

**FINANCE COMMISSION OF TEXAS**  
**AUDIT COMMITTEE MEETING**

Friday, October 21, 2016  
8:30 a.m.

Finance Commission Building

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

- A. Review and Approval of the Minutes of the August 19, 2016, Audit Committee Meeting
- B. Audit Committee Review of Agencies' Activities
- C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' August 31, 2016 Investment Officer Reports
  - 1. Office of Consumer Credit Commissioner
  - 2. Texas Department of Banking
  - 3. Department of Savings and Mortgage Lending
- D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Readoption of the Investment Policies for:
  - 1. Office of Consumer Credit Commissioner
  - 2. Texas Department of Banking
  - 3. Department of Savings and Mortgage Lending
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2016 Fourth Quarter Financial Statements
  - 1. Office of Consumer Credit Commissioner
  - 2. Texas Department of Banking
  - 3. Department of Savings and Mortgage Lending
- F. Report on Activities Relating to the Texas Financial Education Endowment Fund

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

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

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**MINUTES OF THE  
AUDIT COMMITTEE MEETING  
Friday, August 19, 2016  
8:00 a.m.**

The Audit Committee of the Finance Commission of Texas convened at 8:00 a.m. on August 19, 2016, with the following members present:

**Audit Committee Members in Attendance:**

Molly Curl, Chairman  
Hector Cerna  
Lori McCool

**Additional Members in Attendance:**

Stacy G. London  
Jay Shands  
Bob Borochoff  
Phillip Holt  
Will Lucas  
Matt Moore  
Paul Plunket

Audit Committee Chairman Curl announced that there was a quorum of the Audit Committee of the Finance Commission of Texas with three members present. *(00:14 on audio file).*

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. Review and Approval of Minutes of the June 10, 2016 Audit Committee Meeting	Lori McCool made a motion to approve the minutes of the June 10, 2016 Audit Committee Meeting. Hector Cerna seconded and the motion passed.	00:38 start of discussion 00:46 vote
B. Audit Committee Review of Agencies' Activities	No Action Required.	00:52 start of discussion
C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's Fiscal Year 2016 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates	Lori McCool made a motion to recommend that the Finance Commission approve the Department of Savings and Mortgage Lending's Fiscal Year 2016 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates. Hector Cerna seconded and the motion passed.	9:21 start of discussion 21:04 vote

D.	Discussion of and Possible Vote to Recommend that the Finance Commission Take action on the Agencies' May 31, 2016 Investment Officer Reports	Lori McCool made a motion to recommend that the Finance Commission approve the Agencies' May 31, 2016 Investment Officer Reports. Hector Cerna seconded and the motion passed.	21:26 start of discussion  39:12 vote
E.	Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2016 Third Quarter Financial Statements	Hector Cerna made a motion to Recommend that the Finance Commission approve the Agencies' 2016 Third Quarter Financial Statements. Lori McCool seconded and the motion passed.	39:34 start of discussion  51:14 vote
F.	Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2017 Operating Budgets	Lori McCool made a motion to Recommend that the Finance Commission Approve the Agencies' Fiscal Year 2017 Operating Budgets. Hector Cerna seconded and the motion passed.	51:34 start of discussion  1:59:51 vote
G.	Report on Activities Relating to the Texas Financial Education Endowment Fund	No Action Required.	2:00:15 start of discussion

There being no further business of the Audit Committee of the Finance Commission of Texas, Molly Curl adjourned the meeting at 10:03 a.m. (2:00:37) *on audio file*)

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Molly Curl, Audit Committee Chair  
Finance Commission of Texas

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Charles G. Cooper, Executive Director  
Finance Commission of Texas

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Anne Benites, Executive Assistant  
Finance Commission of Texas

**Office of Consumer Credit Commissioner**  
**Outstanding Audit Findings Report as of 10/1/2016**

Auditor	Texas Department of Public Safety		Audit Report Date
Audit Area	Storage and security of criminal history record information		Mar-16
Finding		Status Update	
Unsubscribe from CHRI who no longer have active or inactive license		<i>In progress.</i> The agency continually works to unsubscribe to individuals CHRI who have a canceled, surrendered, or revoked license, with the goal of completion by the end of FY 2018.	
Auditor	Garza/Gonzales & Associates		Audit Report Date
Audit Area	MVSF Examinations		Jun-16
Finding		Status Update	
Ensure a copy of the notification letter is included in the examination work papers that are submitted to the Austin office to provide evidence that the notification letter was sent to the licensee, as required.		<i>In progress.</i> The procedure has been reinforced at regional meetings and was covered in training during the examiner's September annual meeting. Implementation of the ACE online system will ensure compliance with this procedure. Target Completion, December 2016.	
Auditor	Garza/Gonzales & Associates		Audit Report Date
Audit Area	MVSF Examinations		Jun-16
Finding		Status Update	
OCCC TO implement quality control procedures to ensure proper completion of examination work papers.		<i>In progress.</i> Examiners have been briefed about this at regional meetings and training occurred at the September annual meeting. The ACE implementation will ensure all data elements for an exam are entered into the file. Target Completion, December 2016.	
Auditor	Garza/Gonzales & Associates		Audit Report Date
Audit Area	MVSF Examinations		Jun-16
Finding		Status Update	
Strengthen controls in order to meet established goal to review exams with a rating of 4 or 5 within 120 days from the ROE processing date.		<i>In Progress:</i> Senior staff examiners and supervisors have been reminded of this requirement; a workload vs staffing review will be conducted; and the procedure will be reviewed to strengthen deadline compliance. Target Completion December 2016.	
Auditor	Garza/Gonzales & Associates		Audit Report Date
Audit Area	MVSF Examinations		Jun-16
Finding		Status Update	
Strengthen controls to ensure reminder/notification letters sent to the licensees are maintained with the examination work papers to provide evidence that licensees are informed of their delinquency and support the basis for performing a follow-up examination or issuing an administrative action.		<i>In Progress:</i> Senior staff examiners and supervisors have been reminded of this requirement; a workload vs staffing review will be conducted; and the procedure will be reviewed to strengthen deadline compliance. Target Completion December 2016.	

**Texas Department of Banking**  
**Outstanding Audit Findings Report as of October 2016**

Auditor	Garza Gonzalez and Associates	Audit Report Date
Audit Area	IT Examinations	August 2016
Finding	Status Update	
Lack of guidance to waive examination procedure	<b>Completed</b> – The final InTREx procedures were implemented during September 2016 and included written guidance for waiving examination procedures.	

**Department of Savings and Mortgage Lending**  
**Outstanding Audit Issues Report as of September 30, 2016**

Auditor	Garza/Gonzalez	Audit Report Date
Audit Area	Management Information Systems	7/25/2016
Recommendation	Status Update	
Update Disaster Recovery Plan	The update has been completed.	
Conduct MIS Risk Assessment	The assessment, to be conducted by the DIR third party vendor, is scheduled to begin at the end of November, 2016.	
Establish audit trails	The Department is working with its contracted managed service provider to establish and implement this audit trail recommendation.	

Auditor	State Office Of Risk Management	Audit Report Date
Audit Area	Risk Management	8/18/2016
Recommendation	Status Update	
None	<b>Completed.</b> Report presented in the August meeting.	

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Office of Consumer Credit Commissioner  
Fiscal Year 2016 - 4th Quarter

**Residential Mortgage Loan Originator Recovery Trust Fund #3008**

<u>Beginning Balance at 06/01/16</u>	<u>Additions / *(Deductions)</u>	<u>Interest Paid</u>	<u>Paid Bank Fees</u>	<u>Ending Balance at 08/31/16</u>	<u>Current Interest Rate</u>
\$ 132,221.87	\$ -	\$ 89.82	\$ (42.79)	\$ 132,268.90	0.27%

\* As of 8/31/2016 \$900.00 is due from Safekeeping Fund 2973

Investment Officer: Chad Hoke

Date: 10/11/16

Reviewed By: [Signature]

Date: 10.11.16

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

Office of Consumer Credit Commissioner  
Fiscal Year 2016 - 4th Quarter

Texas Financial Education Endowment Fund #3071

	Beginning Balance at 06/01/16	Additions	Interest Paid	Transfers	Grant Disbursements	Paid Bank Fees	Ending Balance at 08/31/16	Current Interest Rate
Cash	\$ 1,489,792.07	\$ 2,063.02	\$ 1,011.91	\$ (575.50)	\$ -	\$ (1,487.52)	\$ 1,490,803.98	0.27%
<b>Invested Portfolio</b>	<b>Beginning Balance at 06/01/16</b>	<b>Additions</b>	<b>Change in Value</b>	<b>Transfers</b>		<b>Paid Fees</b>	<b>Ending Balance at 08/31/16</b>	
Investments - STIF	\$ 83,708.20	\$ 4,265.06	\$ 35,132.36	\$ -	\$ -	\$ (1,526.17)	\$ 121,579.45	
Interest & Dividends Receivable	34.28		6.56				40.84	
Trade Receivables	-		-				-	
Investments - Equities	52,185.81		1,466.68				53,652.49	
Investments - Alternatives	1,736,550.60		2,466.24				1,739,016.84	
Investments - Fixed Income	124,510.42		3,211.60				127,722.02	
Invested Portfolio	\$ 1,996,989.31	\$ 4,265.06	\$ 42,283.44	\$ -	\$ -	\$ (1,526.17)	\$ 2,042,011.64	
<b>Liabilities</b>								
Accounts Payable	\$ (995.88)	\$ (38.65)	\$ -		\$ -	\$ -	\$ (1,034.53)	
Trade Payables	(0.16)	0.16					\$ -	
Total Liabilities	\$ (996.04)	\$ (38.49)	\$ -		\$ -	\$ -	\$ (1,034.53)	
Total Net Fiduciary Assets	\$ 1,995,993.27						\$ 2,040,977.11	
Total Endowment Funds	\$ 3,485,785.34						\$ 3,531,781.09	

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

\* As of 8/31/2016 \$1800.00 is due from Safekeeping Fund 2973

Investment Officer: Christie Cook Hoke  
Reviewed By: [Signature]

Date: 10/18/16  
Date: 10.18.16

**Trust Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report**  
**June 1, 2016 to August 31, 2016**

<u>Book</u> <u>Book Value at May 31, 2016</u>	<u>Interest Income</u> <u>Received</u>	<u>Trustee</u> <u>Fees Paid</u>	(1) <u>Other</u> <u>Deductions</u>	(2) <u>Other</u> <u>Additions</u>	<u>Book/Market</u> <u>Value at August 31, 2016</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Accrued Interest</u> <u>on CDs</u>
\$1,301,984.55	\$2,357.08	\$81.24	\$578.70	\$21,925.00	\$1,325,606.69	--	--	\$958.60

Trust Account Balances at Trustee/Depositories

Texas Treasury Safekeeping Trust Company *	\$350,698.32	9/1/2016	0.27%	
First Bank and Trust of Childress (CD)	\$240,000.00	12/11/2016	0.80%	\$103.28
First State Bank of Yoakum (CD)	\$240,000.00	12/17/2016	0.85%	\$417.72
Citizens State Bank, Buffalo, TX (CD)	\$248,692.66	12/26/2016	0.97%	\$437.60
Pilgrim Bank (money market)	<u>\$246,215.71</u>	n/a	0.77%	
Subtotal	\$1,325,606.69			

(1) Other deductions includes restitution in the amount of \$578.70 paid to A. Corral regarding a PFC that was cancelled without the consumer's consent.

(2) Other additions include: (a) \$500.00 restitution received from Lonnie D. Wright; (b) \$200.00 restitution received from Mr. Dan L. Brothers; (c) \$3,125.00 restitution received from Mr. Kevin Keeney; (d) \$600.00 restitution received from Mr. Marc Gonzalez; (e) \$10,000.00 restitution received from El Paso Mission Funeral Home, Inc. PFC Number 606; and (f) \$7,500.00 restitution received from Timothy Gaffney.

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

Prepared By: /s/ Jesus Saucillo Date: 9/12/16

Reviewed By: /s/ Stephanie Newberg Date: 9/12/16

**Insurance-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report**  
**June 1, 2016 to August 31, 2016**

<u>Book</u> <u>Book Value at May 31, 2016</u>	<u>Interest Income</u> <u>Received</u>	<u>Trustee</u> <u>Fees Paid</u>	<u>Other</u> <u>Deductions</u>	<u>(1)</u> <u>Other</u> <u>Additions</u>	<u>Book/Market</u> <u>Value at August 31, 2016</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Accrued Interest</u> <u>on CDs</u>
\$403,068.90	\$352.66	\$88.95			\$403,332.61			\$78.84

Account Balances at Trustee/Depositories

Texas Treasury Safekeeping Trust Company *	\$158,188.84	9/1/2016	0.27%	
AccessBank Texas (CD)	<u>\$245,143.77</u>	7/14/2017	1.19%	\$78.84
Subtotal	\$403,332.61			

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

Prepared By: /s/ Jesus Saucillo Date: 9/12/16

Reviewed By: /s/ Stephanie Newberg Date: 9/12/16

Department of Banking Quarterly Investment Report  
June 1, 2016 to August 31, 2016

Seized Prepaid Funeral Funds	Book Value at May 31, 2016	Interest Income Received	Trustee Fees Paid	Other Deductions	Other Additions	Book Value at August 31, 2016	Trustee	Investment Type	Maturity Date	Interest Rate
El Paso Mission Funeral Home, Inc. PFC No. 606	\$56,674.07	\$456.59	\$1,543.74			\$55,586.92	Regions Bank	trust	n/a	n/a
<b>Total Seized Funds</b>	<b>\$56,674.07</b>	<b>\$456.59</b>	<b>\$1,543.74</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$55,586.92</b>				

**Notes:**

The records and funds related to Permit Number 606 were seized as a result of management fraudulently withdrawing consumer funds without the purchasers' approvals. Further, the funds withdrawn from the PFC restricted account were not forwarded to the purchasers. Subsequent to the seizure, the Department placed a notice in the El Paso newspaper requesting consumers contact our Department. The Department is compiling the information and documents from consumers. The permit holder and its owner have agreed to pay restitution per Agreed Order No. 2015-020a.

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

Prepared By: /s/ Jesus Saucillo Date: 9/12/16  
Reviewed By: /s/ Stephanie Newberg Date: 9/12/16

**Department of Savings and Mortgage Lending**  
**Mortgage Recovery Trust Fund**

**Investment Officer Report as of August 31, 2016**

**Current Investments/Securities as of August 31, 2016**

Purchase Date	Beginning Market Value	Ending Market Value	Accrued Interest - Estimated	Interest Rate	Maturity Date	Description	Fin. Institution
4/9/2015	245,000.00	245,000.00	959.58	1.00%	10/9/2016	CD - 18 months	Capital Bank
10/18/2014	249,786.42	250,000.00	1,762.15	1.75%	10/18/2016	CD - 24 months	Dalhart Federal Savings
1/31/2015	250,000.00	250,000.00	666.67	0.80%	1/31/2017	CD - 24 months	Horizon Bank SSB
4/7/2015	240,000.00	243,163.18	397.17	1.05%	4/7/2017	CD - 24 months	Triumph SSB
4/29/2015	240,000.00	240,000.00	653.33	0.20%	4/29/2017	CD - 24 months	Angelina Savings Bank
6/14/2015	250,000.00	250,000.00	3,700.00	1.20%	6/14/2017	CD - 24 months	Pioneer Bank SSB
9/8/2015	245,809.01	246,455.60	201.27	0.35%	9/8/2017	CD - 24 months	Austin Capital SSB
10/2/2015	250,000.00	250,000.00	1,739.58	0.75%	10/2/2017	CD - 24 months	Cypress Bank SSB
12/13/2015	243,813.70	243,813.70	1,419.54	0.80%	12/13/2017	CD - 24 months	First Fed Community Bank, SSB
12/15/2015	250,000.00	250,000.00	1,823.61	1.01%	12/15/2017	CD - 24 months	Spirit of Texas, SSB
2/4/2016	250,000.00	250,000.00	1,378.82	0.95%	2/4/2018	CD - 24 months	Third Coast Bank SSB
4/17/2016	250,000.00	250,000.00	991.67	1.05%	4/17/2018	CD - 24 months	South Star Bank SSB
6/15/2016	250,000.00	250,000.00	609.58	1.14%	6/15/2018	CD - 24 months	TrustTexas Bank SSB
8/4/2016	240,000.00	240,000.00	126.00	0.70%	8/4/2018	CD - 24 months	First Bank SSB
Totals	<b>3,454,409.13</b>	<b>3,458,432.48</b>	<b>16,428.97</b>				

# Department of Savings and Mortgage Lending

## Mortgage Recovery Trust Fund

### Investment Officer Report as of August 31, 2016 (continued)

Fund Position for the Quarter Ended August 31, 2016		
Beginning Cash Balance as of May 31, 2016	\$	407,489.64
<b>Receipts</b>		
Licensees' Remittances	20,701.69	
Interest from CDs	2,019.93	
Interest from overnight repos	282.35	
CD - Principal and Interest - Maturity	490,000.00	
<b>Total Received</b>	<b>\$</b>	<b>513,003.97</b>
<b>Disbursements</b>		
CD - Purchase	(490,000.00)	
Transfer of excess to Operating Fund	-	
Bank Fees and Charges	(47.82)	
<b>Total Disbursed</b>	<b>\$</b>	<b>(490,047.82)</b>
<b>Total Cash Balance in Trust and Treasury</b>		<b>430,445.79</b>
<b>Reserve</b>		
Reserved for Potential Payment of Claims w/in 90 days	\$	(18,417.00)
<b>Available Cash Balance as of August 31, 2016</b>		<b>412,028.79</b>
<b>Total Amount of Investments</b>		3,458,432.48
<b>Accrued Receivables</b>		17,208.97
<b>Accrued Payables</b>		(24.84)
<b>Fund Balance as of August 31, 2016</b>	<b>\$</b>	<b>3,906,062.40</b>

Claim Payment History		
Fiscal Year	Total Amount \$	# of Payments
2000-2007	209,067.76	9
2008	25,488.14	3
2009	100,000.00	10
2010	147,033.52	16
2011	22,225.00	5
2012	1,300.00	1
2013	1,465.13	1
2014	-	0
2015	1,039.50	1
2016YTD	-	0
<b>Totals</b>	<b>507,619.05</b>	<b>46</b>



Antonia Antov, Investment Officer

9/26/2016

Date

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

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OFFICE OF CONSUMER CREDIT COMMISSIONER  
INVESTMENT POLICY STATEMENT  
[Effective October 21, 2016]

**1. Overview**

This policy governs the investment of funds maintained by the Office of Consumer Credit Commissioner ("Agency"). This policy does not convey investment authority where such does not exist through statute. This policy shall be approved by the Finance Commission of Texas (Finance Commission) as this policy applies to funds within its purview. The policy will be reviewed annually by the Finance Commission, with said review and any changes made to either the policy or investment strategies recorded in the minutes of the Finance Commission.

The Finance Commission met on October 21, 2016 ~~June 19, 2015~~ to re-approve this policy ~~which was revised to clarify the types of authorized investments and add the requirement that investment brokerage firms be members of the Securities Investor Protection Corporation~~. Previous changes to this policy were approved on June 19, 2015 ~~August 15, 2014~~.

It is the policy of the Agency to invest funds in compliance with the following priorities, in the order of importance:

- Preservation of principal;
- Maintenance of liquidity as appropriate to the identified need;
- Procurement of an appropriate yield;
- Diversification of investment portfolio; and,
- Marketability of the investment if the need arises to liquidate the investment before maturity.

All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

To the extent that diversification of investment types and maturities assists in the achievement of the above-named priorities, investment strategies for the different funds held will consider the appropriate mix of investments.

**2. Identification of Covered Funds**

Funds covered by this policy are funds authorized to be collected by the Texas Finance Code.

OCCC Operating Fund (TTSTC #2973)	
Enabling Legislation	§16.003, TEX. FIN. CODE

OCCC Residential Mortgage Loan Originator Recovery Fund (TTSTC #3008)	
Enabling Legislation	Sections 341.601 through 341.610, TEX. FIN. CODE
Distribution Policy	The fund shall be used to reimburse residential mortgage loan applicants for actual damages incurred because of acts committed by a state-licensed residential mortgage loan originator who was licensed under the applicable chapter when the

	act was committed. Recovery is limited by the provisions of §341.606 to an aggregate of \$25,000 per claim.
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Texas Financial Education Endowment Fund (TTSTC #3071)	
Enabling Legislation	§393.628, TEX. FIN. CODE
Distribution Policy	Annual distributions, payable quarterly or annually, are calculated as <u>3.5</u> <del>4.5</del> % times the twenty-quarter, moving-average value of the Fund as of June 30 for distributions to be made the following fiscal year.

### **3. Types of Authorized Investments**

Each fund (or a portion of one or more funds) may be placed in the Texas Treasury Safekeeping Trust Company (TTSTC) or its successor. Pursuant to Section 404.106 of the Government Code, funds held by the TTSTC are to be invested in obligations in which the Texas Comptroller of Public Accounts is authorized to invest. Section 404.024 of the Government Code specifies those obligations in which the Comptroller is authorized to invest.

The Texas Financial Education Endowment Fund is to be invested with the TTSTC . The Investment Policy Statement for Texas Financial Education Endowment Fund of the TTSTC is adopted by reference for the oversight of the Texas Financial Education Endowment Fund [See [http://ttstc.com/reports/investmentpolicies/Endowment\\_IPS\\_Oct\\_2016.pdf](http://ttstc.com/reports/investmentpolicies/Endowment_IPS_Oct_2016.pdf)]. These policies include:

- An investment return objective of 6 ~~8~~%
- A securities lending objective to enhance current income to the extent consistent with the preservation of capital and maintenance of liquidity
- Portfolio rebalancing
- Portfolio hedging and overlays
- Asset allocation targets and performance benchmarks
- Risk management guidelines
- Investment manager expectations
- Fixed income, equity, real estate and all asset strategies

The investment policies of the Texas Treasury Safekeeping Trust Company control over any conflict between this policy and the TTSTC investment policy for the Texas Financial Education Endowment Fund.

Insofar as a fund or portion of a fund is deposited in a financial institution, the Agency may utilize the investment securities listed below. "Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Agency.

- Obligations of the United States or its agencies and instrumentalities with a maximum allowable maturity of ten years;
- Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of ten years;
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with a maximum allowable maturity of ten years;

- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States with a maximum allowable maturity of 10 years;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of ten years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;
- Deposit accounts, including time accounts and certificates of deposit, in a depository institution that has its main office or a branch office in this state which:
  - Are fully insured by the FDIC, or its successor; or,
  - Are 100% secured by securities allowable under this section for direct investment by the Agency, and
  - Do not have a maturity exceeding 36 months.
- Bids for certificates of deposit may be solicited:
  - Orally;
  - In writing;
  - Electronically; or
  - In any combination of those methods.
- Repurchase agreements, collateralized on a daily basis at a minimum of 102% of market value, including both direct security repurchase agreements and reverse security repurchase agreements, that:
  - Do not have a defined termination date exceeding ninety days;
  - Are secured by a combination of cash and securities allowable under this section for direct investment by the Agency;
  - Require securities being purchased or cash held by the Agency to be pledged to the Agency, held in the Agency's name and deposited at the time the investment is made with the Agency or with a third party selected and approved by the Agency;
  - Are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; and
  - Requires that money received under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse repurchase agreement.
- Mutual funds, if they are no-load money market mutual funds that:
  - Are registered with and regulated by the Securities and Exchange Commission;
  - Provide the Agency with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940
  - Have a dollar-weighted average stated maturity of 90 days or less; and,
  - Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.
- Mutual funds, if they are no-load mutual funds that:

- Are registered with the Securities and Exchange Commission;
- Have an average weighted maturity of less than two years;
- Are invested exclusively in obligations authorized in this policy; and,
- Are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

#### **4. Unauthorized Investments**

The following are not authorized investments under this policy:

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and
- No portion of bond proceeds, reserves and funds held for debt service shall be invested in mutual funds.

#### **5. Safekeeping of Investments**

All funds, securities, etc., held under this policy, where possible, will be placed under the name of the Office of Consumer Credit Commissioner and safekeeping receipts will be maintained on file.

#### **6. Reporting**

Not less than quarterly, the Investment Officer shall prepare and submit to the Finance Commission and Finance Commission Chairman a signed, written report of investment transactions for all funds covered by this policy for the preceding reporting period, to include:

- The investment position of the Agency on the date of the report;
- The book and market values of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested (for demand deposits and certificates of deposit, reports will reflect book value and market value as the same);
- The maturity date of each separately invested asset that has a maturity date;
- The fund for which each individual investment was acquired;
- Any non-compliance of the investment portfolio with this policy;
- Income received and expenses incurred in conjunction with investments; and,
- Any other information as required by the Finance Commission.

#### **7. Rates of Return and Market Pricing**

The Agency expects to receive market rates of return on all investments authorized under this policy, remembering the need to first, protect principal and second, maintain sufficient liquidity to meet the needs of the specific funds being invested. Higher rates of return will be targeted on the more aggressive and longer term investment products. No rate of return is expected to be earned on any funds in a checking account, and therefore these will be kept to a minimum.

The Investment Officer will periodically review the market pricing and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives.

#### **8. Diversification**

Investments in FDIC-insured deposits (or in deposits not insured by the FDIC but otherwise secured by state or federal government obligations with margin) and in direct U.S. Treasury obligations are not subject to diversification other than maturity considerations. For investments other than those just listed, diversification shall be as follows:

- Specific mutual funds, if they are no-load mutual funds, are eligible for investment up to a limit of no more than 15 % of a covered fund's average balance;
- No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- No covered funds shall be invested in any one mutual fund in an amount that exceeds 10% of the total assets of the mutual fund.

#### **9. Settlement**

Settlement of all transactions, except investment pool funds and mutual funds, shall be on a delivery versus payment basis.

#### **10. Investment Officer**

The Accounting Manager will be the designated Investment Officer for the funds held and invested by the Agency. The Investment Officer is authorized to:

- Obtain external investment expertise if deemed necessary to fulfill investment objectives;
- Delegate routine business transactions within authorized and established investments; and,
- Enter into agreements with other parties as necessary to fulfill this policy, make or authorize investments, or notify other parties concerning this policy and its requirements.

Pursuant to Gov't Code §2256.005(i), if the Investment Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the Agency, the Officer shall file a statement disclosing that personal business interest. For the purposes of this policy, an investment officer has a personal business relationship with a business organization if:

- The investment officer owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- Funds received by the investment officer from the business organization exceed 10% of the investment officer's gross income for the previous year; or
- The investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

If the Investment Officer is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Agency, the Officer shall file a statement disclosing that relationship. Any statement filed under this paragraph shall be filed with the Texas Ethics Commission and the Finance Commission.

#### **11. Investment Training**

Pursuant to Gov't Code §2256.007, the Investment Officer and other agency employees active in the investment function will attend training relating to their respective responsibilities under this policy, not less than once each state fiscal biennium. Training may include education in investment controls, security risks, strategy risks, and market risks.

Any training conducted or approved by any state or federal agency, independent of the Agency, related to investments, risk management, portfolio diversification, or similar substance, is hereby approved by the Finance Commission as meeting the terms of this requirement.

The Investment Officer shall provide a report to the Finance Commission regarding the status of investment training at the time of the biannual review of the policy.

**12. Entities Authorized to Engage in Investment Transactions**

Investments may be obtained through licensed securities brokers, commercial banks, state savings banks, and trust companies authorized to do business in Texas. To the extent that deposits and accounts are insured or secured for the full amount of principal and interest, no specific authorization from the Finance Commission is required as long as the individual institution falls under the requirements of this policy. All brokerage activities will be transacted using qualified brokerage firms. Qualified brokerage firms must be regulated by the Securities Exchange Commission and be members of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC).

**13. Acknowledgment of the Policy by Persons Seeking to Sell Investments to the Agency**

A written copy of this policy must be presented to any person offering to engage in an investment transaction with the Agency. A qualified representative of the business organization offering to engage in an investment transaction with the Agency shall execute a written acknowledgment (Appendix #1) that the business organization:

- Has received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,
- Acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Agency and the organization that are not authorized by the Agency's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Agency's entire portfolio or requires an interpretation of subjective investment standards.

The Investment Officer may not acquire or otherwise obtain any authorized investment described in the investment policy, or renew depository or other agreements, from a person who has not delivered to the Agency the instrument in substantially the form provided.

## Appendix #1

### Acknowledgment

I, (broker/banker/trust company officer), a qualified representative of (name of brokerage facility/bank/trust company), hereby make the following statements:

I have received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,

I acknowledge that (name of brokerage facility/bank) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Office of Consumer Credit Commissioner and (name of the brokerage facility/bank/trust company) that are not authorized by the referenced Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Office of Consumer Credit Commissioner's entire portfolio or requires an interpretation of subjective investment standards.

\_\_\_\_\_  
Signature of Qualified Representative

\_\_\_\_\_  
Date



## TEXAS DEPARTMENT OF BANKING

★ Dedicated to Excellence in Texas Banking ★

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### ADMINISTRATIVE MEMORANDUM – 2027

**Date** October 21, 2016~~June 19, 2015~~

**TO:** Finance Commission Members

**FROM:** Charles G. Cooper, Banking Commissioner

**SUBJECT:** Investment Policy for Funds Under the Oversight of the Finance Commission of Texas

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#### Overview

This policy governs the investment of funds maintained by the Texas Department of Banking ("Department"), as well as the investment of funds under its control to the extent the Department has either statutory or court-approved investment authority. While this agency is not subject to the requirements in the Public Funds Investment Act, efforts are made to closely follow the Act. This policy does not convey investment authority where such does not exist through statute or the courts. This policy shall be approved by the Finance Commission as this policy applies to funds within its purview. The policy will be reviewed annually by the Finance Commission, with said review and any changes made to either the policy or investment strategies recorded in the minutes of the Finance Commission.

The Finance Commission met on October 21, 2016~~June 19, 2015~~ to re-approve this policy ~~which was revised to clarify the types of authorized investments and add the requirement that investment brokerage firms be members of the Securities Investor Protection Corporation.~~ Previous changes to this policy were approved on June 19, 2015~~August 15, 2014~~.

It is the policy of the Department to invest funds in compliance with the following priorities, in the order of importance:

- Preservation of principal;
- Maintenance of liquidity as appropriate to the identified need;
- Procurement of an appropriate yield;
- Diversification of the investment portfolio, and,
- Marketability of the investment if the need arises to liquidate the investment before maturity.

All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's



own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

To the extent that diversification of investment types and maturities assists in the achievement of the above-named priorities, investment strategies for the different funds held will consider the appropriate mix of investments.

### **Identification of Covered Funds**

Funds covered by this policy include funds acquired through seizure of a trust-funded prepaid funeral contract seller, or liquidation of a trust company or uninsured bank.

### **Types of Authorized Investments**

The fund or a portion of the fund may be placed in the Texas Treasury Safekeeping Trust Company (or its successor). Pursuant to Section 404.106 of the Government Code, funds held by the Texas Treasury Safekeeping Trust Company are to be invested in obligations in which the Texas Comptroller of Public Accounts is authorized to invest. Section 404.024 of the Government Code specifies those obligations in which the Comptroller is authorized to invest.

Insofar as the fund or a portion of the fund is deposited in a financial institution as authorized by Texas Finance Code Section 154.353, the Department may utilize the investment securities listed below. "Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Department.

- Obligations of the United States or its agencies and instrumentalities with a maximum allowable maturity of ten years;
- Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of ten years;
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with a maximum allowable maturity of ten years;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities with a maximum allowable maturity of ten years;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States with a maximum allowable maturity of ten years;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of ten years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held

from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;

- Deposit accounts, including time accounts and certificates of deposit, in a depository institution that has its main office or a branch office in this state which:
  - Are fully insured by the FDIC, or its successor; or,
  - Are 100% secured by securities allowable under this section for direct investment by the Department, and
  - Do not have a maturity exceeding 36 months.

Bids for certificates of deposit may be solicited:

- Orally;
  - In writing;
  - Electronically; or
  - In any combination of those methods.
- Repurchase agreements, collateralized on a daily basis at a minimum of 102% of market value, including both direct security repurchase agreements and reverse security repurchase agreements, that:
    - Do not have a defined termination date exceeding ninety days;
    - Are secured by a combination of cash and securities allowable under this section for direct investment by the Department;
    - Require securities being purchased or cash held by the Department to be pledged to the Department, held in the Department's name and deposited at the time the investment is made with the Department or with a third party selected and approved by the Department;
    - Are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; and
    - Requires that money received under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse repurchase agreement.
  - Mutual funds, if they are no-load money market mutual funds that:
    - Are registered with and regulated by the Securities and Exchange Commission;
    - Provide the Department with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
    - Have a dollar-weighted average stated maturity of 90 days or less; and,

- Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.
- Mutual funds, if they are no-load mutual funds that:
  - Are registered with the Securities and Exchange Commission;
  - Have an average weighted maturity of less than two years;
  - Are invested exclusively in obligations authorized in this policy; and,
  - Are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

Investments that were authorized at the time they were purchased or received through liquidation or seizure may be retained under this policy even if later revisions of the policy render the investments in noncompliance.

Investments obtained or purchased by court-appointed liquidators acting on behalf of the Banking Commissioner will be reported to the Finance Commission; however, such investments are not subject to the provisions of this policy.

Any noncomplying investments received through liquidation or seizure will be reported by the Investment Officer to the Finance Commission at the next Finance Commission meeting when a quarterly report is presented. At the time they are initially reported, the Finance Commission may either approve a plan for divestiture, or accept an investment as noncomplying under the policy, with a specific rationale for retaining it. If noncomplying investments are retained, the Investment Officer shall present a plan to the Finance Commission to protect the investments from loss to the extent possible. All noncomplying investments will be identified as exceptions in quarterly reports to the Commission.

### **Unauthorized Investments**

The following are not authorized investments under this policy:

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and,
- No portion of bond proceeds, reserves and funds held for debt service shall be invested in mutual funds.

### **Strategies for Covered Funds**

The investment strategy for funds acquired through seizure of a trust-funded prepaid funeral contract seller, or trust company or uninsured bank in liquidation is to maintain investments seized in the seized entity's existing investment vehicle until potential legal challenges to the Department's seizure are resolved. Thereafter, if funds are in unauthorized investments, the Investment Officer will reinvest funds into authorized investments as it becomes prudent to do so. If funds are anticipated to be held for less than one year, funds may be placed in the Texas Treasury Safekeeping Trust Company, subject to an agreement with that company. Otherwise, funds will be invested in authorized investments as set forth elsewhere in this policy. Investments will be of a diverse nature, with maturities and cash flows structured to accommodate the anticipated distributions from the seizure or liquidation. Court-appointed liquidators will be used when possible to manage funds under liquidation.

### **Safekeeping of Investments**

All funds, securities, etc., held under this policy, where possible, will be placed under the name of the Texas Department of Banking and safekeeping receipts will be maintained on file.

### **Reporting**

Not less than quarterly, the Investment Officer shall prepare a signed, written report of investment transactions for all funds covered by this policy for the preceding reporting period, to include:

- The investment position of the Department on the date of the report;
- The book and market values of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested (for demand deposits and certificates of deposit, reports will reflect book value and market value as the same);
- The maturity date of each separately invested asset that has a maturity date;
- The fund for which each individual investment was acquired;
- Any non-compliance of the investment portfolio with this policy;
- Income received and expenses incurred in conjunction with investments; and,
- Any other information as required by the Finance Commission.

The reports shall be submitted to the Finance Commission at regularly scheduled meetings.

### **Rates of Return and Market Pricing**

The Department expects to receive market rates of return on all investments authorized under this policy, remembering the need to first, protect principal and second, maintain sufficient liquidity to meet the needs of the specific funds being invested. Higher rates of return will be targeted on the more aggressive and longer term investment products. No rate of return is expected to be earned on any funds in a checking account, and therefore these will be kept to a minimum.

The Investment Officer will periodically review the market pricing and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives.

### **Diversification**

Investments in FDIC-insured deposits (or in deposits not insured by the FDIC but otherwise secured by state or federal government obligations with margin) and in direct U.S. Treasury obligations are not subject to diversification other than maturity considerations. For investments other than those just listed, diversification shall be as follows:

- Specific mutual funds, if they are no-load mutual funds, are eligible for investment up to a limit of no more than 15 % of a covered fund's average balance;
- No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- No covered funds shall be invested in any one mutual fund in an amount that exceeds 10% of the total assets of the mutual fund.

### **Settlement**

Settlement of all transactions, except investment pool funds and mutual funds, shall be on a delivery versus payment basis.

### **Investment Officer**

One of the agency's Deputy Commissioners will be the designated Investment Officer for the funds held and invested by the Department. The Investment Officer is authorized to:

- Obtain external investment expertise if deemed necessary to fulfill investment objectives;
- Delegate routine business transactions within authorized and established investments; and,
- Enter into agreements with other parties as necessary to fulfill this policy, make or authorize investments, or notify other parties concerning this policy and its requirements.

The Investment Officer may not have a personal business relationship with a business organization offering to engage in an investment transaction with the Department.

If the Investment Officer is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Department, the Officer shall file a statement disclosing that relationship. Any statement filed under this paragraph shall be filed with the Texas Ethics Commission and the Finance Commission.

### **Investment Training**

The Investment Officer and other agency employees active in the investment function will attend training relating to their respective responsibilities under this policy, not less than once each state fiscal biennium. Training may include education in investment controls, security risks, strategy risks, and market risks.

Any training conducted or approved by any state or federal agency, independent of the Department of Banking, related to investments, risk management, portfolio diversification, or similar substance, is hereby approved by the Finance Commission as meeting the terms of this requirement.

The Investment Officer shall provide a report to the Finance Commission regarding the status of investment training at the time of the annual review of the policy.

### **Entities Authorized to Engage in Investment Transactions**

Investments may be obtained through licensed securities brokers, commercial banks, state savings banks, and trust companies authorized to do business in Texas. To the extent that deposits and accounts are insured or secured for the full amount of principal and interest, no specific authorization from the Finance Commission is required as long as the individual institution falls under the requirements of this policy. All brokerage activities will be transacted using qualified brokerage firms. Qualified brokerage firms must be regulated by the Securities Exchange Commission and be members of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC).

### **Acknowledgment of the Policy by Persons Seeking to Sell Investments to the Department**

A written copy of this policy must be presented to any person offering to engage in an investment transaction with the Department. Any person who is holding federally insured deposit accounts that come under the Department's control, through a seizure or liquidation are exempt from this requirement. A qualified representative of the business organization offering to engage in an investment transaction with the Department shall execute a written acknowledgment, as provided in the Appendix, that the business organization:

- Has received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,
- Acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department and the organization that are not authorized by the Department's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

The Investment Officer may not acquire or otherwise obtain any authorized investment described in the investment policy, or renew depository or other agreements, from a person who has not delivered to the Department the instrument in substantially the form provided.

## Appendix

### Acknowledgment

I, (broker/banker/trust company officer), a qualified representative of (name of brokerage facility/bank/trust company), hereby make the following statements:

I have received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,

I acknowledge that (name of brokerage facility/bank) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department of Banking and (name of the brokerage facility/bank/trust company) that are not authorized by the referenced Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

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Signature of Qualified Representative

---

Date

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

## **Overview**

This policy governs the investment of funds of the Mortgage Recovery Fund (“the Fund”) administered by the Department of Savings and Mortgage Lending (“the Department”) to the extent the Department has statutory investment authority. The Fund has been established as mandated by the 76<sup>th</sup> Legislature, and organized pursuant to the Texas Finance Code, Chapter 156, Subchapter F.

This policy does not convey investment authority where such does not exist through statute or the courts. This policy shall be approved by the Finance Commission as this policy applies to funds within its purview. The policy will be reviewed annually by the Finance Commission, with said review and any changes made to either the policy or investment strategies recorded in the minutes of the Finance Commission.

The Finance Commission reapproved this policy on ~~June 19, 2015~~ October 21, 2016, ~~which was revised to clarify the types of authorized investments~~. While this agency is not subject to the requirements in the Public Funds Investment Act, efforts are made to closely follow the Act. Previous changes to this policy were approved on ~~August 15, 2014~~ June 19, 2015.

It is the policy of the Department to invest funds in compliance with the following priorities, in the order of importance:

- Preservation of principal;
- Maintenance of liquidity as appropriate to the identified need;
- Procurement of an appropriate yield,
- Diversification of the investment portfolio, and
- Marketability of the investment if the need arises to liquidate the investment before maturity.

All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Appropriate diversification of investments will be sought.

To the extent that diversification of investment types and maturities assists in the achievement of the above-named priorities, investment strategies for the different funds held will consider the appropriate mix of investments.

## **Identification of Covered Funds**

Funds covered by this policy include amounts deposited into the Mortgage Broker Recovery Fund as prescribed in Texas Finance Code, Chapter 156, Subchapter F.

## **Types of Authorized Investments**

The fund or a portion of the fund may be placed in the Texas Treasury Safekeeping Trust Company (or its successor). Pursuant to Section 404.106 of the Government Code, funds held by the Texas Treasury Safekeeping Trust Company are to be invested in obligations in which the Texas Comptroller of Public Accounts is authorized to invest. Section 404.024 of the Government Code specifies those obligations in which the Comptroller is authorized to invest.

According to Texas Finance, Code, Section 156.501 (c), the amounts in the fund may be invested and reinvested in the same manner as funds of the Texas State Employees Retirement System (“ERS”), however an investment may not be made if it will impair the necessary liquidity required to satisfy judgment payments awarded to residential mortgage loan applicants from the Fund.



## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

The Department's investment goals align with the ERS's investment policy for Cash and Cash equivalents, which states that the cash portfolio is managed to maintain liquidity and preserve principal with a maximum final maturity of 18 months and with a minimum credit quality rating of A. The eligible securities for cash and cash equivalents according to ERS's investment policy are as follows:

1. Asset Backed Securities
2. Certificates of Deposit
3. Commercial Paper
4. Time Deposits
5. Repurchase Agreements
6. Treasury and Government Agency Securities
7. Bank Notes
8. Institutional Money Market Funds
9. Supranationals/Sovereigns
10. Domestic corporate bonds and floating rate notes (FRNs)

To provide for more flexibility and obtain a higher rate of return, while still maintaining liquidity and preserve principal the Department increases the allowable maturity period to 60 months (120 months for Asset Backed Securities) and with a minimum credit rating of A. To further limit the investment risk, the Department restricts the eligible securities for investment of funds covered under this policy to:

1. Certificates of Deposit & Time Deposits – Deposit accounts in a depository institution that has its main office or a branch office in this state which are: 1) Insured by a federal deposit insurance agency, or its successor; or, 2) 100% secured by securities allowable under the ERS' investment policy for cash and cash equivalents; and 3) do not have a maturity exceeding 60 months. Bids for certificates of deposit may be solicited orally, in writing, electronically or in any combination of those methods.
2. Repurchase Agreements – Direct or reverse security repurchase agreements with the Texas Treasury Safekeeping Trust Company (or its successor) or another authorized entity under this policy, which are: 1) collateralized on a daily basis at a minimum of 102% of market value; 2) 100% secured by securities allowable under the ERS' investment policy for cash and cash equivalents; 3) are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state.
3. Asset Backed Securities - Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with a maximum allowable maturity of 120 months and expected average life of not more than 60 months.
4. Treasury and Government Agency Securities – Obligations of the United States or its agencies and instrumentalities, direct obligations of this state or its agencies and instrumentalities, and obligations of state or local government agencies and instrumentalities of any state rated as to investment quality by a nationally recognized investment rating firm not less than A with a maximum allowable maturity of 60 months.

Investments that were authorized at the time they were purchased may be retained under this policy until their maturity, even if later revisions of the policy render the investments in noncompliance.

### **Unauthorized Investments**

Unauthorized Investments under this policy are:

1. All investments in securities not specifically listed in this policy as eligible securities, or

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

2. All investments with maturity and credit rating that do not comply with the requirements of this policy, or
3. All investments obtained through an unauthorized entity under this policy, or
4. All investments which comply with the policy but through inherent characteristics or external influences and factors could prevent the Department to reach its investment goals under this policy.

### **Strategy for Covered Funds**

The investment strategy for funds received into the Mortgage Broker Recovery Fund, is to place funds in either authorized investments set forth in this policy or in the Texas Treasury Safekeeping Trust Company, with amounts and maturities determined by anticipated liquidity needs.

### **Safekeeping of Investments**

All funds, securities, etc., held under this policy, where possible, will be placed under the name of the ~~Texas~~ Department of Savings and Mortgage Lending and safekeeping receipts will be maintained on file.

### **Reporting**

Not less than quarterly, the Investment Officer shall prepare a signed, written report of investment transactions for all funds covered by this policy for the preceding reporting period, to include:

- The investment position of the Fund on the date of the report;
- The book and market values of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested (for demand deposits and certificates of deposit, reports will reflect book value and market value as the same);
- The maturity date of each separately invested asset that has a maturity date;
- Any non-compliance of the investment portfolio with this policy;
- Income received and expenses incurred in conjunction with investments; and,
- Any other information as required by the Commission or deemed relevant to this policy.

The reports shall be submitted to the Finance Commission at regularly scheduled meetings.

### **Rates of Return and Market Pricing**

The Department expects to receive market rates of return on all investments authorized under this policy, remembering the need to first, protect principal and second, maintain sufficient liquidity to meet the needs of the specific funds being invested. No rate of return is expected to be earned on any funds in a checking account, and therefore these will be kept to a minimum.

The Investment Officer will periodically review the market pricing and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives.

### **Diversification**

Investments in FDIC-insured deposits (or in deposits not insured by the FDIC but otherwise secured by state or federal government obligations with margin) and in direct U.S. Treasury obligations are not subject to diversification other than maturity considerations.

### **Settlement**

Settlement of all transactions, except investment pool funds and mutual funds, shall be on a delivery versus payment basis.

### **Investment Officer**

The Director of Administration and Finance will be the designated Investment Officer for the funds held and invested by the Department. The Investment Officer is authorized to:

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

- Obtain external investment expertise if deemed necessary to fulfill investment objectives;
- Delegate routine business transactions within authorized and established investments; and,
- Enter into agreements with other parties as necessary to fulfill this policy, make or authorize investments, or notify other parties concerning this policy and its requirements.

The Investment Officer may not have a personal business relationship with a business organization offering to engage in an investment transaction with the Department.

If the Investment Officer is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Department, the Officer shall file a statement disclosing that relationship. Any statement filed under this paragraph shall be filed with the Texas Ethics Commission and the Finance Commission.

### **Investment Training**

The Investment Officer and other agency employees active in the investment function will attend training relating to their respective responsibilities under this policy, not less than once each state fiscal biennium. Training may include education in investment controls, security risks, strategy risks, and market risks. Any training conducted or approved by any state or federal agency, independent of the Department, related to investments, risk management, portfolio diversification, or similar substance, is hereby approved by the Finance Commission as meeting the terms of this requirement.

The Investment Officer shall provide a report to the Finance Commission regarding the status of investment training at the time of the annual review of the policy.

### **Entities Authorized to Engage in Investment Transactions**

Investments may be obtained through licensed securities brokers, commercial banks, state savings banks, and trust companies authorized to do business in Texas. To the extent that deposits and accounts are insured or secured for the full amount of principal and interest, no specific authorization from the Finance Commission is required as long as the individual institution falls under the requirements of this policy. All brokerage activities will be transacted using qualified brokerage firms. Qualified brokerage firms must be regulated by the Securities Exchange Commission and be members of Financial Industry Regulatory Authority (FINRA).

### **Acknowledgment of the Policy by Persons Seeking to Sell Investments to the Department**

A written copy of this policy must be presented to any person offering to engage in an investment transaction with the Department. Any person who is holding federally insured deposit accounts is exempt from this requirement. A qualified representative of the business organization offering to engage in an investment transaction with the Department shall execute a written acknowledgment (Appendix) that the business organization:

- Has received and reviewed the Investment Policy of the Department; and,
- Acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department and the organization that are not authorized by the Department's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

The Investment Officer may not acquire or otherwise obtain any authorized investment described in the investment policy, or renew depository or other agreements, from a person who has not delivered to the Department the instrument in substantially the form provided.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING  
INVESTMENT POLICY

Appendix

Acknowledgment

I, (broker/banker/trust company officer), a qualified representative of (name of brokerage facility/bank/trust company), hereby make the following statements:

I have received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,

I acknowledge that (name of brokerage facility/bank) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department of Savings and Mortgage Lending and (name of the brokerage facility/bank/trust company) that are not authorized by the referenced Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

\_\_\_\_\_  
Signature of Qualified Representative

\_\_\_\_\_  
Date

<b>OFFICE OF CONSUMER CREDIT COMMISSIONER</b> <b>OPERATING STATEMENT &amp; BUDGET ANALYSIS</b> <i>For the Period Ended August 31, 2016</i>						
	100%					
	FY 2015 ACTUAL	FY 2016 BUDGET	FY 2016 PERFORMANCE			
			YTD BUDGET	YTD ACTUAL	(OVER)/UND BUDGET	PERCENT BUDGET
<b>REVENUES:</b>						
Regulated Lenders	\$ 1,766,773	\$ 2,126,750	\$ 2,126,750	\$ 2,301,127	\$ (174,377)	108.2% (1)
Pawn Industry	967,515	1,067,825	1,067,825	1,040,593	27,232	97.4%
MV Industry	3,595,712	4,163,840	4,163,840	4,009,756	154,084	96.3%
Credit Access Industry	1,829,820	1,423,400	1,423,400	1,394,845	28,555	98.0%
Penalties	723,238	-	-	966,357	(966,357)	100.0% (2)
Debt Management Services	38,735	41,200	41,200	40,390	810	98.0%
Debt Cancellation	-	-	-	10,750	(10,750)	100.0%
RAL Assessment	45,575	45,000	45,000	76,525	(31,525)	170.1% (3)
Precious Metals	55,850	53,500	53,500	46,100	7,400	86.2%
Tax Liens	66,968	59,800	59,800	59,208	592	99.0%
Sale of Publications	879	-	-	1,041	(1,041)	100.0%
Creditor Registration	100,520	143,350	143,350	129,645	13,705	90.4%
Mortgage Loan Originators	95,900	74,400	74,400	104,425	(30,025)	140.4%
Other Revenue	(376)	-	-	3,682	(3,682)	100.0%
Interest Revenue	3,853	-	-	19,098	(19,098)	100.0%
<b>TOTAL REVENUES</b>	<b>\$ 9,290,962</b>	<b>\$ 9,199,065</b>	<b>\$ 9,199,065</b>	<b>\$ 10,203,542</b>	<b>\$ (1,004,477)</b>	<b>110.9%</b>
<b>EXPENDITURES:</b>						
Salaries and Wages-						
Base Pay	\$ 4,773,686	\$ 5,345,328	\$ 5,345,328	\$ 4,928,968	\$ 416,360	92.2% (4)
Benefit Replacement Pay	7,188	8,250	8,250	7,188	1,062	87.1%
Longevity	63,700	75,520	75,520	67,400	8,120	89.2%
	<b>\$ 4,844,574</b>	<b>\$ 5,429,098</b>	<b>\$ 5,429,098</b>	<b>\$ 5,003,556</b>	<b>\$ 425,542</b>	<b>92.2%</b>
Travel-						
Public Transportation, Lodging, Meals & Mileage	911,287	971,922	971,922	724,516	247,406	74.5% (5)
	<b>\$ 911,287</b>	<b>\$ 971,922</b>	<b>\$ 971,922</b>	<b>\$ 724,516</b>	<b>\$ 247,406</b>	<b>74.5%</b>
Other Expenditures-						
Professional Services & Fees	422,702	212,515	212,515	122,034	90,481	57.4%
Consumable Supplies	22,315	30,300	30,300	19,787	10,513	65.3% (6)
Postage & Freight	47,512	49,500	49,500	17,352	32,148	35.1% (6)
Telephone & Communications	62,689	83,550	83,550	63,994	19,556	76.6% (6)
Bldg. & Utilities	72,998	129,250	129,250	64,089	65,161	49.6% (6)
Publication / Printing & Reproduction	3,321	6,300	6,300	5,465	835	86.7% (6)
Other Operating	258,555	385,418	385,418	288,585	96,833	74.9% (6)
	<b>\$ 890,092</b>	<b>\$ 896,833</b>	<b>\$ 896,833</b>	<b>\$ 581,306</b>	<b>\$ 315,527</b>	<b>64.8%</b>
Acquisition of Info Technology	\$ 69,882	\$ 114,250	\$ 114,250	\$ 72,393	\$ 41,857	63.4%
Development in Progress	-	410,000	410,000	91,415	318,585	22.3% (7)
Employee Benefits	1,543,542	1,866,914	1,866,914	1,721,687	145,227	92.2%
SWCAP Reimb to Unapp Gr 0001	40,111	35,000	35,000	31,654	3,346	90.4%
SORM Assessment	4,984	6,000	6,000	5,207	793	86.8%
Unemployment Benefits	-	5,000	5,000	11,980	(6,980)	239.6%
	<b>\$ 1,658,519</b>	<b>\$ 2,437,164</b>	<b>\$ 2,437,164</b>	<b>\$ 1,934,336</b>	<b>\$ 502,828</b>	<b>79.4%</b>
<b>TOTAL EXPENDITURES:</b>	<b>\$ 8,304,472</b>	<b>\$ 9,735,017</b>	<b>\$ 9,735,017</b>	<b>\$ 8,243,714</b>	<b>\$ 1,491,303</b>	<b>84.7%</b>
<b>EXPENDITURES (OVER) / UNDER REVENUE</b>	<b>\$ 986,490</b>	<b>\$ (535,952)</b>	<b>\$ (535,952)</b>	<b>\$ 1,959,828</b>	<b>\$ (2,495,780)</b>	

## Office of Consumer Credit Commissioner

### Overview of Budget Variances for 4<sup>th</sup> qtr. FY 2016

#### Revenues- 111% of budget

- 1.) Regulated Lenders is above budget due to an increase in applications received, renewed or amended.
- 2.) The Penalty Revenue for the ending of the 4<sup>th</sup> qtr is comprised of approximately 36% Penalties and 64% late filing fees.
- 3.) RAL is above budget due to the higher number of registrations received for the year.

#### Expenditures- 85% of budget

- 4.) Personnel & Employee Benefit costs are 7.8% below budget due to the staged hiring of vacant positions and turnover during the year.
- 5.) Travel is below budget due to OCCC implementing several strategies that produced significant strategic cost savings and efficiencies. In addition there has been some employee turnover within the Exam Department as well as the department postponing the hiring to complete training of an existing examiners class that contributed to the reduced level of travel expenditures.
- 6.) Overall other expenditures were under budget due to the agency exercising a more conservative approach for non-essential or discretionary expenditures. Further, certain expenses such as legal costs, bank fees and other larger item expenses were not as high as originally anticipated. Postage costs were lower due to e-mail communication and carryover postage balances from prior year.
- 7.) Development in Progress is under budget due to the timing of the beginning of the IT project for Annual Reporting, Complaints, and Examinations. Expenses for the project will continue to be incurred in 1<sup>st</sup> qtr FY 17, and 2<sup>nd</sup> qtr FY 17.

**Office of Consumer Credit Commissioner  
Changes in Cash Balance  
For the Quarter Ending August 31, 2016**

	<b>Actual</b>
Cash at Beginning of Period	\$ 9,957,818.93
Revenues Over (Under) Expenditures CY	1,738,057.00
Increase (Decrease) in Payables	100,328.27
(Increase) Decrease in Receivables	74,369.85
Cash at End of Period	<u>\$ 11,870,574.05</u>

**Restricted Cash Balance**

Payroll and Payroll Related Payables	\$ 766,600.57
Reserve for Building	6,000,000.00
<b>Total Restricted Cash Balance</b>	<u>\$ 6,766,600.57</u>

**Assigned Cash Balance**

Retirement	91,978.76
Information Technology	410,000.00
Future Operations	4,601,994.72
<b>Total Assigned Cash Balance</b>	<u>\$ 5,103,973.48</u>

Total Restricted and Assigned Cash Balance      \$ 11,870,574.05

Assigned Cash Balance / FY 2017 Monthly Budget      5.7

**Texas Department of Banking  
Operating Statement and Budget Analysis  
For Period Ending August 2016**

	FY 2015 ACTUAL	FY 2016 BUDGET	QUARTER PERFORMANCE				FY 2016 PERFORMANCE			
			4th Quarter BUDGET	4th Quarter ACTUAL	(OVER)/UNDER BUDGET	PERCENT BUDGET	YTD BUDGET	YTD ACTUAL	(OVER)/UNDER BUDGET	PERCENT BUDGET
<b>REVENUE:</b>										
Bank & Trust Regulation	\$21,989,406.54	\$23,335,260.00	\$6,020,260.00	\$5,905,922.98	\$114,337.02	98.1%	\$23,335,260.00	\$23,882,487.21	(\$547,227.21)	102.3%
Nonbank Regulation	2,901,040.57	3,009,190.03	437,292.13	131,782.62	305,509.51	30.1%	3,009,190.03	2,921,826.30	87,363.73	97.1%
Miscellaneous Revenues	11,103.86	8,000.00	2,000.00	9,130.58	(7,130.58)	456.5%	8,000.00	27,789.17	(19,789.17)	347.4%
<b>TOTAL REVENUES:</b>	<b>\$24,901,550.97</b>	<b>\$26,352,450.03</b>	<b>\$6,459,552.13</b>	<b>\$6,046,836.18</b>	<b>\$412,715.95</b>	<b>93.6%</b>	<b>\$26,352,450.03</b>	<b>\$26,832,102.68</b>	<b>(\$479,652.65)</b>	<b>101.8%</b>
<b>EXPENDITURES:</b>										
Salaries and Wages										
Exempt Salaries	\$229,000.00	\$229,000.00	\$55,250.00	\$56,631.25	(\$1,381.25)	102.5%	\$229,000.00	\$244,442.00	(\$15,442.00)	106.7%
Classified Salaries	16,104,213.94	16,975,619.19	4,412,307.81	4,400,271.15	12,036.66	99.7%	16,975,619.19	16,337,543.36	638,075.83	96.2%
Longevity	203,620.00	207,120.00	53,960.00	50,420.00	3,540.00	93.4%	207,120.00	200,120.00	7,000.00	96.6%
Other	259,249.17	256,131.57	179,661.83	39,674.70	139,987.13	22.1%	256,131.57	133,900.61	122,230.96	52.3%
Payroll Health Ins/Retire Contrib	228,193.58	256,858.79	65,082.87	58,774.48	6,308.39	90.3%	256,858.79	235,251.88	21,606.91	91.6%
	<b>\$17,024,276.69</b>	<b>\$17,924,729.55</b>	<b>\$4,766,262.51</b>	<b>\$4,605,771.58</b>	<b>\$160,490.93</b>	<b>96.6%</b>	<b>\$17,924,729.55</b>	<b>\$17,151,257.85</b>	<b>\$773,471.70</b>	<b>95.7%</b>
Travel										
In-State	\$1,361,209.11	\$1,664,611.47	\$412,277.46	\$398,099.17	\$14,178.29	96.6%	\$1,664,611.47	\$1,605,275.73	\$59,335.74	96.4%
Out-of-State	609,531.22	695,721.28	286,083.08	186,335.04	99,748.04	65.1%	695,721.28	577,748.74	117,972.54	83.0%
	<b>\$1,970,740.33</b>	<b>\$2,360,332.75</b>	<b>\$698,360.54</b>	<b>\$584,434.21</b>	<b>\$113,926.33</b>	<b>83.7%</b>	<b>\$2,360,332.75</b>	<b>\$2,183,024.47</b>	<b>\$177,308.28</b>	<b>92.5%</b>
Other Expenditures										
Professional Fees & Services	\$74,282.17	\$149,660.00	\$97,315.57	\$102,983.29	(\$5,667.72)	105.8%	\$149,660.00	\$153,074.97	(\$3,414.97)	102.3%
Postage	13,198.53	14,985.00	1,650.00	372.00	1,278.00	22.5%	14,985.00	\$12,701.74	2,283.26	84.8%
Consumable Supplies	179,041.01	515,017.00	102,986.37	59,405.74	43,580.63	57.7%	515,017.00	\$476,701.21	38,315.79	92.6%
Telephone	250,370.38	265,636.04	73,726.52	46,010.12	27,716.40	62.4%	265,636.04	\$229,104.60	36,531.44	86.2%
Utilities	47,246.06	53,952.00	12,061.65	4,973.69	7,087.96	41.2%	53,952.00	\$44,982.17	8,969.83	83.4%
Rent - Buildings	291,374.53	421,229.00	98,325.00	64,760.18	33,564.82	65.9%	421,229.00	\$341,852.98	79,376.02	81.2%
Rent - Machinery & Other	30,901.34	56,560.00	14,740.00	9,141.97	5,598.03	62.0%	56,560.00	\$37,756.25	18,803.75	66.8%
Other Operating	387,556.68	482,509.00	243,644.04	185,376.51	58,267.53	76.1%	482,509.00	\$438,160.67	44,348.33	90.8%
Subscriptions	18,218.31	20,682.00	5,988.00	5,200.33	787.67	86.8%	20,682.00	\$16,109.46	4,572.54	77.9%
Employee Training / Reg. Fees	229,377.87	283,443.20	87,142.70	64,377.74	22,764.96	73.9%	283,443.20	\$251,013.16	32,430.04	88.6%
Claims/SORM Assessment	29,087.73	18,229.00	0.00	0.00	0.00	0.0%	18,229.00	\$19,517.09	(1,288.09)	107.1%
Capital / Other IT Expenditures	90,393.73	60,000.00	60,000.00	15,275.16	44,724.84	25.5%	60,000.00	15,275.16	44,724.84	25.5%
	<b>\$1,641,048.34</b>	<b>\$2,341,902.24</b>	<b>\$797,579.85</b>	<b>\$557,876.73</b>	<b>\$239,703.12</b>	<b>69.9%</b>	<b>\$2,341,902.24</b>	<b>\$2,036,249.46</b>	<b>\$305,652.78</b>	<b>86.9%</b>
Employee Benefits (Less BRP)	\$4,158,951.86	\$4,858,664.46	\$1,292,824.40	\$1,196,435.91	\$96,388.49	92.5%	\$4,858,664.46	\$4,673,170.85	\$185,493.61	96.2%
<b>TOTAL EXPENDITURES:</b>	<b>\$24,795,017.22</b>	<b>\$27,485,629.00</b>	<b>\$7,555,027.30</b>	<b>\$6,944,518.43</b>	<b>\$610,508.87</b>	<b>91.9%</b>	<b>\$27,485,629.00</b>	<b>\$26,043,702.63</b>	<b>\$1,441,926.37</b>	<b>94.8%</b>
<b>EXPENDITURES (OVER) / UNDER REVENUE:</b>	<b>\$106,533.75</b>	<b>(\$1,133,178.97)</b>	<b>(\$1,095,475.17)</b>	<b>(\$897,682.25)</b>	<b>(\$197,792.92)</b>		<b>(\$1,133,178.97)</b>	<b>\$788,400.05</b>	<b>(\$1,921,579.02)</b>	



## **Texas Department of Banking**

**Overview of Budget Variances for the Fourth Quarter of Fiscal Year 2016** - (Variances in excess of \$1,000 and 5% from budget are reported).

**Nonbank Regulation** – Actual revenues were less than budgeted due to forgiven fourth quarter assessments. Year to date nonbank regulation revenue is at 97.1% of budget and was adequate to cover all direct and indirect costs of the Special Audits area.

**Miscellaneous Revenues** – The variance for the quarter relates to higher interest payments from the Treasury than anticipated.

**Salaries and Wages, Longevity** – The positive variance relates to unexpected staff retirements and resignations that eliminated longevity payments.

**Salaries and Wages, Other** – The positive variance relates to budgeted retirement lump sum payments that did not occur.

**Payroll Health Insurance/Retirement Contribution** – The positive variance relates to vacant staff positions and certain salary amounts being exempt from the 1.5% calculation.

**Out-of-State Travel** – The positive variance is due to budgeted training related travel that did not occur or was postponed to FY 2017 and Bank and Trust and Special Audits examinations moved off-site, accepted from another state or postponed to FY 2017.

**Professional Fees and Services** – The negative variance relates to a net combination of: (1) unbudgeted speaker fees for feedback training; (2) unanticipated State Auditor's Office audit fees and architect fees; (3) no speaker fees for Bank Secrecy Act training; and (4) lower expenditures than budgeted for Attorney General fees, building related Outside Counsel fees and administrative law judge fees.

**Postage** – The positive variance is due to lower expenditures than anticipated.

**Consumable Supplies** – The positive variance is due to: (1) data line expenditures related to the Dallas regional office move charged to other operating expenses; (2) lower than budgeted cubicle expenses for the new Houston regional office; (3) lower Headquarters expenditures; and (4) budgeted information technology equipment and software that was not purchased.

**Telephone** – The positive variance is due to: (1) lower telephone expenditures than budgeted for the Dallas regional office relocation; (2) telephone expenditures related to the Houston regional office move charged to other operating expenses; and (3) a credit issued by the Department of Information Resources due to a prior overbilling.

**Utilities** – The positive variance is due to electrical work related to the relocation of the Dallas and Houston regional offices that was charged under other operating expenses and lower Headquarters utility costs.

**Rent - Buildings** – The positive variance is due to: (1) the relocations of the Dallas and Houston regional offices being later than contemplated; (2) postponed internal credit school training; (3) two planned off-site Examination Tools System (ETS) training sessions held on-site; and (4) better negotiated pricing for two off-site ETS training sessions.

**Rent – Machinery and Other** – The positive variance is due to audio visual expenditures that were not incurred for the on-site ETS training previously discussed and audio visual equipment that was negotiated to be included as part of town hall meetings venue pricing.

**Other Operating** – Including the misclassified budget items above, there was still a positive variance due to: (1) lower than budgeted investigator fees; (2) no printing costs for the discontinued Annual Report; and (3) lower than anticipated deferred maintenance expenditures.

**Employee Training** – The positive variance is due to examiner vacancies and training classes that did not materialize or were postponed to FY 2017.

**Capital/Other IT Expenditures** – The positive variance is due to postponing the door lock system installation for the regional offices to FY 2017.

**Note:**

The original 2016 budget did not include the Bank and Trust assessment increase effective March 1, 2016. Fourth quarter Bank and Trust and Special Audits assessments forgiven totaled approximately \$1.3 million.

# TEXAS DEPARTMENT OF BANKING

## Changes in Cash Balance

For the Quarter Ending August 31, 2016

	<u>Actual</u>
Cash at Beginning of Period	\$15,470,484.34
Revenues Over (Under) Expenditures	(\$897,682.25)
Increase (Decrease) in Payables/Encumbrances	\$287,451.39
(Increase) Decrease in Receivables	<u>(\$12,573.99)</u>
Cash at End of Period	<u><u>\$ 14,847,679.49</u></u>

### Restricted Cash Balance:

Payroll and Related Payables	\$2,500,197.26
Reserve for Building	<u>6,000,000.00</u>
<b>Total Restricted Cash Balance</b>	<u><u>\$ 8,500,197.26</u></u>

### Assigned Cash Balance:

Retirements	\$611,204.72
Future Operations	<u>5,736,277.51</u>
<b>Total Assigned Cash Balance</b>	<u><u>\$ 6,347,482.23</u></u>

**Total Restricted and Assigned Cash Balance**      **\$ 14,847,679.49**

Assigned Cash Balance/FY2016 Monthly Budget      2.71 months

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

## OPERATING STATEMENT AND BUDGET ANALYSIS

*For the Period Ended August 31, 2016*

	FY 2015 EXPENDED	FY 2016 BUDGET	FY 2016 PERFORMANCE			
			YTD BUDGET	YTD EXPENDED*	(OVER)/UNDER BUDGET	PERCENT BUDGET
<b>REVENUE:</b>						
Annual Assessment	1,190,853	1,420,213	1,420,213	1,279,781	140,432	90.1%
Thrift Application Fees	12,850	12,000	12,000	75,000	(63,000)	625.0%
Licensing Fees	4,244,341	4,161,600	4,161,600	4,633,997	(472,397)	111.4%
Fines and Penalties	827,886	155,000	155,000	1,940,426	(1,785,426)	1251.9%
Recovery Fund Offset	11,043	15,000	15,000	1,241	13,759	8.3%
Depository Interest	4,053	3,000	3,000	20,961	(17,961)	698.7%
Miscellaneous	5,044	3,000	3,000	10,001	(7,001)	333.4%
Judgments and Settlements	60,000	0	0	60,000	(60,000)	0.0%
<b>TOTAL REVENUE</b>	6,356,071	5,769,813	5,769,813	8,021,407	(2,251,594)	139.0%
<b>EXPENDITURES:</b>						
Salaries and Wages-						
Exempt	190,000	202,540	202,540	202,540	0	100.0%
Classified	3,457,048	3,979,168	3,979,168	3,413,913	565,255	85.8%
Other Personnel Costs	154,570	100,315	100,315	173,557	(73,242)	173.0%
	3,801,618	4,282,023	4,282,023	3,790,010	492,013	88.5%
Travel-						
Transportation & Mileage	322,337	367,500	367,500	271,729	95,771	73.9%
	322,337	367,500	367,500	271,729	95,771	73.9%
Other Expenditures-						
Professional Services/Fees	57,020	53,540	53,540	45,024	8,516	84.1%
Consumable Supplies	11,197	12,500	12,500	11,941	559	95.5%
Utilities	24,296	36,252	36,252	30,113	6,139	83.1%
Rent-Space & Equipment	3,697	5,000	5,000	4,130	870	82.6%
Other Operating Expenses	232,093	233,539	233,539	270,764	(37,225)	115.9%
Capital Expenditures		12,000	12,000	0	12,000	0.0%
	328,302	352,831	352,831	361,972	(9,141)	102.6%
Other Agency Costs						
Employee Benefits	1,040,924	1,313,260	1,313,260	1,140,184	173,076	86.8%
SWCAP Indirect Costs	28,881	26,000	26,000	23,396	2,604	90.0%
	1,069,805	1,339,260	1,339,260	1,163,580	175,680	86.9%
<b>TOTAL EXPENDITURES</b>	5,522,062	6,341,614	6,341,614	5,587,291	754,322	88.1%
<b>EXPENDITURES (OVER)/ UNDER REVENUE</b>	834,009	(571,801)	(571,801)	2,434,115	(\$3,005,916)	N/A

\* Amounts include accruals and encumbrances.

## Department of Savings and Mortgage Lending

### Budget Variance Analysis as of August 31, 2016

#### Revenues:

Overall revenues are at 139% of budget.

Licensing Revenues – Revenues from license and registration fees are 11.4% over budget. The overage is due to high volume of license applications.

Fines and Penalties – Actual amounts collected are 1251.9% of budget due to collections of penalties assessed for unlicensed activities.

#### Expenditures:

Overall expenditures are at 88% of budget.

Employees' Salaries and Related Benefits – These categories are at 86% of budget, due to multiple vacancies.

Other Personnel Costs – This category is 73% over budget due to higher than budgeted lump sums paid out to separating employees.

Travel – This category is at 74% of budget due to lower travel costs incurred.

Other Operating Expenses – The category is 15.9% over budget mainly due to the contract for IT managed services.

Capital Expenditures – The budgeted expenditures for replacement of two of our servers were not incurred in fiscal year 2016. The replacement is scheduled to occur in fiscal year 2017.

<b>DEPARTMENT OF SAVINGS AND MORTGAGE LENDING</b> <b>CHANGES IN CASH BALANCE</b> <i>For the Quarter Ending August 31, 2016</i>	
	Actual
Cash at Beginning of Period	\$ 12,398,912
Revenues Over (Under) Expenditures CY	\$ (500,807)
Revenues Over (Under) Expenditures PY	\$ -
Increase (Decrease) in Payables/Encumbrances	\$ 41,612
(Increase) Decrease in Receivables	\$ (10,098)
<b>Cash at End of Period</b>	<b>\$ 11,929,619</b>
Restricted Cash Balance:	
Payroll Payable	\$ 407,078
Other Payables (Net of Receivables)	\$ (82,976)
Building	\$ 6,000,000
<b>Total Restricted Cash Balance</b>	<b>\$ 6,324,102</b>
Assigned Cash Balance:	
Retirements	\$ 100,000
Mortgage Enforcement Funds	\$ 616,114
Future Operations	\$ 4,889,403
<b>Total Assigned Cash Balance</b>	<b>\$ 5,605,517</b>
<b>Total Restricted and Assigned Cash Balance</b>	<b>\$ 11,929,619</b>
Assigned Cash Balance/FY2016 Monthly Budget	10.6 months



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## **Texas Financial Education Endowment Report**

The review of the first TFEE semi-annual grant reports is complete. During the reporting period (Jan 1 – June 30) approximately 1,292 Texas consumers received financial education sponsored with TFEE funds. Funds were used to implement new programs, increase the amount of individuals served, and expand their reach within their communities. A summary report of the initial 6 months of the cycle has been prepared for members of the Finance Commission, and will be distributed to the Grant Advisory Committee.

In August, the grant coordinator attended the Texas State Affordable Housing Corporation's *Credit Counseling for Maximum Results* training session. The purpose of attending the session was to perform an informal observation of the program, and to verify work was being performed as specified in the agreement. These types of observations will be conducted on all TFEE funded programs.