

STRATEGIC PLAN

Fiscal Years 2019 to 2023



Finance Commission of Texas

Strategic Plan
Fiscal Years 2019 to 2023
 by the
Finance Commission of Texas

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, Vice-Chair	Feb 23, 2016 to Feb 1, 2022	Bonham
William M. (Will) Lucas	Sept 27, 2011 to Feb 1, 2024	Center
George (Cliff) McCauley	June 28, 2018 to Feb 1, 2024	San Antonio
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
Vince E. Puente, Sr.	Aug 25, 2016 to Feb 1, 2024	Fort Worth

August 17, 2018

/s/ Stacy G. London

Stacy G. London, Finance Commission Chair

Finance Commission of Texas

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Overview of the Finance Commission of Texas

The Finance Commission of Texas (Finance Commission) was established in as 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). It is not a separate state agency. The Finance Commission serves as the primary point of accountability for ensuring that state depository and lending institutions function as a system. The Finance Commission's authority is set out in Chapter 11 of the Texas Finance Code.

The Finance Commission consists of eleven members who are private citizens appointed by the Governor of Texas, subject to Senate confirmation. The composition of the Finance 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.

Finance Commission members serve staggered, six-year terms. Members with expired appointments continue serving until their replacements are named. The governor appoints the presiding officer (Chair), currently Stacy G. London, a residential mortgage loan originator from Houston, Texas, who was appointed in February 2016. The presiding officer may designate a Vice-Chair who will conduct and complete all business before the Finance Commission in the Chair's absence. In August 2018, Phillip A. Holt was designated Vice-Chair.

The Finance 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 Finance Commission is not a separate state agency. The Finance Commission oversees the rules, budget, and operations of the DOB, DSML, and OCCC (agencies). The agencies provide administrative services and operational funding to the Finance Commission. Meetings are required to be held at least six times during each calendar year. The Finance Commission members appoint an agency commissioner to serve as Executive Director to the Finance Commission. DOB Commissioner Charles G. Cooper was appointed to serve as the Executive Director effective May 1, 2014.

The Finance Commission and the three agencies are currently undergoing Sunset review for 2019 as required under the Texas Sunset Act. Changes to the Finance Commission and the agencies' missions, goals, and strategies for the next five years are possible. At the time of this writing, the *Sunset Advisory Commission Staff Report* with recommendations has been issued and a public hearing held to take testimony on the Staff Report and the agencies overall. The Sunset Advisory Commission is scheduled to meet in late August 2018 to vote on the recommendations to the full Texas Legislature for the 86th Session in 2019.

The Finance Commission's Strategic Plan for 2019-2023 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 Finance 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 and increase the economic prosperity of the state.

Finance Commission of Texas Goal and Action Plans

The goal of the Finance Commission is 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 Finance Commission provides a forum for opinions to be heard from stakeholders, consumers, and the public.

To meet its goal and fulfill its mission, the Finance 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 the agencies to operate honestly and professionally in conducting their affairs with the public, the industries, and the Texas 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, evaluate and approve 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:
 - Selecting an internal auditor,
 - Monitoring the actions to be taken on the audit plans resulting from the annual risk assessment performed by the internal auditor,
 - Monitoring the actions to be taken on the findings resulting from the annual internal audit reports, including management's responses to the findings and 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 adopt 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 Finance 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 and oversee the implementation of Sunset Review recommendations enacted into law and agency actions approved by the Sunset Advisory Commission.
- Ensure new Finance Commission members receive adequate training to perform their duties.

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 Texas Finance Code, Health and Safety Code, and Occupations Code authorize each agency, as applicable, to impose and collect fees to cover the cost of examination, the equitable or proportionate cost of maintenance and operation of each agency, and the cost of enforcement. The Finance Commission's oversight further ensures that each agency operates in a prudent and fiscally responsible manner while performing statutory duties.

Annually, the Finance Commission evaluates and reviews the budgets developed by each agency. Prior to submission to the Finance 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 Texas Legislature amended the Texas Finance Code and SDSI status to the agencies under the oversight of the Finance Commission.

The SDSI status has been instrumental in supporting the agencies' efforts to fulfill their missions. Since 2009 it has enabled the 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 and training needs 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 Texas 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 Finance 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. The Finance Commission maintains oversight of each agency's activities relating to SDSI status by:

- Functioning as the approving authority of the agencies' budgets;
- Ensuring prudent fiscal management of the agencies;
- Ensuring compliance with mandated policies;
- Maintaining awareness of additional costs and contractual relationships resulting from SDSI status; and

- Monitoring annual and biennial reports provided to state leadership, assuring agency transparency and accountability.

Oversight and Agency Activities

The Finance Commission's primary responsibility is to provide oversight of the activities of the agencies. The Finance 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.

The Finance Commission is required to hold at least six regular public meetings each year. Prior to each meeting, 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.

Finance 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 Finance 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 include:

- regulatory changes at both the state and national levels,
- changing and emerging issues within the regulated industries,
- advances in technology,
- cybersecurity threat detection and prevention,
- growth in financial abuses against consumers,
- fluctuations in economic conditions, and
- attracting, developing, and retaining qualified staff.

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' office, meeting room, and parking space needs for the staff and general public. After many years of implementing interim solutions to these problems, a collective decision was made by the agencies and the Finance Commission to sell the building and purchase another property that fits the needs of the agencies. The 85th Texas Legislature passed Senate Bill 1349 which grants the Texas Department of Transportation the authority to sell certain excess land to the agencies. This option is being explored as well as the evaluation of other properties presented by a contracted real estate broker. Each agency has set aside cash reserves to cover the future expenses related to a new building and relocation. Finding the right property has proven to be challenging, as it has been difficult to find building space to meet the requirements of the agencies. The Finance Commission remains actively involved in this process.

Sharing of Resources

Per Texas Finance Code §11.204, the Finance Commission is authorized to use the staff, equipment, and facilities of the agencies to the extent necessary to carry out their duties. To reduce administrative costs, the agencies share staff, equipment, and facilities to the extent that the sharing contributes to cost efficiency without detracting from the staff expertise needed for individual areas of responsibility. The agencies share resources including the Finance Commission building, a receptionist, building manager, security surveillance, telecommunication infrastructure, imaging system, staff services officer, inventory supply clerk, and multiple contracts.

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 act 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.
- Testify, when requested, at legislative hearings.
- Monitor the economic outlook for Texas.
- 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 Finance 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
Offices of 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 and regulation of Texas Bullion Depository Agents became effective January 1, 2018; however, no applications have been filed as of June 30, 2018

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' consumer assistance operations and regulatory activities to ensure that consumers are protected from abusive and deceptive practices, fraud, and misrepresentation.
- Monitor and review 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.
- Monitor financial education outreach efforts of the agencies.
- Provide oversight and administration of the TFEE, including the investment of funds and awarding of grants that support the financial literacy objectives of the endowment.
- Coordinate and review statutorily-required or authorized research studies or projects.
- Review and evaluate 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 complaint resolution, 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

Financial education provides consumers the tools and skills needed to make informed financial decisions. Texas continues to make progress in developing financially educated consumers,. 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. Consumers who understand their choices and obligations can manage their personal finances better and are more likely to reach their financial goals. A more financially educated population making wiser financial decisions will help increase economic prosperity for all of Texas.

The agencies continue to work together to promote financial education. In addition, 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 (TFEE)

The TFEE administered by the Finance Commission supports statewide financial capability and consumer credit building activities and programs. The TFEE was created by the 82nd Texas Legislature under the authority of Chapter 393 of the Texas Finance Code to support statewide financial capability and consumer credit building activities and programs for youth and adults throughout the state. The program became effective on January 1, 2012. The endowment is administered by the Finance Commission and is funded through the receipt of assessments on credit access businesses. The Finance Commission determines an amount of grant funds to award before the start of the selection process for each award cycle. Grant monies are distributed to selected organizations that promote and increase the financial capabilities of consumers. Non-profit organizations, governmental organizations, schools, and for-profit entities are eligible to apply for grant funding. Eligibility is not open to financial service providers and entities regulated by the Finance Commission. Funds are awarded to grant recipients during a two-year cycle.

TFEE grant requests for the third grant cycle (2018-19) aggregated over \$800,000. In October 2017, the Finance Commission awarded a total of \$250,000 in funds to nine 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 Finance Commission.

Legislative Recommendations and Interpretations

Finance 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 Finance 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 Texas Legislature has the constitutional authority to delegate to one or more state agencies the power to interpret provisions of the Texas Constitution. The Texas Legislature delegated interpretative authority relating to home equity loans and reverse mortgages to the Credit Union Commission (as to credit unions) and to the Finance Commission (as to all other lenders under the agencies' jurisdictions). 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 maintaining a safe and sound financial system and promoting 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 of 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 Finance 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 complaint resolution, 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

According to the Federal Reserve Bank of Dallas, the Texas economy is expanding at a solid pace. Employment has grown at a 3.6 percent annualized rate through May 2018, driven by job gains in the goods-producing sector. Unemployment remains near its historical low, and labor markets are tight.

The Federal Reserve Bank's Beige Book released in late May 2018 notes that economic activity in the Dallas District grew at a solid pace over the previous six weeks. Growth in manufacturing strengthened during this period. Expansion in the energy and service sectors continued at about the same pace, while retail spending was mixed. Drought conditions continued to plague much of West Texas particularly in the Texas panhandle. Home sales continued to rise but apartment markets softened slightly. Loan volumes and demand expanded at a faster pace compared with previous reporting. Hiring was solid across most sectors, and widespread labor shortages continued. Wage and price pressures remained elevated, and several contacts noted a sharp rise in the cost of steel and aluminum. Outlooks remained fairly optimistic, but tariffs and trade-related concerns as well as rising interest rates are creating uncertainty.

To promote economic prosperity, the Finance 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.