a certified public accountant.

Members serve staggered, six-year terms; members with expired appointments continue serving until their replacements are named. The governor appoints the presiding officer, currently William J. (Bill) White, a credit consumer executive from Georgetown, Texas.

The Commission is the oversight and policy-making body for the three agencies under the umbrella of the Commission and is not a separate state agency. The three agencies overseen by the Commission provide administrative services and operational funding to the Commission, which is required to meet at least six times annually. All meetings of the Commission and its committees are subject to the Open Meetings Act, with public notice of the meetings posted on the Secretary of State's website approximately seven days prior to a scheduled meeting.

The Commission appoints the commissioners of the three agencies under its oversight. The headquarters of these agencies are located at the State Finance Commission Building, 2601 North Lamar Blvd., Austin, TX 78705.

The Commission is responsible for overseeing and coordinating the activities of the Texas Department of Banking (DOB), the Department of Savings and Mortgage Lending (SML), and the Office of Consumer

Credit Commissioner (OCCC). The Commission aims to ensure Texas' financial service providers operate in a safe and sound manner, industries function as a coordinated system considering the broad scope of the financial services arena under its jurisdiction, and consumers that seek services from licensed financial service providers are protected from unfair or harmful practices. Through this safeguarding process the Commission provides a forum for opinions and views of stakeholders, consumers, and the public to be heard.

COMMITTEES

The Commission has three standing committees: Audit Committee; Study Committee; and Strategic Planning Committee. Commission members are appointed to one or more committees by the presiding officer and work towards accomplishing the objectives, mandates, and responsibilities of the Commission as a whole. Each committee chair reports its activities, recommendations and findings to the Commission during scheduled public meetings.

Audit Committee

The Audit Committee is responsible for:

- providing oversight of the agencies' internal audit function, including:
    - interviewing and recommending the selection of an internal auditor,
    - reviewing and recommending approval of the annual risk assessment performed by the internal auditor,
    - reviewing, with the internal auditors, the audit scope and plan of the internal auditors,
    - reviewing and recommending approval of the annual internal audit reports, including management's responses thereto, and monitor the agencies' corrective actions.
- reviewing and recommending approval of external audits conducted by state and federal agencies, including management's responses thereto, and monitor the agencies' corrective actions.
- reviewing and recommending approval of the annual operating budgets, quarterly financial statements, and investment reports of the three agencies.

The certified public accountant member of the Commission shall be appointed as a member of the Committee unless specifically excluded by a majority of the Commission.

Study Committee

The Study Committee is responsible for:

- coordinating and reviewing any statutorily-required or authorized research studies or projects decided to be undertaken, as well as those determined to be necessary by the Finance Commission.
- monitoring and overseeing Legislative Interim Studies as appropriate.
- monitoring and overseeing activities related to the self-directed, semi-independent (SDSI) status of the agencies by conferring with agencies on material interests, issues and matters related to SDSI status, as well as monitoring general reporting requirements to governing bodies and the state legislature associated with the SDSI status, and exploring additional strategies with Finance Commission agency heads regarding implementation and operational policies related to SDSI status.
- reviewing and making recommendations for updates to the policies and procedures of the Finance Commission every biennium.
- monitoring the Sunset Review process as appropriate, following reports on the same from the Finance Commission agency heads.

On recommendation of the agencies or as required by law, the Study Committee may conduct research on:

- The availability, quality and prices of financial services, including lending and depository services offered to agricultural businesses, small businesses, and individual customer in this state, and
- The practices of business entities in this state that provide financial services to agricultural business, small business, and individual consumers in this state.

Strategic Planning Committee

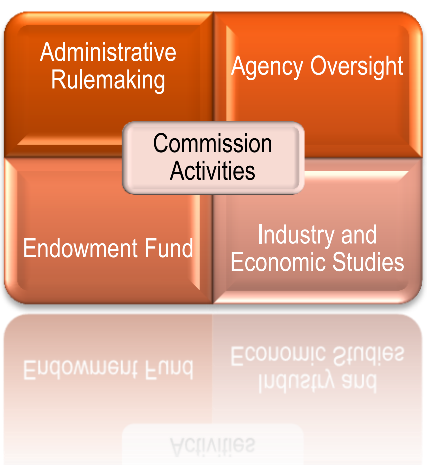
The Strategic Planning Committee is responsible for:

- providing direction for and review of the strategic plans developed by each of the agencies under the Finance Commission.
- defining the scope and development of the Finance Commission's strategic plan ensuring alignment with legislative mandates, industry and economic indicators, and agency strategic plans.
- playing an active role in legislative hearings and communications with elected officials.

KEY RESPONSIBILITIES

The Commission accomplishes its goals through the operations of the three agencies, and all goals, performance measures, and outcomes are incorporated into the functions and performance of these agencies. Since the Commission is not a separate state agency, separate goals, performance measures, and outcomes are not maintained for the Commission itself. Functions performed exclusively by the Commission, include:

- Review and take action on rules to further implement statutes passed by the Texas Legislature and the issuance of interpretations of the Texas Constitution relating to home equity lending and reverse mortgages;
- Oversight of an external audit firm that reviews the activities of the three agencies;
- Oversight of the activities of the endowment fund; and
- Supervision of mandated studies.



Self-Directed, Semi-Independent Oversight

The 81st Legislature enacted House Bill 2774 that amended the Texas Finance Code through the addition of Chapter 16 and which granted four state financial regulatory agencies self-directed, semi-independent (SDSI) status. Three of the four agencies provided this status fall under the oversight of the Finance Commission of Texas:

- Department of Banking;
- Department of Savings and Mortgage Lending; and
- Office of Consumer Credit Commissioner.

The SDSI status allows these agencies to respond promptly to the fluid and dynamic economic environment while remaining flexible to that environment and to changes occurring within regulated industries. This responsiveness and flexibility allows the Commission agencies to identify and incorporate efficiencies as they partner with each other and external entities resulting in improved performance measurement and reporting to support effective and improved decision-making.

The agencies continue to be self-funding, self-leveling. All revenues for operations are derived from assessments paid by regulated entities. The assessments are placed in a separate account at the Texas Safekeeping Trust Company and not in General Revenue. Biennial reporting to the Legislature and Governor regarding agency activities, financials, and audits are mandated. Annual reporting to the Governor's Office, the House Appropriations Committee, the Senate Finance Committee, and the Legislative Budget Board on salaries, travel expenses for employees and Commission members, the agency operating plan and annual budget, and a detailed report on revenue are required.

Although the Commission agencies are no longer subject to certain requirements, they continue to operate in a similar manner as other executive agencies with a focus on transparency and accountability, as well as providing opportunities for stakeholder input and collaboration. Although not required under SDSI status, at the direction of the Commission, each agency holds a public hearing to receive public comment on its proposed annual budget and operations. The Commission maintains oversight of the agencies activities relating to SDSI status by:

- functioning as the approving authority of the agencies budgets;
- ensuring appropriate and mandated fund management of the agencies;

- maintaining awareness of additional costs and contractual relationships resulting from SDSI status; and
- maintaining awareness of annual and biennial reports provided to state leadership, assuring agency transparency and accountability.

Oversight and Effectiveness of Agencies

The Commission's primary responsibility is to provide oversight of the activities of the three Commission agencies. This oversight includes evaluating the priorities for each of the agencies, assessing the progress and attainment of these priorities, monitoring the fiscal stewardship of each of the agencies, and providing direction and leadership. The Commission has established goals for each of the commissioners, and their performance is evaluated based upon the achievement of these established goals. Charles G. Cooper has served as Commissioner of the Texas Department of Banking since his appointment in December of 2008. Douglas B. Foster has served as Commissioner of the Department of Savings and Mortgage Lending since his appointment in December 2007. Leslie L. Pettijohn has served as Commissioner of the Office of Consumer Credit Commissioner since her appointment in February 1995. In September 2011, the Commission named Douglas B. Foster to serve as the Executive Director of the Commission.

Before each of the six required Commission meetings, members receive briefing materials regarding the status of the activities performed by the three Commission agencies and other issues affecting the regulated industries. This information typically includes budget and expenditure data, reports on examination and other agency activities, new legislative mandates, proposed and pending rules, statutory interpretations, performance measure reports, and staffing level information.

Commission members are provided by the agencies public, non-confidential information which they use along with input from external auditors, agency commissioners, regulated entities, consumers and other sources to determine the effectiveness of each agency in meeting its goals and objectives.

Expenses of the Commission, which primarily consist of members' travel expenses to participate in meetings, are paid on a proportional basis by the three agencies.

Though the Commission believes that the agencies have been effective in meeting their primary missions, changes within the regulated industries, advances in technology, the proliferation of financial abuses against consumers, the ability to attract and retain qualified staff, and the issues currently affecting the economy will challenge the agencies and require new and innovative strategies over the timeframe of this strategic plan.

Development of Rules and Regulations

The Texas Legislature has given the Commission the authority to promulgate rules that serve to further clarify specific provisions of the Texas Finance Code, Texas Occupations Code, and the Texas Health and Safety Code. Commission members review rules drafted by the agencies, provide opportunities for the public to present testimony or input, consider both oral and written comments received, and vote to either adopt, not adopt, or rewrite the proposed rule. Proposed rules are published in the *Texas Register* for official comment prior to the Commission meeting in which they are considered for adoption.

The Legislature has the constitutional authority to delegate to one or more state agencies the power to interpret provisions of the Texas Constitution. The Legislature delegated interpretative authority relating to home equity loans and reverse mortgages to the Credit Union Commission (as to credit unions) and to the Finance Commission (as to all other lenders). An act or omission of a lender relating to a home equity loan or reverse mortgage does not violate the Texas Constitution if it complies with an interpretation in effect at the time.

A working group composed of representatives from the Credit Union Department and the three Finance Commission agencies was formed to develop proposed interpretations for presentation to and adoption by the two commissions. This working group continues to collaborate on an as needed basis to address new and continuing matters related to interpretations of the home equity lending provisions of the Texas Constitution.

Finance Commission of Texas v. Norwood (ACORN)

The Texas Supreme Court has heard arguments and has not yet rendered an opinion on this case involving the Finance Commission and Credit Union Commission's interpretations of the Texas Constitution's home equity provisions.

In 2004, the Association of Community Organizations for Reform Now (ACORN) sued the Finance Commission and the Credit Union Commission, arguing that several of the commissions' home equity interpretations should be invalidated. The trial court invalidated several interpretations. Joined by the Texas Bankers Association, the commissions appealed this decision to the Third Court of Appeals in Austin. In January 2010, the court of appeals issued its own decision. The court upheld the rules, regarding oral loan applications, use of convenience checks to access a home equity line of credit, documents provided to a borrower at closing, a borrower's use of power of attorney, and a borrower's receipt of mailed disclosures. Additionally, the court invalidated the commissions' rule providing that the traditional statutory definition of "interest" applies to a three percent cap on fees other than interest.

The commissions have appealed this decision to the Texas Supreme Court. In their petition, the commissions argued that courts should defer to their interpretations because of the Constitution's grant of interpretive authority to the commissions. The commissions also argued that their definition of "interest" should be upheld as the interpretation is based on existing statutory definitions of "interest" and case law construing those statutory sections. ACORN has cross-appealed on the power of attorney and disclosure mailing issues. ACORN has also requested dismissal from the case, pending its dissolution as an organization. The request for dismissal created a potential issue relating to the plaintiffs' standing to file the lawsuit. The record does not contain evidence that the individuals sought to obtain home equity loans or that the individuals actually obtained home equity loans. If the Texas Supreme Court holds there is no standing, the case could be dismissed. Alternatively, the Supreme Court could remand the case to trial court with instructions on how to proceed, depending on what evidence the plaintiffs are able to present to the trial court. If the Supreme Court determines that the plaintiffs have standing, then it will review the merits of the case and determine whether any of the challenged interpretations should be struck down.

Effectiveness of Regulatory Statutes

During Commission meetings and briefing sessions, Commission members discuss the effectiveness of current statutes in meeting the agencies' missions. In areas where weaknesses in the statutory framework are identified, the Commission will direct the appropriate agency commissioner to make legislative recommendations for improvement to state policymakers. Areas of improvement often relate to consumer protections, streamlining regulatory burden, or enforcement authority. Each agency also initiates and develops legislative recommendations that the Commission reviews.

Factors affecting planned activities of the three agencies are further described in their separate strategic plans and operating budgets that are reviewed and approved by the Commission prior to implementation and prior to submission to state leadership.

Texas Financial Education Endowment

The 82nd Legislature passed House Bill 2594, creating the Texas Financial Education Endowment Fund and providing a mechanism for increased opportunities to provide Texans with financial education. The fund was created by the legislature to support statewide financial education and consumer credit building activities and programs, including:

- production and dissemination of approved financial education materials at licensed locations;
- advertising, marketing, and public awareness campaigns to improve credit profiles and credit scores of consumers in this state;
- school and youth-based financial literacy and capability;
- credit building and credit repair;
- financial coaching and consumer counseling;
- bank account enrollment and incentives for personal savings; and
- other consumer financial education and asset-building initiatives as considered appropriate by the finance commission.[1]

The endowment fund is to be administered by the Finance Commission. The Commission will develop a financial education grant program designed to provide statewide support for effective financial education and consumer credit building programs.

Working with stakeholders and community partners, the Commission will:

- identify meaningful and applicable objectives for the grant program to improve the economic welfare of Texans,
- develop effective grant application and selection procedures to ensure alignment with stated objectives and goals of the grant,
- identify and implement effective grant management controls to allow for effective administration, allocation and use of funds, and
- develop grantee reporting requirements that allow for effective and meaningful assessment of a grant's impact upon a grantee's ability to provide material and results-based financial education and consumer credit building programs within the state of Texas.

The endowment is funded by annual assessments from credit access businesses, although the Commission may also seek funding through gifts, grants, and donations.[2] The OCCC currently collects the funds and deposits them with the Texas Treasury Safekeeping Trust Company[3] where the funds are invested in accordance with the Commission's investment policies and objectives. The OCCC will support the Commission in developing and implementing strategies and in seeking appropriate partnerships to deliver opportunities for providing financial literacy and educational resources, tools, and programs.

EXTERNAL AND INTERNAL OVERVIEW

A thorough assessment of the factors affecting an organization is critical to the strategic planning process. Due to the number of financial service providers supervised by the three agencies and the fact that each agency has already addressed these factors in great detail within their individual strategic plans, a separate in-depth assessment of internal and external factors is not included in this document. However, the internal and external assessment of each of the agencies was considered during the development of this strategic plan and some of the significant external and internal factors that are common to all three agencies are highlighted below.

EXTERNAL ASSESSMENT

Economic Conditions

Financial service providers chartered or licensed by the three agencies are influenced by economic conditions in Texas, the nation as a whole, and world events. For this reason, the Commission must remain cognizant of changing economic conditions that could affect the regulated industries under its purview.

With a very diverse geography and population, the state of Texas offers many economic opportunities. Certain Texas economic indicators are positive, signifying that the state is in a recovery after the recession that began in December 2007. However, the state is integrally tied to the national and world economy. Any significant economic event at that level will have repercussions for Texas and the regulated financial services market. Maintaining an active regulatory presence is critical during these uncertain economic times.

Workforce

At the end of 2011, Texas employment numbers were at pre-recessionary levels, while other states continued to reflect anemic employment growth. Looking forward, economists expect continued job growth in Texas.

However, the unemployment rate has not dropped as quickly. As of December 2011, the Lone Star state's unemployment rate was at 7.4%, which is much higher than the 4.4% it was in January 2008. As of June 2012, the unemployment rate had improved to 6.9%. One of the factors preventing the rate from dropping is the state's population growth; Texas has created jobs, but not at the same rate as the growth in the population. The U.S. Census Bureau reports that Texas added 421,000 more people than any other state for the two year period of 2010 to 2011.

Economic Impact of the 2011 Drought

The 2011 drought was the second worst in Texas history, and continues to have a lingering impact on the Texas economy. The lack of availability of water is affecting many industries, including hay production, cotton, corn, wheat, and sorghum. This season, Texas rice producers will be added to the list as irrigated estimates in 2012 are much less than 2011. In 2011, rice surface water acreage was 121,539 spread across primarily 11 counties west of Houston. For 2012, rice surface water acres are estimated at 32,573, as the Lower Colorado River Authority (LCRA) decided to decrease water discharge.

Water supply will be a hot topic in the coming year for cities and towns throughout the state. A variety of experts informed the Texas Senate Business and Commerce committee in a January 2012 hearing that due to recent drought and rapidly growing population there are reduced water supplies for electricity generation, which will negatively impact the Lone Star State's economic future. Recommendations were made for the state to shift its reliance from water cooled power plants such as coal and nuclear, to solar and wind resources.

The Texas AgriLife Extension Service reports agricultural losses due to the wildfires of more than $217 billion. In addition, the year long drought caused approximately $7.62 billion in damages due to lost crops and forced livestock sales due to poor pasture conditions.

The Texas Forest Service reports 30,000 wildfires occurred in 2011, burning a record breaking 4 million acres of land; a total land mass larger than the State of Connecticut. Firefighting crews battled what turned out to be seven of the ten largest wildfires in the state's history. A study by the Texas Forest Service reports 5.6 million urban trees perished due to the extreme drought conditions.

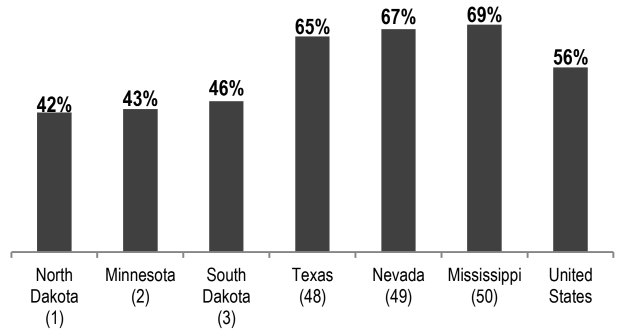
Tax Revenue
The Texas Comptroller of Public Accounts analysis of the state's economy indicates stronger-than-anticipated tax receipts boosting state revenues. Overall, the state is benefiting from oil and natural gas production tax collections. In the first five months of fiscal 2012, the collections were 63% higher than the same period in 2011. Sales tax revenue, which had been down for two years, grew by about 9% in 2011 and is up approximately 11% through the first months of the 2012 fiscal year. Budget experts also anticipate the state's Rainy Day Fund, which had a $5 billion balance at the end of 2011, will reach $7.3 billion by August 2013. The budgetary constraints placed on state government have proven less severe than originally thought.

Availability of Credit & Consumer Debt
The availability and wise use of affordable credit is essential for the growth and health of the overall economy. Individuals utilize credit to purchase a home, start a business, or finance an education. A poor credit score limits a borrower's options to costlier and less traditional products, possibly leaving consumers in a cycle of debt. A major cause of the recent mortgage crisis was the non-performance of subprime loans and the inability of consumers to adequately evaluate or afford the products offered. Over half the consumers in the United States today have subprime credit scores.

High consumer debt is an indicator of the need for increased financial awareness and literacy among the state's residents and citizens.

- A January 2012 credit card study conducted by the Federal Reserve, Sallie Mae, and TransUnion indicated the average consumer credit score in Texas was 639, rating as one of the lowest scores in the nation.[4]
- In 2009, a National Financial Capacity Survey revealed 12% of the population does not have bank accounts (unbanked), and in that same year Forbes conducted a study looking at credit card debt trends for the 50 largest cities in the United States. Three Texas cities rated among the top 20 most-indebted cities: Houston, Austin, and San Antonio.[5]
- A 2011 third-quarter analysis of TransUnion credit score data, as reflected in the following graph, also indicated Texas ranked 48th of the 50 states with 65.1% of consumers possessing subprime credit scores.[6]

Percentage of Consumers with Subprime Credit Scores



Percentage of consumers with a Trans Union TransRisk Score at or below 700, Quarter 3, 2011. Source: Corporation for Enterprise Development, Assets & Opportunity Scorecard, http://scorecard.assetsandopportunity.org

The Commission is committed to empowering Texans to plan and save for future goals (e.g. retirement, emergencies, and college savings) and allowing them to improve individual credit profiles and economic well-being.

OVERVIEW OF REGULATED INDUSTRIES

The financial industries overseen by the Commission are an important facet of the Texas economy and are equally important to those who seek credit from these institutions. The agencies regulate more than 20 industries, representing more than 50,000 licensed entities and individuals. The recent economic and legislative climate has been very dynamic resulting in increased attention to the financial industries and effective regulation. The Commission agencies are continually assessing the influences and mandates arising from federal financial reform and consumer protection activities and aligning those dynamic changes with that of state and stakeholder interests.

State-Chartered Banking Profile
(Department of Banking)
Although consolidation is anticipated to continue, the size of state-chartered banks has been growing with an increase in total assets between June 2011 and December 2011 by over $5.8 billion to $170.4 billion. Meanwhile, deposits grew by $6.0 billion to $138.5 billion, or 9.1% on an annualized basis. This deposit growth comes despite a 3.7% reduction in the total number of bank branches in the latter half of 2011. Continuing interest in conversions to state banking charters has been observed. The latest example is the recent February 2012 charter conversion application from The Frost National Bank, having $20.4 billion in total assets. Another area of activity is interest in acquiring small or troubled institutions by investor groups to gain access to a Texas bank charter. As indicated in the September 2011 Banking System Report, the Department of Banking expects to see a modest number of mergers as bank boards and management adjust to the post Dodd-Frank federal regulatory environment.

State-Chartered Thrift and Mortgage Profile
(Department of Savings and Mortgage Lending)
State-chartered thrift assets under the Department of Savings and Mortgage Lending's jurisdiction totaled $9.5 billion as of December 31, 2011, and increased by 7.5% or $661 million from last year. The total number of state-chartered savings banks at the end of 2011 increased from twenty-nine to thirty-one, with one charter merging out of the industry and three federal thrifts converting to state savings banks. Due to the merger of the Office of Thrift Supervision into the Office of Comptroller of the Currency as of July 21, 2011, further conversion activity to a state thrift charter is anticipated.

The volume of new applications for mortgage loan originators continues at a surprising pace of more than 400 per month, but the licensee population remains in a stable range around 13,000 for the past three years. Licensing began in 1999 and has undergone significant change and expansion since that time. Consumer complaint activity has dropped 39.8% on an annualized basis from fiscal year 2009 level of nearly a 1,000 complaints. Mortgage loan servicing and modification issues remain the most common complaint issue. Although SML was granted authority over non-depository third party mortgage servicers in 2011 this industry is dominated by national banks where SML has no jurisdiction to assist consumers. SML is aided in its oversight of all these duties through the advice of the Mortgage Industry Advisory Committee (MIAC). MIAC's duties include advising the Commissioner on the proposal and adoption of rules relating to the mortgage industry, forms (applications and other documents), and interpretation, implementation, and enforcement of the mortgage regulations.

State-Licensed Financial Service Provider Profile
(Office of Consumer Credit Commissioner)
The multi-billion dollar non-bank financial services industry offers diverse and unique consumer credit products, each with specific benefits and compliance concerns. Participants within this dynamic and diverse industry range from small, independent lenders, marketing few transactions, to publicly-traded corporations, engaging an extensive array of non-bank financial transactions. As of May 31, 2012 the OCCC licensed or registered more than 35,000 entities providing products ranging from pawn loans to motor vehicle sales financing to property tax lien loans. During the 82nd Legislature the OCCC saw its regulatory scope expand to include the oversight of credit access businesses and crafted precious metal dealers. More than 5,000 participants within these industries have either been licensed or registered with the OCCC between January 1, 2012 and June 30, 2012.

The OCCC works to assist consumers with concerns related to financial transactions and products, ensure that financial service products adhere to various laws regulating financial transactions, and educate financial service providers and consumers alike about their rights, responsibilities, and remedies associated with those products. During fiscal year 2011, the OCCC has reached more than 38,000 individuals or entities through its examination, consumer assistance, and financial education programs and affected the return of more than $23 million to consumers throughout the state.

Finance Commission Agencies:
Regulated Industries and Licensee Populations as of May 31, 2012

Agency	Industry		Count
DOB	Banks		301
	Trust Companies		22
	Foreign Bank Agencies / Foreign Bank Branches		10
	Foreign Bank Representative Offices		16
	Prepaid Funeral Contracts		398
	Perpetual Care Cemeteries		243
	Money Services Businesses		135
	Check Verification Companies		4
	Private Child Support Enforcement Agencies		10
		Total	1,139
SML	State Savings Banks		31
	Mortgage Companies		974
	Mortgage Banker Companies		351
	Residential Mortgage Loan Originator Individuals		13,462
	Mortgage Service Companies		73
		Total	14,891
OCCC	Regulated Lenders		3,345
	Pawnshops		1,539
	Pawnshop Employees		8,280
	Motor Vehicle Sales Finance Dealers & Holders		7,397
	Property Tax Lenders		89
	Debt Management & Debt Settlement Service Providers		79
	Registered Creditors		6,693
	Mortgage Loan Originators		740
	Credit Access Businesses		2,852
	Refund Anticipation Loan Facilitators		2,194
	Crafted Precious Metal Dealers		2,492
		Total	35,700

LEGISLATIVE AND FEDERAL INFLUENCE

Dodd-Frank Bill: Economic Reform

The impact of the July 21, 2010 Dodd-Frank Act is still under review as significant volumes of rule writing still remains. The act has become one of the most significant pieces of federal legislation affecting the financial services industry and several provisions have influenced the regulatory activities of the Commission agencies. Key factors impacting state law include the following provisions:

Consumer Financial Protection Bureau (CFPB)

Title X of the Dodd-Frank Act creates the CFPB to regulate consumer protection in financial products and services. The act requires a significant amount of coordination and interaction between the CFPB and other state and federal banking and financial regulators, especially in the context of concurrent jurisdiction. Each of the Finance Commission agencies signed a Memorandum of Understanding in January 2011 between the Conference of State Bank Supervisors (CSBS) and the CFPB to establish and enhance the cooperative relationship between CFPB and state regulators of consumer financial products and services.

The CFPB has direct supervision over all depository institutions with assets over $10 billion and as of this plan, three state-chartered banks fall within this category. The CFPB has authority to supervise many non-depository companies that provide financial products or services, including auto title and payday lenders, persons who originate, broker, or service residential mortgages, or persons who provide mortgage loan modifications.

Additionally, the CFPB has rulemaking authority over numerous consumer protection laws, which will apply to all financial institutions regardless of size. The CFPB will set the standard for compliance examinations, modifying consumer protection laws, regulations, and policies along the way. These changes will directly impact management and the providers of consumer financial products and services.

Ability of State to Enforce

- If a majority of the states enact a resolution in support of a consumer protection standard, the CFPB must issue a notice of proposed rulemaking to implement that standard. [§1041]
- A state Attorney General may sue to enforce the consumer protection provisions of Title X, including regulations issued by the CFPB, subject to certain limits if the defendant is a national bank or federal savings association. A state Attorney General may sue a national bank or federal savings association to enforce the CFPB's regulations (but not the underlying statute) or any other applicable state or federal law. [§§1042(a); 1047]
- A state regulator (other than an Attorney General) with appropriate jurisdiction and authority may sue a state-chartered, incorporated or licensed entity, or another entity doing business under state law (other than a national bank or federal savings association), to enforce Title X and the CFPB's regulations. [§1042(a)]

Change in Preemption of State Laws

- Title X provides that a state consumer protection law is preempted if:
  - application of the law would have a discriminatory effect on national banks or federal savings associations;
  - the law is preempted by a provision of Federal law other than the National Bank Act; or
  - in accordance with *Barnett Bank v. Nelson*, the state law "prevents or significantly interferes" with the exercise of a national bank or its powers.
- If asked to make a preemption determination, the Office of the Comptroller of the Currency (OCC) must act on a "case by case" basis, meaning the OCC determination must relate to a particular state law, but can also relate to the laws of another state with substantively equivalent terms (after consulting with the CFPB). [§§1044; 1046]
- A preemption determination by the OCC is subject to judicial review. The court may not uphold a determination to preempt a state

law unless it finds the determination is supported by substantial evidence. The court is directed to assess the validity of the preemption determination, depending upon:
  - the thoroughness evident in the agency's consideration,
  - the reasoning of the agency,
  - the consistency of the decision with other determinations, and
  - other factors the court may find persuasive. [§1044]
- State consumer financial laws (including licensing statutes) apply to national bank subsidiaries, affiliates and agents. [§§1044(e); 1045]

Other Dodd-Frank provisions that have been implemented and are impacting state-chartered commercial and savings banks include the following:

- Debit interchange fees (also known as swipe fees) were capped for large financial institutions (those with assets greater than $10 billion), as mandated by the Durbin Amendment. [§1075]
- Stress Testing [§165]:
  - The Federal Reserve Board is required to conduct annual stress tests of (1) bank holding companies with total consolidated assets of $50 billion or more and (2) significant nonbank financial companies as determined by the Financial Stability Oversight Council. These institutions must also conduct their own stress test semiannually.
  - State banks, state-chartered savings associations and national banks with total consolidated assets of more than $10 billion will be required to conduct their own annual capital-adequacy stress tests.

Going forward, statute or rule changes may be necessary to implement other provisions of Dodd-Frank. For example, by January 21, 2013, the state legal lending limit must take into consideration credit exposure of derivative transactions.

The passing of the Dodd-Frank Act was an attempt to curb the abuses that resulted in the government bailout of the "too big to fail" financial institutions. However, all banks will be affected by the increased regulatory burden, including community banks that did not participate in the abuses or cause the financial crisis. Some have expressed concern that increased costs of compliance for community banks in Texas may have a dampening effect on credit availability and result in decreased competition in the financial sector.

Mortgage Servicing

There has been significant regulatory and industry effort to develop and adopt industry best practices is response to deficiencies in the mortgage servicing and foreclosure activity. Improvements being sought include:

- Measures to ensure that staff members handling loss mitigation and loan modification requests routinely communicate and coordinate with staff members processing foreclosures on the borrowers' properties;
- Deadlines for responding to requests for loan modifications and other communications from borrowers as well as deadlines for making final decisions on loan modification requests; deadlines must be at least as responsive as the timelines under Home Affordable Modification Program (HAMP);
- An easily accessible and reliable single point of contact established for each borrower throughout the loan modification and foreclosure processes that is clearly identified to the borrower;
- A requirement that each single point of contact have access to data necessary to provide borrowers with timely, accurate, and complete information about the status of their loan modification requests and foreclosure cases;
- Procedures and controls to ensure that, before a foreclosure sale occurs, a final decision regarding a borrower's loan modification request (either on a trial or permanent basis) is communicated in writing to the borrower within a reasonable period and explains the reasons why the borrower

did not qualify for the trial or permanent modification;

- Policies and procedures to ensure that payments are credited promptly; that payments, including partial payments to the extent permissible under the terms of applicable legal instruments, are applied to scheduled principal, interest, and escrow before fees, and that any misapplication of borrowers' funds is corrected promptly;
- Policies and procedures to ensure that timely information about foreclosure prevention options is sent to borrowers in the event of delinquencies or defaults, including plain language notices about loan modifications and foreclosures;
- Policies and procedures to ensure that servicers properly maintain and track documents related to foreclosures and loan modifications, so that borrowers are not required to resubmit the same documents already provided, and that borrowers are notified promptly of the need for additional information; and
- Policies and procedures to consider loan modifications or other foreclosure prevention activities with respect to junior lien loans, and to factor the risks associated with such junior lien loans into loan loss reserving practices.

Availability of Mortgage Loans

Over the years, many attempts have been made to address the risk exposure, capital adequacy, and accountability of the Government Sponsored Enterprises (GSEs), all without success. The current regulatory and financial reform efforts seem to ignore the government housing finance system despite combined losses for Fannie and Freddie of just over $200 billion since the 2008 receivership and further financial assistance has been requested.

FHA now backs about a third of all new mortgages originated for purchase up from approximately 5% in 2006. More permanent solutions to the origination and secondary marketing and investing of mortgage loans must be found to ensure continued market liquidity.

Another potential issue hindering the availability of mortgage financing is the pending implementation of Qualified Mortgages (QM) and Qualified Residential Mortgages (QRM). The Dodd-Frank Act introduced QM and QRM to the mortgage lending markets. The primary focus of QM is ability to repay and for the QRM it is a vested interest both through borrower down payment of 20% and loan seller retention of 5%. Although, these standards may result in a safer, more stable economy; it could come at the cost of many families not being able to attain homeownership.

Efforts to Mitigate Fraud and Protect the Consumer

The Commission agencies are committed to protecting the financial resources of the state both at the macro and micro levels. Members of each agency participate in a variety of activities to assist in the identification and prevention of fraud and fraudulent activities.

Property Tax Lienholder Industry

The 82nd Texas Legislature enacted Senate Bill 762 which mandates the Commission conduct a study regarding fees, costs, interest, and other expenses charged to property owners by property tax lenders in connection with a tax lien transfer and the payoff of loans secured by a tax lien. The OCCC collected data for this study during the second and third quarters of fiscal year 2012. The proposed study findings were presented to the Commission for their consideration and approval at their August 2012 meeting

Consumer Financial Education

Consumer and financial education is a cornerstone to building wealth and being able to manage financial resources in a modern economy. The Commission continues to recognize the importance of providing financial education resources to Texas consumers to improve Texans' overall knowledge of financial matters. The Commission agencies collaborate with private, public and nonprofit entities to help consumers make informed and disciplined decisions about financial matters.

Additionally, with the increased regulatory mandates and oversight that affect each of the agencies, the Commission agencies continue to educate and develop programs to provide licensees with the necessary knowledge and resources in delivering financial services.

The Finance Commission is postured to provide additional resources through the administration of the Texas Financial Education Endowment fund. The Commission will continue to seek partnering opportunities with state agencies and entities to further its efforts in reaching those who will benefit most from financial literacy and education resources.

Effective Communication and Partnerships

The Commission places a high priority on the effectiveness of communication with regulated industries, with the Legislature, with the Governor's Office, and among the agencies themselves. Through enhanced communication, such as collaborative processes for rulemaking and other policy development, more effective regulation results. The agencies through their communication strategies are expected to maintain positive working relationships with the legislative and executive offices. Agency staff is frequently relied upon for resource information and policy expertise in the development of legislation and other state policy.

Members of agency staff engage regularly with other regulatory agencies and trade organizations representing the regulated industries. Some of the other regulators and trade associations that the agencies work with are: American Council of State Savings Supervisors (ACSSS), American Association of Residential Mortgage Regulators (ARRMR), Conference of State Bank Supervisors (CSBS), Consumer Financial Protection Bureau (CFPB), Federal Financial Institutions Examination Council – State Liaison Committee (FFIEC-SLC), Money Transmitter Regulators Association (MTRA), National Association of Consumer Credit Administrators (NACCA), State Regulatory Registry (SRR), and others. Members of all three agencies participate in task forces, serve as board members of regulatory associations, and take an active role in implementing mandated and legislative processes across the industries.

Given the important interplay between state and federal issues, the Commission encourages the agency heads to participate in leadership roles in their respective regulatory national peer organizations.

The Commission and the Commission agencies both encourage and seek feedback from consumers and regulated financial service providers that interact with and receive services from the Commission agencies. Each agency prepares a "Report on Customer Service" that details the agencies' efforts to request feedback about operations and services. These reports are published in each agency's strategic plan. This information is used to assess the effectiveness of each regulatory program. The Commission actively evaluates all input and feedback from all sources for opportunities to improve the administration of the Commission and its agencies.

INTERNAL ASSESSMENT

Self-Directed, Semi-Independent (SDSI)

SDSI status provides the Commission agencies the ability to quickly and effectively respond to the dynamic economic and regulatory environment changes at both the state and federal level. The SDSI structure has provided flexibility and improved responsiveness in meeting the needs of regulated entities and in integrating legislative mandates.

SDSI status provides a flexible operational and budgetary environment in which the Commission agencies exercise a degree of autonomy and independent planning. Although the agencies are not subject to appropriation and similar controls or oversight, as public entities they remain committed to providing services that provide both transparency and accountability and promote stakeholder collaboration. Each agency demonstrates this commitment by:

- Following the State Payroll, Travel, Purchasing and Procurement and standards for all expenditures;
- Submitting quarterly financial statements, including budget variance analysis, to the Commission for review and approval;
- Calculating and maintaining data for performance measures, which is submitted quarterly to the Commission;
- Coordinating with other state agencies as business needs arise; and
- Maintaining funds within Texas Treasury Safekeeping Trust Company.

Each agency is responsible for preparing annual budgets, presenting the budget to the Audit Committee for review and comment, and obtaining approval from the Commission prior to its implementation. Additionally, the SDSI status requires each agency to be responsible for its direct and indirect costs and ensure that the General Revenue Fund does not incur any costs related to the agency's operations.

Although no longer appropriated entities, the agencies still provide a level of accountability and reporting to oversight bodies and the state legislature on an annual and biennial basis. Annual and biennial reporting is provided to the Governor's Office, House Appropriations, Senate Finance Committee, and the Legislative Budget Board, and more frequently as requested or appropriate.

Workforce Plans

The Commission agencies strive to identify, recruit and retain qualified and experienced employees to perform the regulatory functions of each agency. The Bureau of Labor Statistics projects that growth within the finance and insurance industry will increase by 9% between 2010 and 2020, and that employment in credit intermediation and related activities (to include the banking industry) will increase by 3%.[7] The growth within these industries and increasing regulations within the financial industry will translate to an increase in employment, accountability and oversight.[8] This increase in regulatory oversight requires specific knowledge and experience of agency staff members. Such requirements include but are not limited to the:

- Knowledge of financial practices, the regulatory processes, and legal applications or influences of a regulatory environment;
- Knowledge of business, accounting, finance, and economics;
- Knowledge of statistical analysis and techniques, audit and investigative techniques, and training techniques;
- Knowledge of analysis and reporting tools related financial data and consumer credit products;
- Experience conducting financial examinations and investigations, maintaining a customer focus, and understating related information technology functions and uses;
- Ability to effectively communicate;
- Ability to conduct research and develop regulatory compliance conclusions; and
- Ability to analyze, interpret and apply rules, regulations and statues.

The agencies continually work on identifying alternative or non-traditional recruitment sources from which qualified examiners can be recruited. Additionally, the agencies regularly seek out opportunities for offering competitive compensation packages and incentives. The agencies have been able to reduce travel for examination staff by establishing alternative work schedules and providing alternate work sites. Each agency strives towards providing competitive compensation packages to attract and retain qualified examiners. All agencies utilize available methods to hire new employees with attractive and market competitive compensation packages and to provide mentoring and training in specialized areas related to the examination process.

Recruitment

The agencies continue to identify effective retention strategies specifically focused upon the financial examiner series. Using the flexibility provided by the SDSI framework, the Commission agencies have been able to provide competitive salary adjustments, merit and reward adjustments, and flexible work schedules. The agencies have focused on cultivating, training and developing financial examiners to minimize turnover, provide for succession and career ladder opportunities as senior examiners retire, and increase both knowledge and experience bases within the agencies' regulatory programs.

In addition to competitive salaries, factors that significantly affect the retention of financial examiners include: benefits; competition in the business community for well-trained financial analysts; job related travel; job commitment; expectations of present generation college graduates, and short-term versus long-term career rewards.

The agencies' workforce is as diverse as their regulated entities and represents a cross-section of generations each specific with expectations for and values placed upon rewards and the timing of those rewards. The Commission agencies continually evaluate adjustments within the competitive market, workplace, and examiner expectations to develop appropriate and effective retention strategies of these employees.

Another key area of concern of the Commission is ensuring that the agencies have excellent leadership within the commissioner positions. These positions require extensive expertise and experience to address the many complex issues of diverse industries and to develop suitable supervisory standards, regulatory policies, and procedures to ensure compliance with state and federal regulations, and honest and fair service to the citizens of Texas.

Career Development and Retention

The agencies conduct daily operations and perform and provide effective services within the regulated industries through the knowledge, experience and expertise of its longer-tenured staff and through the development of those less-tenured. The continuing changes within the regulatory environment, the future demographics of the workforce, and the required knowledge and competencies for the industries have prompted the agencies to augment existing employee development and retention programs. The presence of a well-trained workforce is critical to the success and industry credibility of the agencies. All three agencies are prioritizing critical competencies that must be developed within new and existing staff. Strategies for career development include but are not limited to:

- Providing management competency and skills training;
- Utilizing in-house expertise and resources to facilitate mentoring and knowledge transfer;
- Cross-training to expand knowledge and experience bases;
- Recruiting retired employees to provide mentoring, training and development opportunities to new and existing staff; and
- Enhancing information technology and computer skills as they relate to industry and agency processes and procedures.

Retention strategies have included conducting work style profiles of new applicants, cross-over examination training, increased career development opportunities, and equitable salary adjustments. The Commission agencies seek to identify equitable and relevant rewards – whether through compensation, incentives, or development – for staff so as to maintain staffing levels, ensure consistency in operations and knowledge, and remain competitive within the industry.

Succession Planning

Slightly over a third of the agencies' staff is eligible for retirement within the next five years and succession planning continues to be a key focus for the agencies. The agencies have implemented initiatives to ensure future workforce gaps are minimal in number and impact upon the agencies. Each agency has identified future work skills and knowledge requirements, forecasted staffing vacancies and adjustments, and facilitated the transfer of knowledge and expertise across the staffing levels. The agencies understand that it is imperative to retain mid-level employees, who have been trained and developed, to fill vacancies created by retiring employees. The agencies have and will continue to bring retirees back into the workforce, as appropriate, to meet staffing needs and train newly hired and less experienced employees.

Succession plans include mentoring and professional opportunities within this group as well as efforts to promote an agency culture that state service can be a viable long-term career choice.

The SDSI status of the agencies has allowed for flexibility in developing appropriate staffing models, in providing competitive compensation packages, and in utilizing alternative approaches to training and development. The agencies will remain vigilant in their efforts to refine and improve their succession plans.

Finance Commission Building

The agencies' headquarters office space, currently located within the Finance Commission building, is inadequate and cannot effectively accommodate the agencies' headquarters staff and meet parking needs of the staff and general public. As a result, the agencies have leased additional office space since October 2009 to accommodate an additional fourteen employees and their parking needs.

The demands on existing parking have been further exacerbated by the construction of high-density student housing within the immediate vicinity and the anticipated increase in local parking requirements and challenges.

After many years of implementing interim solutions for both inadequate square footage and deficient parking, various alternatives, to include redevelopment plans of the current location, alternative buildings, and new construction are being explored. The Commission continues to evaluate an optimum solution and placed the Finance Commission Building on the market for sale during 2012.

Executive Director Role

The Executive Director of the Finance Commission provides operational support to Commission members as it relates to Commission responsibilities and oversight of the three Commission agencies. The executive director:

- maintains industry, agency, and governmental relationships;
- facilitates communication between the Commission, supervised agencies, industry and trade organization, and legislative bodies;
- provides administrative support to the Commission; and
- coordinates activities associated with Commission meetings.

The executive director role is filled by a commissioner from one of the three agencies overseen by the Commission. The Commission selects and appoints that commissioner to serve and may rotate its selection at an appropriate time. The Commission relies upon the executive director to ensure smooth operation and functioning of the Commission in order to effectively carry out its oversight and statutory responsibilities.

Sunset Review

The 82nd Legislature extended the existence of the Commission and the agencies it oversees until September 1, 2015.

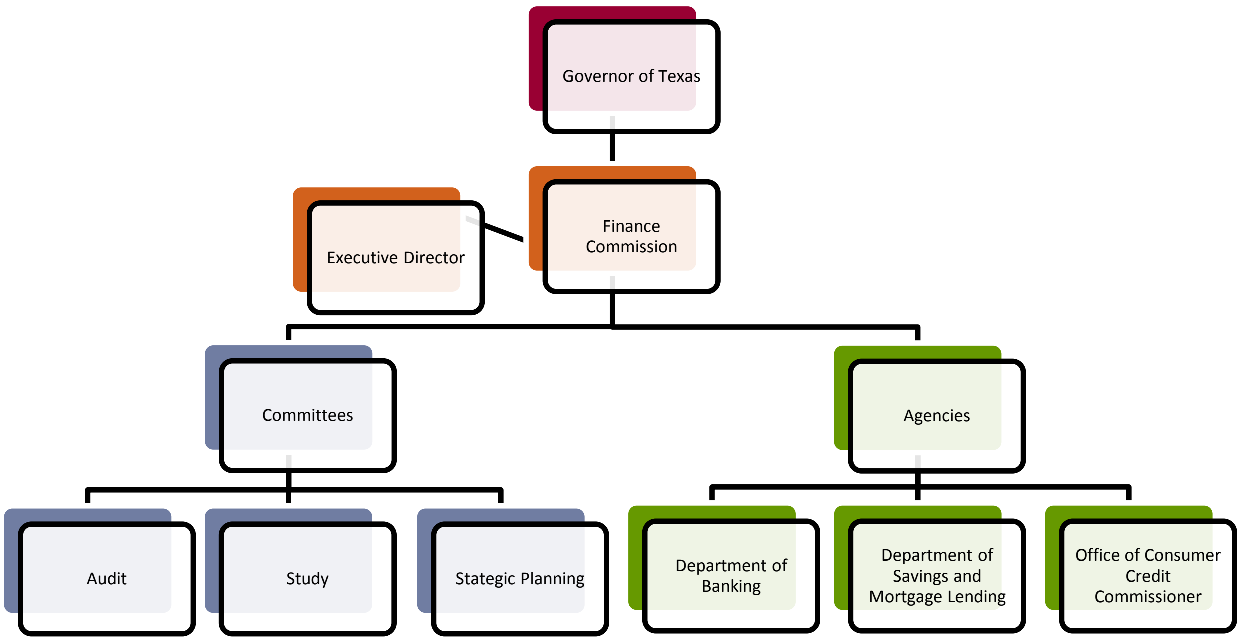
APPENDIX A: STRATEGIC PLANNING PROCESS

The three state agencies under the direction of the Finance Commission of Texas each submit separate strategic plans which include specific objectives, goals and strategies. It is not the intent of the Commission to duplicate this process. Still, the Commission is committed to the principles of establishing clearly defined objectives, goals, and strategies.

Consequently, a significant purpose of the Commission's plan, and a goal of the strategic planning process, is to coordinate and bring together the concepts and plans of the three agencies under its supervision. Below is a timeline of the development of the strategic plan.

- The Strategic Planning Committee of the Finance Commission met to discuss the three agencies' submitted plans as well as define the scope, direction, content and process for preparation of the Commission's strategic plan.
- Staff from the three agencies met to identify key elements for inclusion in the Commission's plan.
- Draft Commission strategic plans were provided to the agencies for review and comment.
- Draft copies were distributed to the Commission members for comment and further direction.
- The final draft was presented to the full Commission for review prior to the August 2012 meeting of the Commission. Consideration of the final plan is scheduled for August 17, 2012.
- Copies of the Strategic Plan submitted to the Legislature.

APPENDIX B: ORGANIZATIONAL CHART



APPENDIX C: ENDNOTES

[1] Section 393.628, Texas Finance Code
[2] Ibid.
[3] Ibid.
[4]http://www.spendonlife.com/blog/richest-and-poorest-neighborhoods
[5] Ibid
[6]http://scorecard.assetsandopportunity.org/2012/measure/consumers-with-subprime-credit
[7] *Occupational Outlook Handbook*, Projections Overview, Bureau of Labor Statistics. Retrieved from http://www.bls.gov/ooh/About/Projections-Overview.htm, July 16, 2012.
[8] Ibid.