

# STRATEGIC PLAN

Fiscal Years 2021 to 2025



Finance Commission of Texas

August 2020

# Strategic Plan

## Fiscal Years 2021 to 2025

by the

## Finance Commission of Texas

Finance Commission of Texas			
Commission Member	Dates of Term	Hometown	Member Representation
Phillip A. Holt, Chair	Feb 23, 2016 to Feb 1, 2022	Bonham	Consumer Credit
George (Cliff) McCauley, Vice Chair	June 28, 2018 to Feb 1, 2024	San Antonio	Banking
Robin Armstrong, M.D.	April 2, 2019 to Feb 1, 2022	Friendswood	Public
Robert (Bob) Borochoff	Feb 22, 2016 to Feb 1, 2022	Houston	Public
Hector J. Cerna	Dec 16, 2015 to Feb 1, 2026	Eagle Pass	Banking
Margaret (Molly) Curl	Feb 23, 2016 to Feb 1, 2022	Richardson	Public, CPA
Larry Long	April 6, 2020 to Feb 1, 2026	Dallas	Public
William M. (Will) Lucas	Sept 27, 2011 to Feb 1, 2024	Center	Savings
Sharon McCormick	April 20, 2020 to Feb 1, 2026	Frisco	Mortgage Broker
Vince E. Puente, Sr.	Aug 25, 2016 to Feb 1, 2024	Fort Worth	Public
Laura Nassri Warren	April 20, 2020 to Feb 1, 2026	Palmhurst	Public

August 21, 2020

/s/ Phillip A. Holt

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Phillip A. Holt, Finance Commission Chair

# Finance Commission of Texas

## Strategic Plan 2021-2025

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## Overview of the Finance Commission of Texas

The Finance Commission of Texas (Finance Commission) was established in 1943 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). The Finance Commission 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.
- 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). Phillip A. Holt, Vice President of Conn's Home Plus, is the current presiding officer who was appointed in April 2020. 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 May 2020 George (Cliff) McCauley, Senior Executive Vice President of Frost Bank, was designated Vice-Chair.

The Finance Commission oversees the rules, budget, and operations of the DOB, the DSML, and the 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 agencies were evaluated by the Texas Sunset Advisory Commission during their 2018 - 2019 review cycle, as required by the Texas Sunset Act. The 86<sup>th</sup> Legislature passed Senate Bill 614 and House Bill 1442 extending the existence of the three agencies through September 1, 2031 under the continued oversight of the Finance Commission. Further discussion of this process can be found on page five.

The Finance Commission's Strategic Plan for 2021-2025 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 banks, savings institutions, non-depository 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 Goals and Action Plans**

The goals of the Finance Commission are to ensure: (1) Texas' financial service providers operate in a safe and sound manner; (2) the numerous financial services industries under its jurisdiction function as a coordinated system; and (3) consumers who 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 goals and fulfill its mission, the Finance Commission will oversee the agencies under its supervision in a manner that:

- Provides a regulatory framework to protect 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.
- 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 to protect consumers' interests and maintain a safe and sound 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 achievement of these priorities.
- Establish reasonable and necessary assessments and fees to fund the activities of the agencies.
- Develop and implement policies that clearly separate the policymaking responsibilities of the Finance Commission and the management responsibilities of the Banking Commissioner, Savings

and Mortgage Lending Commissioner, and Consumer Credit Commissioner and staff of the agencies.

- 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.
- Review and monitor agencies' reporting on changing industry and economic conditions, including the impact of Coronavirus Disease 2019 (COVID-19), and the supervisory strategies utilized to adapt to these changes.
- Provide oversight of the agencies' internal audit function, including:
  - Select an internal auditor.
  - Review and monitor the actions to be taken on the audit plans resulting from the annual risk assessment performed by the internal auditor.
  - Monitor 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 the action plans from external audits conducted by state and federal agencies, management's responses, and 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 to 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.
- Review the migration of the agencies to the Centralized Accounting & Payroll/Personnel Systems.
- Ensure new Finance Commission members receive the appropriate training to perform their duties and all Finance Commission members review the training manual annually.

## 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 [DOB](#), [DSML](#), and [OCCC](#) strategic plans for this information.

## Other Considerations

### ***Self-Funding and Self-Leveling***

The agencies are self-funding and self-leveling. 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 reviews and evaluates the budgets developed by each agency. Prior to submission to the Finance Commission, the agencies hold a hearing for public review and comment on the budgets. The Finance Commission must approve each agency's budget before any expenditure may be made for the new fiscal year. The agencies exercise fiscal discipline and restraint. This is particularly important during periods of economic uncertainty to ensure that the financial system in Texas emerges resiliently. For this budget planning period, the COVID-19 response and subsequent national recession is being monitored and evaluated to ensure the agencies respond accordingly, while providing exemplary regulation at the highest level of efficiency and lowest possible costs.

### ***Self-Directed, Semi-Independent (SDSI) Oversight***

The 81<sup>st</sup> Texas Legislature amended the Texas Finance Code and granted SDSI status to the agencies under the oversight of the Finance Commission.

SDSI status has been instrumental in supporting the agencies' efforts to fulfill their missions. Since 2009, this status 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 flexibility allows the agencies to identify and incorporate efficiencies that result in improved performance measurement and reporting to support effective decision-making.

Biennial reporting to the Texas Legislature and Governor regarding agencies' 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:

- Serving 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.



- 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 calendar 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 financial 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 considers the agencies to be 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:

- Effects of COVID-19 on regulated entities, the agencies, and the economy.
- Regulatory changes at both the state and national levels.
- Changes 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.
- Ability to attract, develop, and retain qualified staff.

### ***Finance Commission Building***

The agencies are headquartered in the Finance Commission building, which is owned by the agencies. To relieve overcrowding and a deficiency in office, meeting, and parking space, the agencies are pursuing relocation options. Legislation passed in 2017 allows the Texas Department of Transportation to sell certain excess land to the agencies. The agencies are continuing to work with the Texas Department of Transportation and Texas Department of Motor Vehicles to evaluate potential options. With the assistance of a contracted commercial real estate broker, the agencies are considering options that will accommodate the unique requirements of all three agencies. Cash reserves have been set aside by each agency to cover the future expenses related to the purchase or construction of 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.

## ***Sunset Review***

The Sunset Advisory Commission, as part of its evaluation of the agencies and the Finance Commission, issued several recommendations which the agencies began implementing in 2018. One of the Sunset Management Actions directed the Finance Commission to minimize duplication of agency functions and promote more cost-efficient administration of the agencies. To that end, an Efficiency Audit was completed and reported to the Finance Commission in June 2019. In addition, the agencies collaborated in October 2019 to create one training manual for Finance Commission members that includes information applicable to each agency. The training manual is utilized to train each new Finance Commission member and presented to each Finance Commission member annually.

The Finance Commission approved a plan that directs the agencies to establish workgroups to explore and collaborate on enhanced sharing opportunities in six areas: Budget and Accounting; Complaint Intake; Financial Education Program; Purchasing and Contracting; Human Resources; and Information Technology (IT). The workgroups meet periodically to identify, recommend, and implement new measures to promote efficient administration. Please reference the [DOB](#), [DSML](#), and [OCCC](#) strategic plans for details.

The agencies will report the status of workgroup meetings on a semi-annual basis. The first status update was presented to the Finance Commission in April 2020.

## ***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 its 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, 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 of 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 achievement of these priorities.
- Monitor compliance, examination, and supervisory benchmarks related to banks, savings institutions, and non-depository 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 [DOB](#), [DSML](#), and [OCCC](#) strategic plans for this information.

## Other Considerations

### ***Entities Regulated, Licensed, or Registered by the Agencies Under the Supervision of the Finance Commission***

The following entities are regulated, licensed, or registered by the agencies.

Entities Regulated, Licensed, or Registered by Each Agency		
Department of Banking	Department of Savings and Mortgage Lending	Office of Consumer Credit Commissioner
State-Chartered Commercial Banks <sup>1</sup>	State-Chartered Savings Banks <sup>2</sup>	Regulated Lenders
Foreign Bank Organizations <sup>3</sup>	Residential Mortgage Loan Originators <sup>4</sup>	Second Lien Mortgage Lenders
Public Trust Companies	Mortgage Companies	Pawnshops Pawn Employees (Optional) <sup>5</sup>
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 <sup>6</sup>
Check Verification Entities		Debt Management & Debt Settlement Service Providers
		Refund Anticipation Loan Facilitators
		Manufactured Housing Creditors
		Credit Access Businesses (Payday and Auto Title Loan Companies)
		Crafted Precious Metals Dealers

<sup>1</sup> Includes all State Banking Activity

<sup>2</sup> Includes all State Savings Bank Activity

<sup>3</sup> Includes Foreign Bank Branches, Agencies, and Representative Offices

<sup>4</sup> Individuals licensed and working for either Mortgage Companies or Mortgage Bankers under the authority of the Department of Savings and Mortgage Lending

<sup>5</sup> Effective September 1, 2019, Pawnshops may elect, but are not required, to participate in the Pawnshop Employee License Program.

<sup>6</sup> Individual loan originators working for Property Tax Lenders or Second Lien Mortgage Lenders under the authority of the Office of Consumer Credit Commissioner

## 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 TFEE, including the investment of funds and awarding of grants that support the financial education 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 [DOB](#), [DSML](#), and [OCCC](#) strategic plans for this information.

### Other Considerations

#### ***Consumer Assistance***

The Finance Commission adopted rules in August 2019 in response to a recommendation of the Sunset Advisory Commission that establish consistent procedures for persons to complain about conduct of persons regulated by the agencies. The new rules were in response to a recommendation of the Sunset Advisory Commission that the agencies update their complaint processing provisions in line with the Sunset Advisory Commission's Licensing and Regulation Model guidelines.

To assist the Finance Commission in reviewing consumer activities, the agencies aligned the reporting of consumer information. Representatives from each agency will continue to collaborate on efforts to improve consumer assistance efforts.

## ***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 DOB and OCCC continue to work together to promote financial education. In addition, the DOB and OCCC collaborate with various statewide organizations promoting programs that enhance financial education and publishing statewide financial education resources in partnership with other state agencies.

## ***Texas Financial Education Endowment (TFEE)***

TFEE supports statewide financial capability and consumer credit building activities and programs. TFEE was created by the 82<sup>nd</sup> Texas Legislature under the authority of Chapter 393 of the Texas Finance Code. 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 that provide K-12 financial education, adult financial education, and financial coaching 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 fourth grant cycle (2020-21) aggregated over \$850,000. In March 2020, the Finance Commission awarded a total of \$300,000 in funds to ten 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 is 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. The *Home Equity Lending Guidance: Coronavirus Emergency Measures* was issued by the joint financial regulatory agencies on April 22, 2020. The working group anticipates that many lenders will be making new

loans to assist in recovery efforts and may need to adjust terms or temporarily extend maturities of existing loans where circumstances warrant, and safety and soundness is not compromised. The group encourages lenders to work with borrowers, and support measures that will help borrowers recover and provide an opportunity to ultimately repay their debt. At the same time, lenders must ensure that they comply with Article XVI, Section 50 of the Texas Constitution to ensure there is a valid home equity lien.

This working group of financial regulatory agencies will continue 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, especially given the effects and issues from COVID-19.
- 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 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 [DOB](#), [DSML](#), and [OCCC](#) strategic plans for this information.

### **Other Considerations**

#### ***Coronavirus Disease 2019 (COVID-19) Pandemic***

The worldwide pandemic of COVID-19 that began in December 2019, quickly spread, paralyzed the financial markets worldwide, and created a significant amount of economic uncertainty. Efforts to slow the spread of the virus have had a negative effect on the economy as businesses closed and unemployment increased. Financial service providers have been challenged to maintain operations and safely serve customers while implementing restrictions on staff for health concerns, social distancing, and shelter-in-place requirements. As a result, financial service providers face challenges on all fronts. All industries will be experiencing adjustments and potential declines as the financial service market responds to the increased level of delinquencies and pursues efforts to recover. The agencies will work with regulated entities as they make efforts to assist customers impacted by the pandemic. The Finance Commission must ensure the agencies are prepared for the potential rise in problem institutions and other regulated entities, which could place a strain on staffing and operations. The Finance Commission will continue to stay abreast

of the impact of COVID-19 on the agencies, their regulated entities, and the state's economy. The Finance Commission will also assess the actions taken and lessons learned from the pandemic and apply these processes and implement new measures in state regulatory supervision as needed.

### ***Government Response to Economic Challenges***

In response to the economic challenges resulting from the pandemic, the U.S. government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. One of the provisions of the CARES Act authorized the Small Business Administration (SBA) to create a platform for the Paycheck Protection Program (PPP). PPP is a loan program designed to provide direct financial assistance to small businesses meeting certain criteria to keep their workers on the payroll during the near-total shutdown of the economy in response to COVID-19.

The program provides qualifying small businesses low-interest, partially forgivable, two-year loans to maintain payrolls and pay other expenses. PPP funding is largely distributed through banks and other private channels and aims to quickly inject hundreds of billions of dollars in liquidity into small businesses.

Texas-based businesses have received 372,077 PPP loan approvals totaling \$40.5 billion in two funding rounds as of May 2020, according to the SBA. Texas is second among the states receiving the most PPP funding. According to the SBA, Texas has 2.7 million small businesses that employ 4.7 million people.

### ***Texas Economy***

According to the Federal Reserve Bank of Dallas, the Texas economy experienced historic declines across multiple metrics during most of the first half of 2020. Activity in the energy and service sectors remained the hardest hit, as refinery utilization rates fell to 70% in April, well below the normal run rate of over 90%. The manufacturing sector, especially makers of transportation equipment and those tied to the oil and gas sector, saw new orders tumble significantly.

Retail sales also slipped further due to business closures and overall weak demand, with only a handful of contacts noting an improvement from April. Loan volumes contracted broadly, while home sales fell sharply from mid-March through mid-April but have been on the rebound since.

Employment and hours worked continued to plummet. By April, private sector employment lost nearly 1.3 million jobs, with all major industries suffering series-high over-the-month job declines dating back to 1990.

These steep increases in unemployment likely reached its peak at 13.1% in April. Beginning in May, the Texas Workforce Commission reported a slight decrease in the state unemployment rate, creeping down moderately to 13%. This was the first decline in the unemployment rate since March 2020. Texas is now below the national rate of 13.3%.

Although Texas' underlying economy was strong prior to COVID-19, there is still uncertainty about whether the recovery will be quick or slower as the state begins to reopen.

The Perryman Group, a Waco-based forecasting firm, projects notable improvements for 2021. Gains in real gross product are forecast to be \$154.4 billion (a 9.5% increase), while the number of jobs should rise by almost 685,000 (up 5.51%).

The Perryman Group expects the state's economy to take two to five years to return to the level of business activity it would otherwise have experienced in the absence of COVID-19 and the related measures to prevent a spike in infections.

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.