

2017-2021 STRATEGIC PLAN

August 2016

*FINANCE
COMMISSION
OF TEXAS*

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STRATEGIC PLAN
FISCAL YEARS 2017 TO 2021
BY THE
FINANCE COMMISSION OF TEXAS

COMMISSION MEMBER	DATES OF TERM	HOMETOWN
Stacy G. London, Chair	June 26, 2008 to Feb 1, 2020	Houston
Robert (Bob) Borochoff	Feb 22, 2016 to Feb 1, 2022	Houston
Hector J. Cerna	Dec 16, 2015 to Feb 1, 2020	Eagle Pass
Margaret (Molly) Curl	Feb 23, 2016 to Feb 1, 2022	Richardson
Phillip A. Holt	Feb 23, 2016 to Feb 1, 2022	Bonham
Victor E. Leal	Feb 2, 2012 to Feb 1, 2018	Amarillo
William M. (Will) Lucas	Sept 27, 2011 to Feb 1, 2018	Center
Lori B. McCool	Apr 27, 2009 to Feb 1, 2020	Boerne
Matthew (Matt) Moore	Feb 23, 2016 to Feb 1, 2022	Amarillo
Paul Plunket	June 26, 2008 to Feb 1, 2020	Dallas
Hilliard (Jay) Shands, III, Vice Chair	Aug 23, 2010 to Feb 1, 2018	Lufkin

AUGUST 19, 2016

SIGNED: _____

Stacy G. London, Finance Commission Chair

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Finance Commission of Texas Strategic Plan 2017-2021

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OVERVIEW

The Finance Commission of Texas (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 bank executives
- 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.

Commission members serve staggered, six year terms. Members with expired appointments continue serving until their replacements are named. The governor appoints the presiding officer, currently Stacy G. London, a residential mortgage loan originator from Houston, Texas, who was appointed in February 2016. The presiding officer appointed Hilliard (Jay) Shands, III, a banking executive, as vice chair in April 2016.

The Commission is the oversight and policy-making body for three agencies, the Texas Department of Banking (DOB), the Department of Savings and Mortgage Lending (DSML), and the Office of Consumer Credit Commissioner (OCCC). The Commission is not a separate state agency. The agencies overseen by the Commission provide administrative services and operational funding to the Commission. Meetings are required to be held at least six times during each calendar year. The commission members appoint one of the agency commissioners to serve as Executive Director to the Finance Commission. Commissioner Charles G. Cooper, Texas Department of Banking, was appointed to serve as the Executive Director effective May 1, 2014.

The Commission's Strategic Plan for 2017-2021 was developed in accordance with Section 11.002(a) and (b) of the Texas Finance Code.

FINANCE COMMISSION OF TEXAS MISSION

The mission of the Commission is to ensure that the banks, savings institutions, nondepository financial service providers, and other regulated entities chartered or licensed under state law operate as safe and sound institutions to increase the economic prosperity of the state.

FINANCE COMMISSION GOAL AND ACTION PLANS

The Commission aims to ensure Texas' financial service providers operate in a safe and sound manner, that the numerous financial services industries under its jurisdiction function as a coordinated system, and consumers that seek services from licensed financial service providers are protected from unfair or harmful practices. The Commission provides a forum for opinions to be heard from stakeholders, consumers, and the public.

To fulfill this mission, the Commission will oversee the agencies under its 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;
- Requires its agencies operate honestly and professionally in conducting their affairs with the public, the industries, and the legislature; and
- Protects consumers from unfair, deceptive, or harmful practices.

GOAL: PROVIDE EFFECTIVE OVERSIGHT OF THE ACTIVITIES OF THE TEXAS DEPARTMENT OF BANKING, THE DEPARTMENT OF SAVINGS AND MORTGAGE LENDING, AND THE OFFICE OF CONSUMER CREDIT COMMISSIONER

Ensure effective oversight of the agencies in order to protect consumers' interests and maintain a safe and sound banking and financial services system. In doing so, increase the economic prosperity of the state.

ACTIONS REQUIRED TO ACHIEVE GOAL

- Maintain open and effective communications with the agencies.
- Provide clear direction and forward thinking leadership.
- Evaluate the priorities of each agency and assess the progress and attainment of these priorities.
- Review and take action on the annual operating budgets and quarterly financial statements, of the agencies to ensure the agencies are operating in a fiscally responsible manner.
- Monitor and oversee activities related to the Self-Directed, Semi-Independent (SDSI) status of the agencies.
- Provide oversight of the agencies' internal audit function, including:
 - Select an internal auditor,
 - Monitor the actions to be taken on the audit plans resulting from the annual risk assessment performed by the internal auditor, and
 - Monitor the actions to be taken on the plans resulting from the annual internal audit reports, including management's responses to the findings, and monitoring the agencies' corrective actions.
- Review and monitor the action plans from external audits conducted by state and federal agencies, and management's responses; monitor the agencies' corrective actions.
- Review and take action on rules drafted by the agencies to further implement statutes passed by the Texas Legislature.
- Provide opportunities for the public and stakeholders to present testimony or input on proposed rules and other issues of interest within the Commission's jurisdiction.
- Provide oversight and administration of the Texas Financial Education Endowment (TFEE), including the investment of funds and awarding of grants that support the objectives of the endowment.
- Select agency Commissioners and evaluate each annually.
- Monitor the Sunset Review process as appropriate, for the Commission and its agencies.

GOALS AND ACTION ITEMS SUPPORT STATEWIDE OBJECTIVES

Each agency has identified goals related to effective licensing, examination and supervision, regulation, and operations and administration in their individual Strategic Plans which further explain how this goal

supports the five statewide objectives. Please reference the individual agency Strategic Plans for this information.

OTHER CONSIDERATIONS

Self-Funding and Self-Leveling

The agencies are self-funding and self-leveling, and all revenues for operations are derived from fees and assessments collected from licensed and regulated entities. Each agency is responsible for their direct and indirect costs as no resources are appropriated from the General Revenue Fund. All revenues from operations are placed in a separate account at the Texas Treasury Safekeeping Trust Company. Various provisions in the Finance Code, Health and Safety Code, and Occupations Code authorize each agency, as applicable, to impose and collect fees to cover only the cost of examination, the equitable or proportionate cost of maintenance and operation of each agency, and the cost of enforcement. The Commission's oversight further ensures that each agency operates in a prudent and fiscally responsible manner while performing statutory duties.

Annually, the Commission evaluates and reviews the budgets developed by each agency. Prior to submission to the Commission, each agency holds a hearing for public review and comment on the budget. Each agency's budget must be approved before any expenditure may be made for the new fiscal year.

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 granted four state financial regulatory agencies SDSI status. Three of the four agencies provided this status fall under the oversight of the Commission: the DOB, DSML, and the OCCC.

The SDSI status has been instrumental over the past several years in supporting the agencies' efforts to fulfill their missions. It has enabled these agencies to respond promptly to the dynamic economic and regulatory environment changes at both the state and federal level. This includes the ability to adjust budgets to implement immediate changes in staffing strategies as well as adjust salaries to retain and attract qualified personnel and strive for more competitive salary levels with other state and federal agencies. This responsiveness and flexibility allows the 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.

Biennial reporting to the Legislature and Governor regarding agency activities, financials, and audits are mandated. The agencies are also required to provide annual reports on salaries, travel expenses for employees and Commission members, operating plans, annual budgets, and detailed reports on revenue to the Governor's Office, the House Appropriations Committee, the Senate Finance Committee, and the Legislative Budget Board.

Although the agencies are no longer subject to certain requirements due to the SDSI status, 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. At the direction of the Commission, each agency holds a public hearing to receive public input on its proposed annual budget and operations. The Commission maintains oversight of each agency's 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 Agency Activities

The Commission's primary responsibility is to provide oversight of the activities of the agencies. 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 serves as Commissioner of the Texas Department of Banking, Caroline C. Jones serves as the Commissioner of the Department of Savings and Mortgage Lending, and Leslie L. Pettijohn serves as Commissioner of the Office of Consumer Credit Commissioner.

Before each of the six required Commission meetings, members receive briefing materials regarding the status of the activities performed by the 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 public, non-confidential information which they use along with input from external auditors, agency commissioners, regulated entities, consumers and other sources to evaluate the effectiveness of each agency in meeting its goals and objectives.

The Commission believes that the agencies have been effective in meeting their primary missions; however, there are challenges ahead that will require the agencies to develop new and innovative strategies. These challenges facing the agencies include:

- changes within the regulated industries,
- advances in technology,
- technology risks including cybersecurity threats that are becoming more complex,
- growth in financial abuses against consumers,
- ability to attract and retain qualified staff, and
- issues affecting the economy.

Finance Commission Building

The agencies are headquartered in the Finance Commission building, which is owned by the agencies. The office space is inadequate and cannot effectively accommodate the agencies' headquarters staff and meet parking needs of the staff and general public. After many years of implementing interim solutions to these problems, an ad hoc building committee was formed to consider various alternatives; including redevelopment plans for the current location, alternative buildings, and new construction. A collective decision was made by the agencies and the Commission to sell the building and purchase another property that fits the needs of the agencies. Cash reserves have been set aside by each agency to cover the future expenses related to a new building and relocation. The Commission remains actively involved in this process.

GOAL: MAINTAIN SAFE AND SOUND BANKING AND FINANCIAL SERVICES SYSTEM AND PROMOTE COORDINATION OF THE STATE FINANCIAL SYSTEM

Ensure that state depository and lending institutions function as a coordinated system, given the broad scope of the financial services industry. Through oversight and coordination activities, focus on protecting consumers' interests, as well as maintaining a safe and sound banking and financial services system, as a means of increasing the economic prosperity of the state.

ACTIONS REQUIRED TO ACHIEVE GOAL

- Provide oversight of the agencies' operations.
- Evaluate priorities for each of the agencies and assess progress and attainment of these priorities.
- Monitor examination performance measures related to bank and nonbank financial service providers. Monitor the regulatory activities of each agency.
- Monitor the state of the industries regulated by each of the agencies.
- Monitor federal regulatory changes and how they affect the agencies and regulated industries.
- Provide opportunities for the public to present testimony or input on proposed rules.
- Review and take action on rules drafted by the agencies to further implement statutes passed by the Texas Legislature.
- Ensure agencies are supported by a well-trained, educated, and productive workforce.
- Monitor each agency's performance including division activities and other items of interest.
- Keep up to date on economic changes that affect the agencies' regulated entities.
- Testify, when requested, at Legislative hearings.
- Keep current on the economic outlook of the State.
- Promote coordination of the agencies with federal and other state financial service regulators.

GOALS AND ACTION ITEMS SUPPORT STATEWIDE OBJECTIVES

Each agency has identified goals related to effective licensing, examination and supervision, and regulation in their individual Strategic Plans which further explain how this goal supports the five statewide objectives. Please reference the individual agency Strategic Plans for this information.

OTHER CONSIDERATIONS

Entities regulated or licensed by the agencies under the supervision of the Commission

The following entities are regulated or licensed by the agencies. In some cases, the entities are only required to register with an agency.

Department of Banking	Department of Savings and Mortgage Lending	Office of Consumer Credit Commissioner
State-Chartered commercial Banks ¹	State-Chartered Savings Banks ²	Regulated Lenders
State-Chartered Foreign Bank Agencies	Residential Mortgage Loan Originators ³	Second Lien Mortgage Lenders
Public Trust Companies	Mortgage Companies	Pawnshops & Pawn Employees
Exempt Trust Companies	Mortgage Bankers	Motor Vehicle & Commercial Vehicle Retail Finance Sellers
Money Services Businesses	Mortgage Servicers	Registered Retail Creditors
Prepaid Funeral Contract Sellers		Property Tax Lenders
Perpetual Care Cemeteries		Residential Mortgage Loan Originators ⁴
Private Child Support Enforcement Agencies		Debt Management & Debt Settlement Service Providers
Check Verification Entities		Refund Anticipation Loan Facilitators
Cemetery Brokers		Manufactured Housing Creditors
Texas Bullion Depository Agent Services ⁵		Credit Access Businesses (Payday and Auto Title Loan Companies)
		Crafted Precious Metals Dealers

¹ Includes all State Banking Activity

² Includes all State Savings Bank Activity

³ Individuals licensed and working for either Mortgage Companies or Mortgage Bankers under the authority of the Department of Savings and Mortgage Lending

⁴ Individual loan originators working for Property Tax Lenders or Second Lien Mortgage Lenders under the authority of the Office of Consumer Credit Commissioner

⁵ Licensing of these entities will begin after the Texas Bullion Depository has been established by the Texas Comptroller of Public Accounts

GOAL: PROTECT CONSUMER INTERESTS

Ensure prompt, fair, and effective enforcement of applicable state and federal statutes and regulations so that consumers are protected from deceptive practices, fraud, and misrepresentation.

ACTIONS REQUIRED TO ACHIEVE GOAL

- Conduct meetings in an open environment where the public may attend and provide comment.
- Provide oversight of the agencies' operations and regulatory activities to ensure that consumers are protected from abusive and deceptive practices, fraud, and misrepresentation.
- Monitor consumer complaint and inquiry activity for each agency. Set standards to ensure complaints and inquiries are processed in a professional, appropriate, and timely manner and appropriate restitution is provided when applicable. Review consumer activity reports.
- Monitor financial education outreach efforts of the agencies.
- Provide oversight and administration of the TFEE, including the investment of funds and awarding grants that support the financial literacy objectives of the endowment.
- Coordinate and review statutorily-required or authorized research studies or projects.
- Review and evaluate annual reports on customer service generated by each agency.
- Issue interpretations of the Texas Constitution relating to home equity lending and reverse mortgages.
- Provide a forum to receive public input and testimony.

GOALS AND ACTION ITEMS SUPPORT STATEWIDE OBJECTIVES

Each agency has identified goals related to financial education, consumer protection, consumer responsiveness, and efficient and effective operations in their individual Strategic Plans which further explain how this goal supports the five statewide objectives. Please reference the individual agency Strategic Plans for this information.

OTHER CONSIDERATIONS

Financial Education

With increased regulatory mandates and oversight that affect each of the agencies, the agencies continue to develop programs and provide educational opportunities to licensees.

Texas continues to make strides to develop educated consumers, such as through increasing personal financial education in schools. Texas is one of several states that have incorporated specific financial skills development within the school curriculum. However, the need for financial education is still high for Texans. A more financially educated population makes wiser financial decisions which will increase economic prosperity for all of Texas.

The agencies collaborate with various statewide organizations promoting programs that enhance financial literacy and publishing statewide financial literacy and education resources in partnership with other state agencies.

Texas Financial Education Endowment

The TFEE administered by the Commission supports statewide financial capability and consumer credit building activities and programs. The endowment was enacted by the 82nd Legislature and became effective January 1, 2012.

The endowment is administered through the receipt of assessments from regulated entities and the distribution of grant monies to selected organizations that promote and increase the financial capabilities of consumers. Financial coaching and counseling was emphasized during the 2016-17 grant cycle.

In September 2015, twenty-three grant applications were received with a total request for \$704,105 in grant funds by 21 eligible organizations. The Commission awarded a total of \$ 249,000 in funds to eight organizations that will deliver programs to improve the financial education and capability of Texans. Grantees are required to submit semi-annual reports that demonstrate performance outcomes and financial information. Information from the grantees' semi-annual reports are summarized and highlighted in a biennial report which is presented to the Commission.

Legislative Recommendations and Interpretations

Commission members regularly consider the effectiveness of current statutes in meeting the agencies' missions. In areas where weaknesses in the statutory framework are identified by an agency, the appropriate agency commissioner will initiate legislative recommendations for improvement and seek concurrence of the Commission before the proposals are formally presented to state policymakers. Areas of improvement often relate to consumer protections, streamlining regulatory burden, or enforcement authority.

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 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 agencies was formed to develop proposed interpretations for presentation to and final action 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.

GOAL: INCREASE ECONOMIC PROSPERITY

Ensure that the agencies focus on protecting consumers' interests as well as maintain a safe and sound financial system and promote the economic prosperity of the state.

ACTIONS REQUIRED TO ACHIEVE GOAL

- Monitor the current and forecasted condition of the state's financial systems and economy.
- Provide effective oversight and coordination activities for the agencies.
- Monitor the agencies' progress towards meeting goals and objectives.
- Evaluate input and feedback from all sources as a means to make improvements to the administration of the Commission and the agencies.
- Promote a favorable business climate.

GOALS AND ACTION ITEMS SUPPORT STATEWIDE OBJECTIVES

Each agency has identified goals related to effective licensing, examination and supervision, regulation, consumer protection and responsiveness, and financial education in their individual Strategic Plans which further explain how this goal supports the five statewide objectives. Please reference the individual agency Strategic Plans for this information.

OTHER CONSIDERATIONS

Recent economic data has been varied, but overall indicates a positive outlook with continued sluggish growth, according to the Federal Reserve Bank of Dallas. The Texas Leading Index rose strongly for the second straight month in April, up 1.4 percent, following four consecutive months of declines. Texas employment forecast now stands at 1.3 percent growth (December/December), on par with last year's increase.

The Federal Reserve Bank's Beige Book released in early June, notes that economic activity in the Dallas District rose marginally over the past six weeks. Manufacturing activity and demand for nonfinancial services increased. Retail sales were mixed, with automobile sales remaining strong. Real estate activity continued to expand in most markets, while the energy sector continued to weaken. Loan demand growth slowed and agricultural conditions improved. Reports of employment changes and price pressures were mixed. The outlooks from the sectors were generally positive, but remain cautious.

To promote economic prosperity, the Commission must remain diligent in providing effective oversight of the agencies and to monitor their progress in meeting their goals in protecting consumers and maintaining a safe and sound financial system.