FINANCE COMMISSION OF TEXAS AUDIT COMMITTEE MEETING

Friday, August 15, 2025 8:30 a.m. Finance Commission Building William F. Aldridge Hearing Room 2601 North Lamar Boulevard Austin, Texas 78705

Public comment on any agenda item or issue under the jurisdiction of the Finance Commission of Texas agencies is allowed. Finance Commission members who are not members of the Audit Committee may be present at this committee meeting creating a quorum of the Finance Commission.

- A. Review and Approval of the Minutes of the June 20, 2025 Audit Committee Meeting
- B. Review of Agencies' Activities
 - 1. Office of Consumer Credit Commissioner
 - 2. Department of Savings and Mortgage Lending
 - 3. Texas Department of Banking
- C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2025 Third Quarter Investment Officer Reports
 - 1. Office of Consumer Credit Commissioner
 - 2. Department of Savings and Mortgage Lending
 - 3. Texas Department of Banking
- 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. Department of Savings and Mortgage Lending
 - 3. Texas Department of Banking
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2025 Third Quarter Financial Statements
 - 1. Office of Consumer Credit Commissioner
 - 2. Department of Savings and Mortgage Lending
 - 3. Texas Department of Banking
- F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2026 Operating Budgets
 - 1. Office of Consumer Credit Commissioner
 - 2. Department of Savings and Mortgage Lending
 - 3. Texas Department of Banking
- G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action to Approve the Renewal of the Internal Audit Contract for Garza/Gonzalez and Associates for Fiscal Year 2026
- H. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Office of Consumer Credit Commissioner's 2025 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates

- I. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's 2025 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- J. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Activities of the Texas Financial Education Endowment Fund
- K. Discussion of the Activities of the Mortgage Grant Fund
- L. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's Mortgage Grant Administration Manual Pursuant to 7 TAC, Part 4, § 52.3(c)
- M. Discussion of and Consultation on Security Audit, Possible Issue Related to Confidential or Sensitive Information, Security Breach Audit and Assessment, or Security Assessments or Deployment Related to Information Resources Technology as Authorized by §§ 551.076 and 55.089, Texas Government Code

NOTE: The Audit Committee of the Finance Commission of Texas 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.

MINUTES OF THE AUDIT COMMITTEE MEETING Friday, June 20, 2025

The Audit Committee of the Finance Commission of Texas convened at 8:30 a.m., on June 20, 2025, with the following members present:

Audit Committee Members in Attendance:

Kathleen Fields, Chairman Phillip Holt, Chairman, Finance Commission of Texas David Osborn

Audit Committee Members Absent:

Roselyn "Rosie" Morris

Chairman Fields announced there was a quorum of the Audit Committee of the Finance Commission of Texas with three members present. (0:34 on audio file).

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. Review and Approval of the Minutes of the April 25, 2025 Audit Committee Meeting	Phillip Holt made a motion to Approve the Minutes of the April 25, 2025 Audit Committee Meeting. David Osborn seconded, and the motion passed.	0:54 Start of Discussion 1:10 Vote
 B. Review of Agencies' Activities 1. Department of Savings and Mortgage Lending 2. Texas Department of Banking 3. Office of Consumer Credit Commissioner 	No Action Required.	1:36 Start of Discussion
C. Discussion of the 2026 Budget Process	No Action Required.	10:11 Start of Discussion
Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's 2025 Revenue Processing Audit and Follow-Up on Prior Year Recommendations Report as Prepared and Presented by Garza/Gonzalez and Associates David Osborn made a motion to recommend that that the Finance Commission Approve the Texas Department of Banking's 2025 Revenue Processing Audit and Follow-Up on Prior Year Recommendations Report as Prepared and Presented by Garza/Gonzalez and Associates. Phillip Holt seconded, and the motion passed.		12:20 Start of Discussion 23:53 Vote

AGENDA ITEM		ACTION	LOCATION ON AUDIO FILE
E.	Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's 2025 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates	Phillip Holt made a motion to recommend that the Finance Commission Approve the Texas Department of Banking's 2025 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates. David Osborn seconded, and the motion passed.	12:20 Start of Discussion 26:23 Vote
F.	Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Activities of the Texas Financial Education Endowment Fund	No Action Required.	26:52 Start of Discussion
G.	Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Revised Texas Financial Education Endowment Fund Grant Administration & Advisory Policy Manual and 2026- 2027 Funding Priorities	Phillip Holt made a motion to recommend that the Finance Commission Approve the Revised Texas Financial Education Endowment Fund Grant Administration & Advisory Policy Manual and 2026-2027 Funding Priorities. David Osborn seconded, and the motion passed.	26:52 Start of Discussion 30:03 Vote
Н.	Discussion of and Possible Vote to Recommend that the Finance Commission Take Action to Approve an Amount for the Upcoming 2026-2027 Grant Cycle for the Texas Financial Education Endowment	Phillip Holt made a motion to recommend that the Finance Commission Approve \$850,000, for the Upcoming 2026-2027 Grant Cycle for the Texas Financial Education Endowment. David Osborn seconded, and the motion passed.	30:36 Start of Discussion 32:55 Vote
I.	Discussion of the Activities of the Mortgage Grant Fund	No Action Required.	33:25 Start of Discussion

Minutes of the Friday, June 20, 2025 Audit Committee Meeting Page 3 of 3

Ruth Wright, Executive Assistant Finance Commission of Texas

	J. Discussion of and Consultation on Security Audit, Possible Issue Related to Confidential or Sensitive Information, Security Breach Audit and Assessment, or Security Assessments or Deployment Related to Information Resources Technology as Authorized by §551.076 and § 551.089, Texas Government Code	Deferred to Executive Session. No Vote Required.	n/a
	Chairman Kathleen Fields called for an Executive Session at at 10:08 a.m. (35:56 on the audio file) There being no further business of the Audit Committee of adjourned the meeting at 10:08 a.m. (36:12 on the audio file)	of the Finance Commission of Texas, Chairman Ka	
-	Kathleen Fields, Chairman, Audit Committee Finance Commission of Texas Charles G. Cooper, Executive Director Finance Commission of Texas		

Texas Office of Consumer Credit Commissioner Audit Activities Report As of July 31, 2025

Auditor: Department of Public Safety	Audit Report Date: April 11, 2025
Audit Area: HR Criminal History Audit	
Findings: CHRI Policy and Procedures	Status Update: Complete. The OCCC has revised
DPS found that the OCCC's written policies must	policies to address DPS's findings.
include: (1) specific disciplinary sanctions for	
violating CJIS requirements, (2) a specific	
statement that the OCCC does not print or	
electronically store CHRI, and (3) DPS's model	
incident reporting form.	

Auditor: Department of Public Safety	Audit Report Date: April 12, 2025
Audit Area: Licensing Audit	
Findings: DPS found that the OCCC must: (1)	Status Update: Complete. The OCCC has revised its
update certain policies and procedures, (2) timely	policies to address DPS's findings.
review agency access and trainings for CJIS, (3)	
maintain documentation for all FACT	
clearinghouse subscriptions and, (4) promptly	
unsubscribe from CHRI	

Auditor: Department of Information Resources –	Audit Report Date: May 14, 2025
AT&T Cybersecurity Consulting	
Audit Area: Web Application Vulnerability Scan &	Controlled Penetration Test
Findings: Pending	Status Update: Initial scan completed. Rescan
	pending

Auditor: Garza/Gonzalez	Audit Report Date: July 18, 2025
Audit Area: Business Licensing	
Findings:	Status Update:
The OCCC should perform quarterly	The OCCC agrees with the recommendation and will
reconciliations of the number of applications	refine the reconciliation process by 12/31/25.
processed to ensure performance measures are	
accurately reported.	

Department of Savings and Mortgage Lending

Audit Activities Report as of July 31, 2025

Auditor:	State Auditor's Office	Audit Report Date: May 28, 2025
Audit Area:	Self-Directed Semi-Inde	lependent Audit
Findings: Strengthen re Annual Finan	eview process of ocial Report	Status Update: Scheduled. Enhanced process to be implemented in September 2025.
Review user systems	access to information	Scheduled. Additional review of user access to be completed by August 31, 2025
Auditor:	Garza/Gonzales and A	ssociates Audit Report Date: June 3, 2025
Audit Area:	Mortgage Grant Fund -	– Follow up
Recommenda	ations:	Status Update:
Consider dev for Semi-Ann	reloping an online form rual Reports	Complete. The forms have been revised to reduce the opportunity for errors and will be reevaluated before the next grant cycle.
Auditor:	Garza/Gonzales and A	ssociates Audit Report Date: June 19, 2025
Audit Area:	Thrift Examinations	
Recommenda	ations:	Status Update:
Document ce	rtain procedures.	Scheduled. To be completed by December 31, 2025.
Auditor:	Comptroller of Public A	Accounts Audit Report Date: N/A
Audit Area:	Post-Payment and Pro	curement Audit
Findings: N/A		Status Update: In progress. Received preliminary report.

Texas Department of Banking Audit Activities Report As of July 31, 2025

Auditor: State Auditor's Office Audit Report Date: June 17, 2025

Audit Area: An Audit of the Department of Banking: A Self-Directed, Semi- Independent Agency

Findings/Recommendation:

Status Update:

Timely Reconciliations and Update Relevant Accounting Policies and Procedures Implemented: The Department agreed with the recommendation and completed the FY 2024 revenue and expenditure reconciliations. These reconciliations were performed and provided to the SAO team. The monthly FY 2025 reconciliations are current. Additionally, all relevant accounting procedures related to these items were updated to reflect current and on-going operational practices.

Develop, Implement, and Document a Process to Periodically Monitor the Status of Penalties Assessed for Bank & Trust Division In Progress: The Department agreed with the recommendation and is in the process of developing a formal process, which includes enhancing software monitoring capabilities, to remediate the finding. The Legal division will oversee penalty monitoring department wide. Enhancements will be made to the current tracking software to better track and monitor assessed penalties. Once software improvements are incorporated, the Legal division will ensure information is input timely and accurately as well as verify payment(s) are received in accordance with the order.

Document Procedures Related to Calculation, Review and Approval for the Percentage of Actual Expenditures to Budgeted Expenditures

Implemented: The Department agreed with the recommendation, and the relevant financial statements procedure which provides the calculation for the referenced performance measure was updated and provided to the SAO team.

Align Performance Measure Calculations and Definitions

Implemented: The Department agreed with the recommendation and revised the performance measure definition (01-01.04 Percentage of Problem Institutions with Appropriate Supervisory Actions in Place) to reflect current practice. Specifically, the updated definition references Supervisory Memorandum 1005 instead of listing the various administrative actions to avoid discrepancies in the future. The Department noted that as reported, 100% is the complete and accurate calculation for the measure. By updating the written definition, it reflects the agency's reporting practice.

Texas Department of Banking Audit Activities Report Continued As of July 31, 2025

Auditor: Comptroller of Public Accounts Audit Report Date: July 21, 2025

Audit Area: A Statewide Desk Audit: Controls Over Expenditure Processing

Findings/Recommendation: Status Update:

Controls Over Expenditure

Processing

In Progress/Implemented: The recommendations for two control items suggest that an agency should limit the access of users who can enter/edit and release/approve the voucher in USAS to view only access in TINS (PTINS02). Auditors note that an individual should not be able to create and/or approve a payment and create and/or edit a vendor profile or direct deposit information in TINS. The Department corrected several of the other items noted in the Desk Audit during the Comptroller's Post Payment Audit Follow-Up review in FY 2025. This specific Desk Audit overlapped with the Post Payment Follow-Up which was reported to members in June 2025. As previously noted, due to the size of the agency and maintaining payment and accounting operations, full access removal is not possible for specific personnel within the division as it would hinder the agency's business. The agency is actively recruiting additional staff in this area.

Auditor: Comptroller of Public Accounts Audit Report Date: March 7, 2025

Audit Area: Follow-Up to September 2022 Post Payment Audit

Findings: Status Update:

Internal Control Structure In Progress: The Department attempts to fully comply with the

control structure. Due to the size of the agency and to maintain payment and accounting operations, full access removal was not

possible for specific personnel within the division.

Auditor: Texas Department of Public Safety Audit Report Date: April 1, 2025

Audit Area: Access & Dissemination Policy and the CJIS Security Policy Review – Human Resources

Findings: Status Update:

CHRI Policy and Procedures Implemented: The agency released its Information Security for

Criminal History Record Information (CHRI) policy on July 1, 2025, which addresses various aspects of security, sanitations and destruction of electronic media, and incident response with a

reporting form.

Auditor: Department of Information Audit Report Date: NA

Resources - AT&T

Audit Area: Texas Cybersecurity Framework Assessment

Findings: Status Update:

NA Assessment in progress.

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Nudit Report on

The Texas Department of Banking: A Self-directed, Semi-independent Agency

The Texas Department of Banking (Department) had processes and related controls to ensure the accuracy and completeness of its financial data and for setting fees and penalties. However, it should strengthen its processes for collecting penalties assessed by the Bank and Trust Division (Bank and Trust) and reporting performance data.

- Background | p. 3
- Audit Objectives | p. 10

This audit was conducted in accordance with Texas Finance Code, Section 16.004.

MEDIUM

FINANCIAL AND PERFORMANCE DATA

The Department accurately recorded, reviewed, and supported certain financial data. However, the Department did not monitor to verify that it received the full amount of the assessed penalties. In addition, while it reported accurate results for one of the two performance measures tested, the results reported for the other measure did not align with the measure's definition.

Chapter 1 | p. 4

LOW

SETTING FEES AND PENALTIES

The Department had sufficient processes for setting Bank and Trust fees that included consideration of budgetary needs, historical information, and adjustments for inflation. In addition, the Department established a matrix for setting Bank and Trust penalties.

Chapter 2 | p. 9

OVERVIEW Page | 2

Summary of Management's Response

Auditors made recommendations to address the issues identified during this audit, provided at the end of Chapter 1 in this report. The Department agreed with the recommendations.

Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

PRIORITY: Issues identified present risks or effects that if not addressed could *critically affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

HIGH: Issues identified present risks or effects that if not addressed could **substantially affect** the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

MEDIUM: Issues identified present risks or effects that if not addressed could *moderately affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

LOW: The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks **or** effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

For more on the methodology for issue ratings, see Report Ratings in Appendix 1.

BACKGROUND Page | 3

Background Information

Established in 1905, the Texas Department of Banking (Department) operates under the oversight of the Finance Commission of Texas and is charged with ensuring that the State has a safe, sound, and competitive financial services system.

The Department charters or licenses and regulates several types of financial services entities (see text box).

The Department was designated a self-directed, semiindependent (SDSI) agency on September 1, 2009, by the 81st Legislature.

As an SDSI agency, the Department is responsible for its costs of operations. It does not receive general revenue through the legislative appropriation process; instead, it receives revenue from fees and assessments collected from regulated entities as authorized in the Texas Finance Code.

Regulated Entities

Entities chartered or licensed, and supervised by the Department include:

- State-chartered banks and holding companies.
- Trust companies.
- Money services businesses.
- Perpetual care cemeteries.
- Prepaid funeral contract providers.
- Check verification companies.

Source: The Department.



DETAILED RESULTS



Chapter 1 Financial and Performance Data

The Texas Department of Banking (Department) had processes and controls to help ensure that its financial data was accurate and complete; however, it should strengthen certain performance measure processes. In addition, it did not have a process for verifying that it collects the penalties assessed for the Bank and Trust Division (Bank and Trust).

The Department had sufficient processes to ensure complete and accurate financial data.

The Department's fiscal year 2024 annual financial report balances for revenues and expenditures were supported by information in the Uniform Statewide Accounting System (USAS), and the Department accurately recorded, reviewed, and supported certain financial data. Specifically:

- For payroll expenditures, the Department had appropriate reviews and approvals to help ensure that it made payments only for active employees and accurately recorded those payments in its financial system.
- For 24 of 25 non-payroll expenditures tested, the Department had appropriate reviews and approvals, and the transactions were accurately recorded and supported. It reimbursed one travel expenditure at an incorrect rate.

For fiscal year 2024 and the first quarter of fiscal year 2025, the Department assessed \$41.3 million in annual Bank and Trust assessment fees. Auditors recalculated these fees and determined that the Department accurately calculated and assessed those fees in accordance with the fees set in its approved matrix. Additionally, the Department had a process to compare

the assessed fees with the deposited revenue to help ensure that it appropriately collected all fees assessed.

However, accounting policies and procedures had not been updated since November 2020 to reflect current systems and processes, and the Department did not perform monthly reconciliations of revenue, cash, and expenditure amounts for fiscal year 2024. During the audit, the Department performed reconciliations for the first three months of fiscal year 2025 for revenue and expenditures. Reconciliations help ensure that amounts are properly recorded in financial systems.

The Department did not have a process to collect Bank and Trust penalties.

After it issued consent orders, the Department did not monitor to verify that it received full payment for the penalties. From September 2023 to January 2025, the Department collected Bank and Trust penalty revenue for two consent orders. While the Department correctly assessed the penalty amounts, it did not collect the full amount of the penalty for one of those consent orders. Specifically, the Department assessed a \$50,000 penalty in June 2023 that was due within 180 days, but as of April 2025, the Department had collected only \$3,000.

The Department should strengthen certain processes for performance measures.

The Department accurately reported the results for the **Percentage of Actual Expenditures to Budgeted Expenditures**, but it did not have documented procedures specific to the calculation, review, and approval of this measure. The Department used this measure to determine budget accuracy and efficient use of resources. Documented procedures will help ensure that the measure is consistently calculated.

Based on the measure definition, the Department did not accurately report the **Percentage of Problem Institutions with Appropriate Supervisory Actions in Place**. The Department imposed supervisory actions to assist problem institutions. However, the Department's process for calculating the results did

not match the measure's definition. Specifically, some of the supervisory actions imposed were not included in the definition. As a result, the Department overreported the supervisory actions based on the performance measure definition as written. If the Department had reported in accordance with the definition, it would have reported 68 percent instead of 100 percent for this performance measure. It is important that the Department's process and definition align so the reported results can be clearly understood.

Department staff had appropriate access to key information systems.

The Department had processes and related controls to review access for the information systems used by its Accounting and Bank and Trust divisions.

The Department used USAS and the Centralized Accounting and Payroll/Personnel System (CAPPS) to track its financial information. It also used the Examination Division Information System on the Network (EDISON) system to monitor, update, and track performance measure data and calculate annual Bank and Trust assessment fees.

User access to USAS and EDISON was appropriate; the users were all current employees, and access to roles was aligned with job duties. In addition, the Department had review and approval processes in place to help ensure that the data entered and processed was accurate. The Department also maintained proper segregation of duties within CAPPS.

Recommendations

The Department should:

- Perform timely reconciliations and update the relevant accounting policies and procedures.
- Develop, implement, and document a process to periodically monitor the status of penalties assessed for the Bank and Trust Division.

- Document procedures related to the calculation, review, and approval for the Percentage of Actual Expenditures to Budgeted Expenditures performance measure.
- Align its performance measure calculations and definitions.

Management's Response

Recommendation:

Perform timely reconciliations and update the relevant accounting policies and procedures.

Response:

The Department agrees with the recommendation and has completed the FY 2024 revenue and expenditure reconciliations. These reconciliations were performed and provided to the SAO team in response to the recommendation. Furthermore, the monthly FY 2025 reconciliations are current. Additionally, all relevant accounting procedures as related to these items were updated to reflect current and on-going operational practices.

Recommendation:

Develop, implement, and document a process to periodically monitor the status of penalties assessed for the Bank and Trust Division.

Response:

The Department agrees with the recommendation and is in the process of developing a formal process, which includes enhancing software monitoring capabilities, to remediate the finding. In general, the Legal division will oversee penalty monitoring department wide. To accomplish this, enhancements will be made to the current tracking software to better track and monitor assessed penalties. Once software improvements are incorporated, the Legal division will ensure information is input timely and accurately as well as verify payment(s) are received in accordance with the order.

Recommendation:

Document procedures related to the calculation, review, and approval for the Percentage of Actual Expenditures to Budgeted Expenditures performance measure.

Response:

The Department agrees with the recommendation, and the relevant financial statements procedure which provides the calculation for the referenced performance measure has been updated and provided to the SAO team in response to the recommendation.

Recommendation:

Align its performance measure calculations and definitions.

Response:

The Department agrees with the recommendation and has revised the performance measure definition (01-01.04 Percentage of Problem Institutions with Appropriate Supervisory Actions in Place) to reflect current practice. Specifically, the updated definition references Supervisory Memorandum 1005 instead of listing the various administrative actions to avoid discrepancies in the future.

The Department would like to note that as reported, 100% is the complete and accurate calculation for the measure. By updating the written definition, it reflects the agency's reporting practice.



Chapter 2 Setting Fees and Penalties

The Department had sufficient processes for setting Bank and Trust fees and penalty amounts.

The Department had a process to establish Bank and Trust fees and adjust its annual assessment fee schedule in accordance with Texas Administrative Code requirements. That process included consideration of budgetary needs, historical information, and adjustments for inflation. For example, the Department consistently reviewed Bank and Trust quarterly budget reports for fiscal year 2024 through the first quarter of 2025 in accordance with its policy. This quarterly review process helps the Department ensure that its fees are sufficient to cover operating expenses and maintain cash reserves in compliance with Finance Commission of Texas (Finance Commission) policy. As a result of this process, the Department made recommendations to the Finance Commission to reduce its annual assessment fees in fiscal years 2024 and 2025. In addition, the Department's Commissioner reviewed and approved the fee schedules for fiscal years 2024 and 2025.

The Department also had a process for setting Bank and Trust penalties. Specifically, it established a matrix to clearly define the administrative penalty amounts for specific violations. The matrix required consideration of the nature and severity of the violations and any history of noncompliance to help ensure consistency when assessing penalty amounts.



Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

 Determine whether the Texas Department of Banking (Department) has processes and related controls to help ensure the accuracy and completeness of financial and performance data. The following members of the State Auditor's staff performed the audit:



- Alana Montoro (Project Manager)
- Brady Bennett, MBA, CFE, CGAP (Assistant Project Manager)
- Ansley Tarbet, MBA
- Castulo Villagomez
- Karmalita Fults
- Melissa Migl
- Dana Musgrave, MBA, CFE (Quality Control Reviewer)
- Courtney Ambres-Wade, CIA, CFE, CGAP (Audit Manager)
- Evaluate the Department's processes for setting fees and penalties.

Scope

The scope of this performance audit included a review of financial and performance data, applicable processes, and other supporting documentation for the period from September 1, 2023, through January 31, 2025. The work included a review of the automated systems that support those processes.

The scope also included a review of significant internal control components related to the Department's revenue collection, expenditures, penalties assessed and collected, and accuracy and completeness of related data.

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Methodology

We conducted this performance audit from January 2025 through May 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to Department management for consideration.

Addressing the Audit Objectives

During the audit, we performed the following:

- Interviewed Department management to gain an understanding of financial and performance data reported, fee and penalty assessments, and required reports.
- Identified the relevant criteria:
 - The Department's penalty matrix.
 - The Department's policies and procedures.
 - Office of the Comptroller of Public Accounts' State of Texas
 Procurement and Contract Management Guide, Version 3.0.
 - o Texas Finance Code, Chapter 35, Title 3, Subtitle A, Subchapter A.
 - Texas Administrative Code, Title 7, Chapter 3.
- Tested reconciliations to ensure that they were properly completed.
- Tested revenues to ensure that they were reported correctly to the Texas Treasury Safekeeping Trust Company.
- Tested expenditures to ensure they were reported correctly in the Uniform Statewide Accounting System (USAS).
- Performed data analysis to test the Department's payroll expenditures to determine whether payroll expense was completely and accurately

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reported in USAS in fiscal year 2024 and the first quarter of fiscal year 2025.

- Tested the Department's compliance with its cash reserves policy.
- Evaluated the Department's processes for setting assessment fee and penalty rates.
- Performed data analysis to recalculate the Department's annual assessment fees to determine whether they were accurately reported in fiscal year 2024 and the first quarter of fiscal year 2025.
- Reviewed user access controls for significant Department systems.
- For the selected performance measures, reviewed the queries and recalculated the data to determine whether the Percentage of Actual Expenditures to Budgeted Expenditures and the Percentage of Problem Institutions with Appropriate Supervisory Actions in Place were accurately reported.
- Tested all administrative penalties for fiscal year 2024 and the first quarter of fiscal year 2025 for the Bank and Trust Division to determine whether they were properly assessed, calculated, and collected.
- Tested all quarterly liquidity reports for fiscal year 2024 and the first quarter of fiscal year 2025 to determine compliance with Finance Commission of Texas liquidity policy.
- Tested all monthly expenditure and revenue reconciliations from USAS
 to the Centralized Accounting and Payroll/Personnel System (CAPPS) for
 the first quarter of fiscal year 2025 to determine that they were
 properly performed.
- Recalculated all Bank and Trust Division assessment fees for fiscal year 2024 and the first quarter of fiscal year 2025 to determine whether they were accurately calculated.
- Performed analytical procedures on all payroll expenditure transactions to determine whether payroll expense was accurately paid to current employees.

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Data Reliability and Completeness

Auditors determined that the following data sets were sufficiently reliable for the purposes of the audit by (1) observing the Department staff extract requested data populations, (2) reviewing data queries and report parameters, (3) analyzing the populations, and (4) testing selected general controls over the information systems (user access). The following fiscal year data sets were used:

- USAS. Revenues, expenditures, and cash in treasury data for fiscal year
 2024 and the first quarter of fiscal year 2025.
- CAPPS. Revenues and expenditures for fiscal year 2024 and the first quarter of fiscal year 2025.
- Examination Division Information System on the Network (EDISON). The
 Department's Bank and Trust Division system for the examination
 results, annual fee calculation, assessment, and collection for fiscal year
 2024 and the first quarter of fiscal year 2025.

Figure 1 provides details about the populations and samples selected for testing. The sample designs were chosen to (1) obtain coverage of higher-risk banks (as identified by the Department), (2) ensure that quarters that reflected higher cumulative cash reserve balances were selected (auditors selected the fourth quarter of fiscal year 2024 and the first quarter of 2025), and (3) ensure that a cross section of expenditures would be included in the sample.

Figure 1

Populations and Samples a

Population	Sample Size	Population Size	Sampling Methodology
Financial institutions' Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk (CAMELS) ratings in EDISON	30	1,067	Tested a nonstatistical random sample of 25 out of 1,067 state charter bank assessment fee transactions and an additional 5 bank assessment fee transactions based on risk to determine whether the ratings were reviewed and supported.

APPENDICES

Population	Sample Size	Population Size	Sampling Methodology
Quarterly liquidity reports	2	5	Tested a nonstatistical sample based on risk to determine whether cash reserves were accurately calculated.
Other expenditures recorded in the Department's annual financial report for fiscal years 2024 and 2025	25	18,268	Tested a non-statistical random sample of expenditure transactions stratified by expenditure type.
^a The sample items were not representative of the population, so it would not be appropriate to project the test results to the population.			

Report Ratings

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.



Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dustin Burrows, Speaker of the House, Joint Chair
The Honorable Joan Huffman, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Greg Bonnen, House Appropriations Committee
The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Texas Department of Banking

Members of the Finance Commission of Texas

Mr. Charles G. Cooper, Commissioner



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TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

July 21, 2025

Dear Agency Head:

The Texas Comptroller of Public Accounts has completed its annual Statewide Controls Over Expenditure Processing desk audit for 205 state agencies (agencies) and institutions of higher education (institutions). The related statewide report is attached.

The Comptroller's office performs quarterly compliance reviews and reports results annually at the end of the review period.

Auditors reviewed staff's security access in four statewide accounting systems, and individuals on the warrant pickup list and on voucher signature cards from September 2023 through August 2024. The review was conducted for approximately 54 agencies and institutions each quarter, 43 in the last quarter, and covered thirteen possible segregation of duties conflicts. The results are documented in this annual desk audit report.

The audit scope included a review of:

- Statewide system access reports.
- Signature card database entries.
- Payments processed that were created/changed and approved/released by the same user.
- Agencies and institutions' Authorization for Warrant Pickup form (74-189) on file and employees termination reports.

We intend for this report to be used by management and certain state officials and agencies as listed in Texas Government Code, Section 403.071. However, this report is a public record, and its distribution is not limited.

Agency and institution security coordinators may inquire about and register for security coordinator training through <u>FMX's Security Coordinator Reference site</u>. For all other security-related questions, please contact Statewide Security Administration at <u>ssa.security@cpa.texas.gov</u>.

We would like input from you or your designee on the quality of the audit process. Please take our <u>Fiscal Management Audit Survey</u> to rate and comment on the dual and multiple employment desk audit process. Your feedback is greatly appreciated.

Page Two July 21, 2025

Thank you for your cooperation. If you have any questions or comments regarding this audit, please contact Ly Griffin at (512) 463-4825 or Somaia Farag at (512) 475-4079, or email easignaturecards@cpa.texas.gov.

Sincerely,

Jennifer Smith

Payment Operations Area Manager

Jennifer Smith

Fiscal Management Division

Attachments

cc: Clarisse Roquemore, Fiscal Management Division Director, Texas Comptroller of Public Accounts Agency heads and CFOs at all audited agencies



A Statewide Desk Audit Controls Over Expenditure Processing

Audit Report #001-25-02 **July 21, 2025**

Kelly Hancock
Acting Texas Comptroller of Public Accounts

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Executive Summary

Purpose and Scope

The Texas Comptroller of Public Accounts (Comptroller's office) performed a desk audit of controls over expenditure processing at all active state agencies (agencies) and institutions of higher education (institutions).

The objectives of the audit were to determine whether agencies and institutions segregated certain staff duties to the greatest extent possible to:

- Prevent errors or detect them in a timely manner.
- Ensure no employees can process expenditures without oversight.
- Identify transactions that were entered/changed and released by one person.
- Prevent fraud.
- Ensure no terminated employee can pick up warrants.
 - and -
- Ensure Agency Authorization for Warrant Pickup form is updated timely.

Auditors reviewed staff's security access in the Uniform Statewide Accounting System (USAS), the Standardized Payroll/Personnel Reporting System (SPRS), Texas Identification Number System (TINS), and the Uniform Statewide Payroll System (USPS) for agencies that recently converted to CAPPS but maintained USPS access for historical data or other purposes. The audit also included a review of the agencies and institutions' authorization for warrant pickup lists and their voucher signature cards that were in effect from Sept. 1, 2023, through Aug. 31, 2024. The audit was conducted in accordance with <u>Texas</u> <u>Government Code</u>, <u>Section 403.071</u>.

The audit scope included reviews of statewide system reports, signature card database entries and staff system access for 13 possible segregation of duties conflicts (see Appendix 1). Data from approximately 54 agencies were reviewed each quarter, 43 for the last quarter.

Background

<u>USAS Accounting and Payment Control</u> (FPP B.005) requires that agencies and institutions reduce risks to state funds by having controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to enter or alter and then release payments or other accounting transactions within the statewide financial systems without another person's involvement.

Expenditure Approvals and Certification (FPP B.007) requires an individual who approves/ releases payments (or payment batches) in the statewide financial systems to be properly authorized. The agency or institution must complete and submit a voucher signature card and authorization letter to authorize staff to approve expenditures.



<u>TexPayment Resource – Authorization for Warrant Pickup (FPP P.007)</u> requires that each agency submit the Agency Authorization for Warrant Pickup form (74-189) and designate their preferred method for warrant distribution from the Comptroller's office. Additionally, the form must be updated whenever authorized personnel are added or removed, or the preferred distribution method changes.

Audit Results

Auditors reviewed employee security access information at 205 agencies and institutions for USAS, SPRS, TINS, USPS, the authorization for warrant pickup list and voucher signature card records. See <u>Table 1</u> for a list of audited agencies and institutions. See <u>Table 2</u> for results by agency and institution. See <u>Table 3</u> for transactions processed by a single user. See <u>Table 4</u> for a list of agencies and institutions with terminated employees remaining on the agency's Authorization for Warrant Pickup Form after their termination.



Detailed Findings

Control Weakness Over Expenditure Processing

Auditors reviewed agencies and institutions' accounting staff's ability to process expenditures. Auditors reviewed the agencies and institutions' security in USAS, SPRS, TINS, USPS, authorization for warrant pickup list, and voucher signature cards that were in effect between Sept. 1, 2023, and Aug. 31, 2024.

The review of employee systems access was limited to obtaining reports identifying current user access. Auditors did not review or test any internal or compensating controls that the agencies and institutions may have related to USAS, SPRS, and TINS security or internal transaction approvals.

There were 669 employees with multiple security capabilities and conflicting functions in 170 of the 205 agencies and institutions reviewed. See <u>Table 2</u> for results by agency and institution.

Additionally, auditors ran an ad hoc report to determine whether any of the payment documents were processed through USAS during the audit period because of the action of only one person. Twenty-three agencies and institutions processed 667 payments totaling \$150,356,296.34 that were either entered and approved or altered and approved by the same person without another person's electronic oversight. See <u>Table 3</u> for results by agency and institution.

Recommendation/Requirement

To reduce risks to state funds, agencies and institutions must review and implement controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions without another person's involvement. See Appendix2 for recommendations for each of the 13 conflicts tested. In addition, agencies listed in Table 3, should review their transactions that were processed and approved by the same person and verify the appropriateness.

Non-Compliance With Authorization for Warrant Pickup Policy

TexPayment Resource (FPP P.007) indicates that agencies and institutions need to notify the Comptroller's office immediately if a representative's authorization needs to be revoked by sending an email to **tins.mail@cpa.texas.gov**. The Comptroller's office must receive a written request (or **Agency Authorization for Warrant Pickup form** (74-189). The form must be updated whenever authorized personnel are removed or added, or the preferred distribution method changes.



The policy also indicates that every two years, the Comptroller's office requires all agencies to renew the form. The agency's chief fiscal officer or agency head must sign the form, as well as all agency representatives and/or their delivery service employees authorized to pick up warrants.

To simplify the Comptroller's office warrant authorization process, a decision was made to eliminate the current process that requires agencies to renew their authorized warrant pick-up personnel biennially and instead allow agencies and institutions to update their form as changes occur and to monitor compliance through the quarterly review and annual reporting of controls over expenditure processing desk audit process as follows:

- Expenditure audit reviews and compares termed employees listed on weekly and quarterly termination reports to employees listed on the Agency Authorization for Warrant Pickup form (74-189).
- During the quarterly reviews, if a termed employee is on the warrant pickup list, Payment Services will be notified, and the employee will be removed from the list.
- Agencies and institutions who did not notify Payment Services in a timely manner to remove the terminated employee are identified as part of this audit.

Eight agencies and institutions did not notify the Comptroller's office in a timely manner when an authorization for eight representatives, one each, needed to be revoked due to termination. See <u>Table 4</u> for results by agency and institution.

Recommendation/Requirement

To reduce risks to state funds, agencies and institutions must notify the Comptroller's office immediately if a representative's authorization needs to be revoked due to termination by sending an email to tins.mail@cpa.texas.gov.



Tables

Table 1: Audited Agencies and Institutions

Agency Number	Agency Name
101	Senate
102	House of Representatives
103	Texas Legislative Council
104	Legislative Budget Board
105	Legislative Reference Library
107	Commission on Uniform State Laws
116	Sunset Advisory Commission
201	Supreme Court
202	State Bar of Texas
203	Board of Law Examiners
211	Court of Criminal Appeals
212	Office of Court Administration
213	State Prosecuting Attorney
215	Office of Capital and Forensic Writs
221	First Court of Appeals
222	Second Court of Appeals
223	Third Court of Appeals
224	Fourth Court of Appeals
225	Fifth Court of Appeals
226	Sixth Court of Appeals
227	Seventh Court of Appeals
228	Eighth Court of Appeals
229	Ninth Court of Appeals
230	Tenth Court of Appeals
231	Eleventh Court of Appeals
232	Twelfth Court of Appeals
233	Thirteenth Court of Appeals
234	Fourteenth Court of Appeals
241	Comptroller - Judiciary Section
242	State Commission on Judicial Conduct
243	State Law Library
300	Governor - Fiscal
301	Governor - Executive
302	Attorney General
303	Texas Facilities Commission
304	Comptroller of Public Accounts
305	General Land Office
306	Texas State Library and Archives Commission



Agency Number	Agency Name
307	Secretary of State
308	State Auditor
311	Comptroller - Treasury Fiscal
312	State Securities Board
313	Department of Information Resources
315	Comptroller - Prepaid Higher Education Tuition Board
320	Texas Workforce Commission
323	Teacher Retirement System of Texas
326	Texas Emergency Services Retirement System
327	Employees Retirement System of Texas
328	Veterans Land Board
329	Texas Real Estate Commission
332	Texas Department of Housing and Community Affairs
333	Office of State-Federal Relations
338	State Pension Review Board
343	Inaugural Committee
347	Texas Public Finance Authority
352	Bond Review Board
356	Texas Ethics Commission
358	Texas Space Commission – Administered by 300
359	Office of Public Insurance Counsel
360	State Office of Administrative Hearings
361	Office for the Prevention of Developmental Disabilities
362	Texas Lottery Commission
363	Texas Workforce Investment Council
364	Health Professions Council
368	Motor Vehicle Crime Prevention Authority
401	Texas Military Department
403	Texas Veterans Commission
405	Department of Public Safety
407	Texas Commission on Law Enforcement
409	Commission on Jail Standards
411	Texas Commission on Fire Protection
448	Office of Injured Employee Counsel
450	Department of Savings and Mortgage Lending
451	Texas Department of Banking
452	Texas Department of Licensing and Regulation
454	Texas Department of Insurance
455	Railroad Commission of Texas
456	Texas State Board of Plumbing Examiners
457	Texas State Board of Public Accountancy
458	Texas Alcoholic Beverage Commission



Agency	Agency Name
Number	
459 460	Texas Board of Architectural Examiners
	Texas Board of Professional Engineers and Land Surveyors Office of Consumer Credit Commissioner
466	
469	Credit Union Department
470	470 Motor Vehicle Board
473	Public Utility Commission of Texas
475	Office of Public Utility Counsel
476	Texas Racing Commission
477	Commission on State Emergency Communications
479	State Office of Risk Management
481	Texas Board of Professional Geoscientists
503	Texas Medical Board
504	State Board of Dental Examiners
506	University of Texas M. D. Anderson Cancer Center
507	Texas Board of Nursing
508	Texas Board of Chiropractic Examiners
510	Texas Behavioral Health Executive Council
513	Texas Funeral Service Commission
514	Texas Optometry Board
515	Texas State Board of Pharmacy
522	Texas Board of Physical Therapy Examiners Health and Human Services Commission
529	
530	Department of Family and Protective Services
533	Executive Council of Physical and Occupational Therapy Examiners
534	Texas Board of Occupational Therapy Examiners
535	Texas Low-Level Radioactive Waste Disposal Compact Commission
537 542	Department of State Health Services
0.12	Cancer Prevention and Research Institute of Texas
544 551	Texas Civil Commitment Office
554	Department of Agriculture Texas Animal Health Commission
555	Texas A&M AgriLife Extension Service
556	Texas A&M AgriLife Research
557	Texas A&M Veterinary Medical Diagnostic Laboratory
575	Texas Division of Emergency Management
	Texas A&M Forest Service
576 578	State Board of Veterinary Medical Examiners
580	Texas Water Development Board
582	Texas Commission on Environmental Quality
592	Soil and Water Conservation Board
601	Texas Department of Transportation
	·
608	Texas Department of Motor Vehicles



Agency	
Number	Agency Name
643	Office of Independent Ombudsman
644	Texas Juvenile Justice Department
646	Texas Correctional Office on Offenders with Medical or Mental Impairments
673	Texas Center for Infectious Disease
684	Rio Grande State Center
696	Texas Department of Criminal Justice
701	Texas Education Agency
704	Public Community/Junior Colleges
705	State Board for Educator Certification
706	Texas Permanent School Fund Corporation
707	Texas A&M University System - Office of Technology Commercialization
708	Texas A&M University System - Shared Services Center
709	Texas A&M University System Health Science Center
710	Texas A&M University System
711	Texas A&M University
712	Texas A&M Engineering Experiment Station
713	Tarleton State University
714	University of Texas at Arlington
715	Prairie View A&M University
716	Texas A&M Engineering Extension Service
717	Texas Southern University
718	Texas A&M University at Galveston
719	Texas State Technical College System
720	University of Texas System
721	University of Texas at Austin
723	University of Texas Medical Branch at Galveston
724	University of Texas at El Paso
727	Texas A&M Transportation Institute
729	University of Texas Southwestern Medical Center
730	University of Houston
731	Texas Woman's University
732	Texas A&M University - Kingsville
733	Texas Tech University
734	Lamar University
735	Midwestern State University
737	Angelo State University
738	University of Texas at Dallas
739	Texas Tech University Health Sciences Center
742	University of Texas of the Permian Basin
743	University of Texas at San Antonio
744	University of Texas Health Science Center at Houston
745	University of Texas Health Science Center at San Antonio



Number 746 University of Texas Rio Grande Valley 749 Texas A&M University at San Antonio 750 University of Texas at Tyler 751 East Texas A&M University (formerly Texas A&M University – Commerce) 752 University of North Texas 753 Sam Houston State University 754 Texas State University 755 Stephen F. Austin State University 756 Sul Ross State University 757 West Texas A&M University 758 Texas State University System 759 University of Houston - Clear Lake 760 Texas A&M University - Corpus Christi 761 Texas A&M International University 763 University of Houston - Victoria 764 Texas A&M University - Texarkana 765 University of Houston - Victoria 768 Texas Tech University System
Texas A&M University at San Antonio University of Texas at Tyler East Texas A&M University (formerly Texas A&M University – Commerce) University of North Texas Sam Houston State University Texas State University Stephen F. Austin State University Sul Ross State University West Texas A&M University Texas State University Texas State University Texas State University Texas A&M University Texas A&M University System University of Houston - Clear Lake Texas A&M University - Corpus Christi Texas A&M International University University of North Texas Health Science Center at Fort Worth Texas A&M University - Texarkana University of Houston - Victoria
750 University of Texas at Tyler 751 East Texas A&M University (formerly Texas A&M University – Commerce) 752 University of North Texas 753 Sam Houston State University 754 Texas State University 755 Stephen F. Austin State University 756 Sul Ross State University 757 West Texas A&M University 758 Texas State University System 759 University of Houston - Clear Lake 760 Texas A&M University - Corpus Christi 761 Texas A&M International University 763 University of North Texas Health Science Center at Fort Worth 764 Texas A&M University - Texarkana 765 University of Houston - Victoria
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752 University of North Texas 753 Sam Houston State University 754 Texas State University 755 Stephen F. Austin State University 756 Sul Ross State University 757 West Texas A&M University 758 Texas State University System 759 University of Houston - Clear Lake 760 Texas A&M University - Corpus Christi 761 Texas A&M International University 763 University of North Texas Health Science Center at Fort Worth 764 Texas A&M University - Texarkana 765 University of Houston - Victoria
753 Sam Houston State University 754 Texas State University 755 Stephen F. Austin State University 756 Sul Ross State University 757 West Texas A&M University 758 Texas State University System 759 University of Houston - Clear Lake 760 Texas A&M University - Corpus Christi 761 Texas A&M International University 763 University of North Texas Health Science Center at Fort Worth 764 Texas A&M University - Texarkana 765 University of Houston - Victoria
754 Texas State University 755 Stephen F. Austin State University 756 Sul Ross State University 757 West Texas A&M University 758 Texas State University System 759 University of Houston - Clear Lake 760 Texas A&M University - Corpus Christi 761 Texas A&M International University 763 University of North Texas Health Science Center at Fort Worth 764 Texas A&M University - Texarkana 765 University of Houston - Victoria
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756 Sul Ross State University 757 West Texas A&M University 758 Texas State University System 759 University of Houston - Clear Lake 760 Texas A&M University - Corpus Christi 761 Texas A&M International University 763 University of North Texas Health Science Center at Fort Worth 764 Texas A&M University - Texarkana 765 University of Houston - Victoria
757 West Texas A&M University 758 Texas State University System 759 University of Houston - Clear Lake 760 Texas A&M University - Corpus Christi 761 Texas A&M International University 763 University of North Texas Health Science Center at Fort Worth 764 Texas A&M University - Texarkana 765 University of Houston - Victoria
759 University of Houston - Clear Lake 760 Texas A&M University - Corpus Christi 761 Texas A&M International University 763 University of North Texas Health Science Center at Fort Worth 764 Texas A&M University - Texarkana 765 University of Houston - Victoria
759 University of Houston - Clear Lake 760 Texas A&M University - Corpus Christi 761 Texas A&M International University 763 University of North Texas Health Science Center at Fort Worth 764 Texas A&M University - Texarkana 765 University of Houston - Victoria
760 Texas A&M University - Corpus Christi 761 Texas A&M International University 763 University of North Texas Health Science Center at Fort Worth 764 Texas A&M University - Texarkana 765 University of Houston - Victoria
763 University of North Texas Health Science Center at Fort Worth 764 Texas A&M University - Texarkana 765 University of Houston - Victoria
764 Texas A&M University - Texarkana 765 University of Houston - Victoria
765 University of Houston - Victoria
768 Texas Tech University System
769 University of North Texas System
770 Texas A&M University - Central Texas
771 Texas School for the Blind and Visually Impaired
772 Texas School for the Deaf
773 University of North Texas at Dallas
774 Texas Tech University Health Sciences Center - El Paso
775 Texas Woman's University System
781 Texas Higher Education Coordinating Board
783 University of Houston System
784 University of Houston - Downtown
785 University of Texas Health Science Center at Tyler
787 Lamar State College - Orange
788 Lamar State College - Port Arthur
789 Lamar Institute of Technology
802 Parks and Wildlife Department
808 Texas Historical Commission
809 State Preservation Board
813 Texas Commission on the Arts
902 Comptroller - State Fiscal
907 Comptroller - State Energy Conservation Office
908 Comptroller - Texas Bullion Depository
909 Comptroller - Texas Broadband Development Office
930 Texas Treasury Safekeeping Trust Company Total — 205 State Agencies and Higher Education Institutions



Table 2: Audit Results by Agency and Institution

		Ctrl # 1	Ctrl # 2	Ctrl # 3	Ctrl # 4	Ctrl # 5	Ctrl # 6	Ctrl # 7	Ctrl # 8	Ctrl # 9	Ctrl # 10	Ctrl # 11	Ctrl # 12	Ctrl # 13
Agy#	# Of employees with conflicting functions	Enter/edit payment voucher in USAS AND release/ approve payment voucher in USAS	Process/ edit payroll in USAS AND release payroll in USAS	Enter/edit payment voucher in USAS AND create/ edit a vendor in TINS	Enter/ edit payment voucher in USAS AND edit/update vendor direct deposit information in TINS	Release/ approve payment in USAS AND create/ edit a vendor in TINS	Release/ approve payment in USAS AND edit/update vendor direct deposit information in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND on the agency's Authorization for Warrant Pickup list	Edit/update a vendor or employee profile in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Edit direct deposit information for a vendor or an employee in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Enter/ edit payment voucher in USAS AND change the warrant hold status of a vendor in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND change the warrant hold status of a vendor in TINS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND process/edit payroll in USAS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND release payroll in USAS
101	4	2	1	2	2	1	1	1	2	2	2	2		
102	3	3	3	3	3	3	3	2	3	3	3	3		
103	1			1	1						1			
104	3			3	2	2	2		2	2	2	2		
105	3			1	1			3	1	1	1	1		
116	2	2	2	1	1	1	1	2	1	1	1	1		
201	5	4	4	5	5	4	4	2	4	4	5	4		
211	2	1	1	2	2	1	1	1	1	1	2	1		
212	6			4	4			2			4			
213	2							2						
215	2			2	2			1	2	2	2	2		
222	3	2	2	3	3	2	2	2	2	2	3	2		
223	2	1	1	1	1			2	1	1	1	1		
224	2	1	1	1	1			2	1	1	1	1		
225	1	1	1	1	1	1	1		1	1	1	1		
226	2	2	2	1	1	1	1		1	1	1	1		
227	2			2	2				2	2	2	2		
228	3	2	1	2	2	1	1		1	1	2	1		
229	2	2	2	2	2	2	2		2	2	2	2		
230	1			1	1						1			
231	2	1	1	2	2	1	1		1	1	2	1		
232	2	2	2											
233	2			1	1			1			1			
234	1			1	1	1	1		1	1	1	1		



		Ctrl # 1	Ctrl # 2	Ctrl # 3	Ctrl # 4	Ctrl # 5	Ctrl # 6	Ctrl # 7	Ctrl # 8	Ctrl # 9	Ctrl # 10	Ctrl # 11	Ctrl # 12	Ctrl # 13
Agy#	# Of employees with conflicting functions	Enter/edit payment voucher in USAS AND release/ approve payment voucher in USAS	Process/ edit payroll in USAS AND release payroll in USAS	Enter/edit payment voucher in USAS AND create/ edit a vendor in TINS	Enter/ edit payment voucher in USAS AND edit/update vendor direct deposit information in TINS	Release/ approve payment in USAS AND create/ edit a vendor in TINS	Release/ approve payment in USAS AND edit/update vendor direct deposit information in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND on the agency's Authorization for Warrant Pickup list	Edit/update a vendor or employee profile in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Edit direct deposit information for a vendor or an employee in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Enter/ edit payment voucher in USAS AND change the warrant hold status of a vendor in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND change the warrant hold status of a vendor in TINS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND process/edit payroll in USAS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND release payroll in USAS
241	2			2	2						2			
242	2	1	1	1	1			1			1			
243	2	2	2	1	1	1	1		1	1	1	1		
300	2			2	2						2			
301	2			2	2						2			
302	4			3	3	1	1		1	1	4	1		
303	10			8	8	3	3	3	3	3	8	3		
304	11			11	11						11			
306	6	2	2	6	6	2	2		2	2	6	2		
307	7	1	1	7	7	1	1		1	1	7	1		
312	1			1	1						1			
313	4			2	2			2			2			
315	5			5	5						5			
320	8			1	1			2			6	2		
323	10			10	10						10			
326	3			1	1			2			1			
327	16	1	1	13	13	2	2		2	2	13	2		
329	4	1	1	4	4	1	1		1	1	4	1		
332	3			3	3						3			
338	3	1	1	1	1			2			1			
347	5	2	2	3	3			2			3			
352	2	1	1	1	1	1	1	1	1	1	1	1		
356	6			5	5	4	4	2	4	4	5	4		
359	2	2	2	1		1		1	1					
360	4			3	3	1	1	1	1	1	3	1		



	7											-		
		Ctrl # 1	Ctrl # 2	Ctrl # 3	Ctrl # 4	Ctrl # 5	Ctrl # 6	Ctrl # 7	Ctrl # 8	Ctrl # 9	Ctrl # 10	Ctrl # 11	Ctrl # 12	Ctrl # 13
Agy#	# Of employees with conflicting functions	Enter/edit payment voucher in USAS AND release/ approve payment voucher in USAS	Process/ edit payroll in USAS AND release payroll in USAS	Enter/edit payment voucher in USAS AND create/ edit a vendor in TINS	Enter/ edit payment voucher in USAS AND edit/update vendor direct deposit information in TINS	Release/ approve payment in USAS AND create/ edit a vendor in TINS	Release/ approve payment in USAS AND edit/update vendor direct deposit information in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND on the agency's Authorization for Warrant Pickup list	Edit/update a vendor or employee profile in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Edit direct deposit information for a vendor or an employee in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Enter/ edit payment voucher in USAS AND change the warrant hold status of a vendor in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND change the warrant hold status of a vendor in TINS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND process/edit payroll in USAS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND release payroll in USAS
362	3			3	3						3			
364	2	2	2					2						
401	13			12	12	1	1	1	1	1	12	1		
403	4			1	1			3			1		, ,	
405	8			5	5			3	1	1	5	1		
407	2	1	1	1	1						1			
409	2	1	1	1	1			1			1			
411	3	3	3	2	2	2	2	3	2	2	2	2		
448	4	4	4	2	2	2	2		2	2	2	2		
450	2			1	1						2	1		
451	2			1	1			1	1	1	1	1		
452	7			3	3			4			3			
454	1			1	1			,			1			
455	4			2	2			2			2			
456	3	2	2	2	2	1	1	2	1	1	2	1		
457	3	1		1	1	1	1	2	1	1	1	1		
458	12			11	11	2	2		2	2	11	2		
459	3			1	1			3	1	1	1	1		
460	1			1	1						1			
466	2			2	2						2			
469	1	1	1											
473	5			4	4	2	2		2	2	4	2		
475	2	2	2	1	1	1	1	2	1	1	1	1		
476	5	2	2	1	1	1	1	5	1	1	1	41		
477	2	2	2	1	1	1	1	1	1	1	1	1		



		Ctrl # 1	Ctrl # 2	Ctrl # 3	Ctrl # 4	Ctrl # 5	Ctrl # 6	Ctrl # 7	Ctrl # 8	Ctrl # 9	Ctrl # 10	Ctrl # 11	Ctrl # 12	Ctrl # 13
Agy#	# Of employees with conflicting functions	Enter/edit payment voucher in USAS AND release/ approve payment voucher in USAS	Process/ edit payroll in USAS AND release payroll in USAS	Enter/edit payment voucher in USAS AND create/ edit a vendor in TINS	Enter/ edit payment voucher in USAS AND edit/update vendor direct deposit information in TINS	Release/ approve payment in USAS AND create/ edit a vendor in TINS	Release/ approve payment in USAS AND edit/update vendor direct deposit information in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND on the agency's Authorization for Warrant Pickup list	Edit/update a vendor or employee profile in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Edit direct deposit information for a vendor or an employee in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Enter/ edit payment voucher in USAS AND change the warrant hold status of a vendor in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND change the warrant hold status of a vendor in TINS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND process/edit payroll in USAS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND release payroll in USAS
479	3	2	2					2			1			
481	2	2	2	1	1	1	1	2	1	1	1	1		
503	7	3	2	7	5	3	2	3	3	2	5	2		
504	2	1	1	1	1			2	1	1	1	1		
506	4	3	3	2	2	1	1		2	2	2	2	2	1
507	4	3	3	4	3	3	3	2	3	3	3	3		
508	2	2	2	2	2	2	2	2	2	2	2	2		
510	2	1	1	2	2	1	1	1	1	1	2	1		
513	2	1	1	1		1		1	1					
514	2	1	1	1	1						1			
515	5	2	2	3	3	1	1	2	1	1	3	1		
529	18			18	18						18			
530	11	2	2	9	9						9			
533	4	1	1	1	1	2	2	4	2	2	1	2		
537	31	1	1	28	28	1	1		1	1	29	1		
542	3			1	1	1	1	2	1	1	1	1		
551	1			1	1						1			
554	5			4	4	1	1	2	4	4	4	4		
555	1			1	1						1		1	
556	2			2	2						2		2	
557	3			2	2						3		2	
575	2			2	2						2		2	
576	3			3	3						3		3	
578	2			2	2	2	2	2	2	2	2	2		
580	3			3	3	1	1		1	1	3	1		



		Ctrl # 1	Ctrl # 2	Ctrl # 3	Ctrl # 4	Ctrl # 5	Ctrl # 6	Ctrl # 7	Ctrl # 8	Ctrl # 9	Ctrl # 10	Ctrl # 11	Ctrl # 12	Ctrl # 13
Agy#	# Of employees with conflicting functions	Enter/edit payment voucher in USAS AND release/ approve payment voucher in USAS	Process/ edit payroll in USAS AND release payroll in USAS	Enter/edit payment voucher in USAS AND create/ edit a vendor in TINS	Enter/ edit payment voucher in USAS AND edit/update vendor direct deposit information in TINS	Release/ approve payment in USAS AND create/ edit a vendor in TINS	Release/ approve payment in USAS AND edit/update vendor direct deposit information in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND on the agency's Authorization for Warrant Pickup list	Edit/update a vendor or employee profile in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Edit direct deposit information for a vendor or an employee in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Enter/ edit payment voucher in USAS AND change the warrant hold status of a vendor in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND change the warrant hold status of a vendor in TINS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND process/edit payroll in USAS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND release payroll in USAS
582	2			2	2						2			
592	5	2	2	2	2	1	1	2	2	2	2	2		
601	10	1	1	9	9						9			
608	13			4	4			2			11			
644	4			1	1			1			3			
696	10			10	10						10			
701	1					1	1		1	1		1		
706	2							2						
710	1			1	1						1		1	
711	1			1	1						1		1	
713	2			2	2	2	2		2	2	2	2	2	2
714	3			3	3						3		3	
715	3			2	2			1			2		2	
716	3			3	3						3		3	
717	1										1			
719	1							1						
720	2			2	2				1	1	2	1	2	
721	2			2	2						2		2	
723	3			2				1						
724	4	1	1	3	3						3		3	
727	2			2	2	1	1		1	1	2	1	2	1
729	1			1	1						1		1	
730	3	3	3	1	1	1	1		1	1	1	1	1	1
731	8			8	6						6		6	
732	3			3	1						1		1	



		Ctrl # 1	Ctrl # 2	Ctrl # 3	Ctrl #4	Ctrl # 5	Ctrl # 6	Ctrl # 7	Ctrl # 8	Ctrl # 9	Ctrl # 10	Ctrl # 11	Ctrl # 12	Ctrl # 13
Agy#	# Of employees with conflicting functions	Enter/edit payment voucher in USAS AND release/ approve payment voucher in USAS	Process/ edit payroll in USAS AND release payroll in USAS	Enter/edit payment voucher in USAS AND create/ edit a vendor in TINS	Enter/ edit payment voucher in USAS AND edit/update vendor direct deposit information in TINS	Release/ approve payment in USAS AND create/ edit a vendor in TINS	Release/ approve payment in USAS AND edit/update vendor direct deposit information in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND on the agency's Authorization for Warrant Pickup list	Edit/update a vendor or employee profile in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Edit direct deposit information for a vendor or an employee in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Enter/ edit payment voucher in USAS AND change the warrant hold status of a vendor in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND change the warrant hold status of a vendor in TINS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND process/edit payroll in USAS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND release payroll in USAS
733	1			1	1						1		1	
734	6			5	1			1			1		1	
735	4	3	3	4	3	3	3		3	3	3	3	3	3
737	8	5	5	4	4	1	1	1	1	1	4	1	4	1
738	2			1	1			1			1		1	
739	1			1	1						1		1	
742	1			1	1	1	1		1	1	1	1	1	1
743	4	1	1	3	3						3		3	
744	4	1	1	1	1	1	1	1	2	2	1	2	1	1
745	1			1	1						1		1	
746	8	1	1	6	6	2	2		3	3	6	3	6	2
749	1							1						
750	2			2	2	1	1		1	1	2	1	2	1
751	1			1	1	1	1		1	1	1	1	1	1
752	9			2	2	2	2		2	2	9	7	2	2
753	4			4	4						4		4	
754	2			2	2						2		2	
755	7			6	6	1	1	1	1	1	6	1	6	1
756	1					1	1		1	1		1		1
757	3	2	2								1			
758	2					1	1	2	1	1		1		1
760	2			2	2						2		2	
761	10			9	9	1	1		2	2	10	2	9	1
763	8			2	2	2	2		2	2	8	7	2	2
764	3			2	2	1	1	1	1	1	2	1	2	1



		Ctrl # 1	Ctrl # 2	Ctrl # 3	Ctrl # 4	Ctrl # 5	Ctrl # 6	Ctrl # 7	Ctrl # 8	Ctrl # 9	Ctrl # 10	Ctrl # 11	Ctrl # 12	Ctrl # 13
Agy#	# Of employees with conflicting functions	Enter/edit payment voucher in USAS AND release/ approve payment voucher in USAS	Process/ edit payroll in USAS AND release payroll in USAS	Enter/edit payment voucher in USAS AND create/ edit a vendor in TINS	Enter/ edit payment voucher in USAS AND edit/update vendor direct deposit information in TINS	Release/ approve payment in USAS AND create/ edit a vendor in TINS	Release/ approve payment in USAS AND edit/update vendor direct deposit information in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND on the agency's Authorization for Warrant Pickup list	Edit/update a vendor or employee profile in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Edit direct deposit information for a vendor or an employee in TINS AND on the agency's signature card (can approve a paper voucher for expedite)	Enter/ edit payment voucher in USAS AND change the warrant hold status of a vendor in TINS	On the agency's signature card (can approve a paper voucher for expedite) AND change the warrant hold status of a vendor in TINS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND process/edit payroll in USAS	HI-ED ONLY - Edit direct deposit information for employee in TINS AND release payroll in USAS
768	1			1	1						1		1	
769	6			2	2	2	2		2	2	6	5	2	2
770	2			1	1			1			1		1	
771	4			3	2	2	1	3	2	1	2	1		
772	7	3	2	4	4			2			4			
773	9			2	2	2	2		2	2	9	6	2	2
774	1			1	1						1		1	
781	3			3	3						3			
784	1										1			
785	2			2	2						2		2	
787	2					1	1		1	1	1	1		1
788	4			4	3						3		3	
789	7			7	7						7		7	
802	3				2			1						
808	5			5	1						1			
809	4	3	3	3	3	2	2	1	3	3	3	3		
813	4	2	2	4	4	2	2		2	2	4	2		
902	11			11	11						11			
907	1			1	1						1			
909	1			1	1						1			
930	4	3	3	1	1						1			
170	669	117	112	480	459	110	106	131	132	128	505	148	116	29



Table 3: Transactions Processed by a Single User

Agency #	Agency Name	Number of Payments Processed	Total Value of Payments
101	Senate	3	\$5,734.23
102	House of Representatives	38	\$3,668,172.38
116	Sunset Advisory Commission	2	\$1,965.95
224	Court of Appeals - Fourth Court of Appeals District	1	\$913.06
225	Court of Appeals - Fifth Court of Appeals District	2	\$5,814.11
229	Court of Appeals - Ninth Court of Appeals District	3	\$7,839.76
243	State Law Library	5	\$6,299.13
306	Texas State Library and Archives Commission	1	\$349.70
347	Texas Public Finance Authority	2	\$1,898,273.73
352	Bond Review Board	28	\$67,292.75
359	Office of Public Insurance Counsel	19	\$40,846.01
364	Health Professions Council	3	\$684.22
456	Texas State Board of Plumbing Examiners	10	\$72,242.04
475	Office of Public Utility Counsel	3	\$8,959.13
476	Texas Racing Commission	10	\$2,287,332.27
477	Commission on State Emergency Communications	250	\$43,524,971.02
503	Texas Medical Board	18	\$34,294.53
506	University of Texas M. D. Anderson Cancer Center	12	\$37,627,266.89
507	Texas Board of Nursing	12	\$68,870.78
515	Texas State Board of Pharmacy	2	\$925,187.50
735	Midwestern State University	14	\$13,119,849.72
737	Angelo State University	20	\$10,990.41
757	West Texas A&M University	209	\$46,972,147.02
23		667	\$150,356,296.34



Table 4: Agencies and Institutions With Terminated Employees Remaining on the Agency's Authorization for Warrant Pickup Form After Termination

Agency #	Agency Name	# of terminated employees Remaining on the Warrant Pick-Up List after Termination
305	General Land Office	1
466	Office of Consumer Credit Commissioner	1
537	Department of State Health Services	1
730	University of Houston	1
759	University of Houston - Clear Lake	1
765	University of Houston - Victoria	1
784	University of Houston - Downtown	1
809	State Preservation Board	1
8	Agencies and Institutions	8 Employees



Appendix

Appendix 1: Controls Tested

Function 1	Function 2
Enter/edit payment voucher in USAS	Release/approve payment voucher in USAS
Process/edit payroll in USAS	Release payroll in USAS
Enter/edit payment voucher in USAS	Create/edit a vendor in TINS
Enter/edit payment voucher in USAS	Edit/update vendor direct deposit information in TINS
Release/approve payment in USAS	Create/edit a vendor in TINS
Release/approve payment in USAS	Edit/update vendor direct deposit information in TINS
On the agency's signature card (can approve a paper voucher for expedite)	On the agency's Authorization for Warrant Pickup list
Edit/update a vendor or employee profile in TINS	On the agency's signature card (can approve a paper voucher for expedite)
Edit direct deposit information for a vendor or an employee in TINS	On the agency's signature card (can approve a paper voucher for expedite)
Enter/edit payment voucher in USAS	Change the warrant hold status of a vendor in TINS
On the agency's signature card (can approve a paper voucher for expedite)	Change the warrant hold status of a vendor in TINS
Edit direct deposit information for employee in TINS (institutions only)	Process/edit payroll in USAS (institutions only)
Edit direct deposit information for employee in TINS (institutions only)	Release payroll in USAS (institutions only)



Appendix 2: Recommendations for Each Tested Control

CTROL#	Conflict	Recommendation				
		Agency/institution should limit user access to either enter/ change voucher or release/approve batch.				
		If the functions cannot be separated and/or the agency/ institution does not have other internal mitigating controls in place, the agency/institution should elect to have the document tracking control edit on Agency Profile (DØ2) set to either:				
1	Enter/edit payment voucher in USAS AND release/approve payment in USAS	Prevent a user from releasing a batch that the same user entered or altered. — or—				
	payment in OSAS	Warn the user when the same user attempts to release his or her own entries or changes. See USAS Accounting and Payment Control (FPP B.005).				
		Additionally, the agency/institution should review the preventive and detective controls over expenditure processing discussed in FPP B.005, such as the Risky Document Report (DAFR9840) which identifies documents that the same user entered or altered and then released for processing.				
2	Process/edit payroll in USAS AND release payroll in USAS	Agency/institution should work with Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions in USAS.				
3	Enter/edit payment voucher in USAS AND create/edit a vendor in TINS					
4	Enter/edit payment voucher in USAS AND edit/update vendor direct deposit information in TINS	Agency/institution should limit the access of users who can enter/edit and release/approve the voucher in USAS to view-				
5	Release/approve payment in USAS AND create/edit a vendor in TINS	only access in TINS (PTINS02). An individual should not be able to create and/or approve a payment and create and/or edit a vendor profile or direct deposit information in TINS.				
6	Release/approve payment in USAS AND edit/update vendor direct deposit information in TINS					
7	On the agency signature card (can approve a paper voucher for expedite) AND on the agency's Authorization for Warrant Pickup list	Agency/institution should limit user access by removing the user from the agency's signature card or by removing the user from the agency's Authorization for Warrant Pickup list.				
8	Edit/update a vendor or employee profile in TINS AND on the agency signature card (employee can approve paper vouchers	Agency/institution should limit the access of users who can approve paper vouchers (being on the signature card) to				
9	Edit direct deposit information for a vendor or an employee in TINS AND on the agency signature card (employee can approve paper vouchers)	view-only access in TINS (PTINS02). An individual must not be able to change a vendor/employee profile and/or direct deposit information and approve a payment.				
10	Enter/edit payment voucher in USAS AND change the warrant hold status of a vendor in TINS	Agency/institution should ensure that employees who can process a payment voucher in USAS and/or an expedited				
11	On the agency signature card (can approve a paper voucher) AND change the warrant hold status of a vendor in TINS	payment (on the signature card) do not have the ability to change the warrant hold status of a vendor in TINS.				
12	Edit direct deposit information for employee in TINS AND process/edit payroll in USAS	Institution should limit the access of users who can process and/or release/approve payroll in USAS to view-only access in				
13	Edit direct deposit information for employee in TINS AND release payroll in USAS	TINS (PTINS02). An individual must not be able to change an employee payment instruction and process and/or release/ approve payroll.				

Office of Consumer Credit Commissioner Fiscal Year 2025 - 3rd Quarter

Residential Mortgage Loan Originator Recovery Trust Fund #3008

_	ning Balance at 2/28/2025	Additions / *(Deductions)		Interest Paid		Paid Bank Fees		Ending Balance at 05/31/2025		Current Interest Rate
\$	236,603.14	\$	2,600.00	\$	2,604.85	\$	(52.91)	\$	241,755.08	4.29%
Prepared By: /s/ Mridula Lekhak								Date	: 07/16/2025	
Invest	tment Officer:	/s/Mi	rand Diamond					Date	: 7/30/2025	

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 2025 - 3rd Quarter

Texas Financial Education Endowment Fund #3071 Beginning Balance Grant **Ending Balance at** Current at 02/28/2025 Interest Paid 05/31/2025 Additions Transfers Disbursements Paid Bank Fees Interest Rate Cash 1,211,288.65 119,041.72 12,270.10 (149,422.77)(6,780.30)1,186,397.40 4.29% Beginning Balance **Ending Balance at** at 02/28/2025 Additions *Change in Value Transfers Transfer Out Paid Fees 05/31/2025 **Invested Portfolio** Cash in Bank \$ \$ 3,933.50 3,933.50 304,692.05 Investments - STIF 480,195.10 (175,503.05) Investments - Short Term Interest & Dividends Receivable 7,275.82 (1,361.03)5,914.79 Trade Receivables 59,987.48 59,987.48 Investments - Equities 3,183,156.13 (231,129.51)2,952,026.62 Investments - Alternatives 5,872,749.27 783,075.01 6,655,824.28 Investments - Fixed Income 922,595.16 (274,613.33) 647,981.83 Investments - Futures Investments - SWAPS, at Fair Value 4,593.15 (4,644.62)(51.47)10,630,309.08 Total Assets-Invested Portfolio 10,470,564.63 159,744.45 Liabilities Accounts Payable \$ (5,726.62)1,345.18 (4,381.44)Interest Payable (756.03)(3,233.62)(3,989.65)**Trade Payables** Futures Contracts, at Fair Value Swaps, at Fair Value **Total Liabilities** (6,482.65) \$ (1,888.44) (8,371.09) Total Net Fiduciary Assets-Invested Portfolio 10,464,081.98 \$ 10,621,937.99 **Total Endowment Funds** 11,675,370.63 \$ 11,808,335.39 Note: These funds are invested with the Texas Treasury Safekeeping Trust Company. The above investments are in compliance with the agency's investment policy. * Reflects redistributed amount among the asset classes in addition to market value adjustment. Prepared By: /s/ Mridula Lekhak 7/16/2025 Date: Investment Officer: /s/ Mirand Diamond Date: 7/30/2025

Department of Savings and Mortgage Lending

Investment Officer Report as of May 31, 2025

Recovery Fund

	Beginning Balance 3/1/2025	Additions/ Reductions	Interest Received	Bank Fees	Ending Balance 5/31/2025	
Cash & Cash Equivalents	\$5,148,204.49	\$69,785.00	56,924.14	(348.97)	\$5,274,564.66	
Mortgage Grant Program Balance (12	2/31/2021)			, ,	440,489.78	
Mortgage Grant Program Balance (12	2/31/2022)				356,479.17	
Mortgage Grant Program Balance (12	2/31/2023)				374,186.80	
Mortgage Grant Program Balance (12	2/31/2024)			_	439,910.25	
Recovery Balance					\$3,663,498.66	
Bank Name	Туре		Maturity Date	Interest Rate	Book/Market Value	Accrued Interest
Tx Treasury Safekeeping Trust Co	7		6/1/2025	4.34%	\$5,274,564.66	\$627.01
				-	\$5,274,564.66	\$627.01

Investment Position: The Fund is capable of meeting all known obligations.	Investment Compliance: The Department's Investment Policy has been followed.
Investment Officer: /s/Antonia Antov	Date: 6/17/2025
Investment Officer: /s/Chris Churchill	Date: 6/17/2025

Department of Savings and Mortgage Lending

Investment Officer Report as of May 31, 2025

Mortgage Grant Fund

	Beginning Balance	Additions/	Interest	Bank	Ending Balance
	3/1/2025	Reductions	Received	Fees	5/31/2025
Cash & Cash Equivalents	\$277,506.73	(\$34,342.30)	\$2,754.31	(\$43.17)	\$245,875.57

Bank Name	Туре	Maturity Date	Interest Rate	Book/Market Value	Accrued Interest
Tx Treasury Safekeeping Trust Co	Overnight Repurchase Agreements	6/1/2025	4.34%	\$245,875.57	\$29.23
			_	\$245,875.57	\$29.23

Investment Position: The Fund is capable of meeting all known obligations.	Investment Compliance: The Department's Investment Policy has been follow	wed.
Investment Officer: /s/Antonia Antov	Date: 6/17/2025	
Investment Officer: /s/Chris Churchill	Date: 6/17/2025	

Texas Department of Banking Quarterly Investment Report March 1, 2025 to May 31, 2025

Investment Officer

Seized Prepaid Funeral Funds Held in a Financial Institution	Book Value at February 28, 2025	Interest Income Received	Trustee Fees Paid	Other Deductions	Other <u>Additions</u>	Book Value at May 31, 2025	Financial Institution	Investment <u>Type</u>	Maturity <u>Date</u>	Interest <u>Rate</u>
None	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00		N/A	N/A	N/A
Total Seized Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00				
Notes:										
/s/ Jesse Saucillo			6/3	0/2025						
Investment Officer				ate	-					
/s/ Sami Chadli			7/3/	/2025						

Date

Trust-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report March 1, 2025 to May 31, 2025

Book Value at 28, 2025	Interest Income Received	Trustee Fees Paid	(1) Other <u>Deduction(s)</u>	(2) Other <u>Addition(s)</u>	Book/Market Value May 31, 2025	Maturity <u>Date</u>	Interest <u>Rate</u>	Accrued Interest on CDs
\$1,533,259.87	\$16,786.28	\$80.43	\$4,210.00	\$2,163.19	\$1,547,918.91			\$804.49
	Trust Accou	ınt Balances a	at Trustee/Depo	<u>sitories</u>				
	Texas Trea	sury Safekee	ping Trust Com	pany *	\$815,845.63	6/1/2025	4.28%	
	State Ba	ink of Texas,	Dallas, Texas (CD)	\$240,000.00	12/16/2025	4.45%	\$321.86
	Texas Bank	Financial, W	eatherford, Texa	as (CD)	\$246,992.73	12/24/2025	4.45%	\$240.90
American Bank of Commerce, Wolfforth, Texas (CD)					\$245,080.55	11/23/2025	4.50%	\$241.73
				Subtotal	\$1,547,918.91			

⁽¹⁾ Other deduction include \$2,310.00 in consumer restitution related to Cremation Service International, Inc., and \$1,900.00 in consumer restitution related to Gonzalez Funeral Home, which were escheated to the Texas Comptroller of Public Accounts as abandoned property.

^{*} 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.

/s/ Jesse Saucillo	6/30/2025
Investment Officer	Date
/s/ Sami Chadli	7/3/2025
Investment Officer	Date

⁽²⁾ Other addition includes reimbursement to the Guaranty Fund related Washington Memorial Funeral Home. The funds were previous paid from the Guaranty Fund to supplement a PFC that was assumed by a designated provider. However, at the time of service, the family representative elected not to utilize the designated provider.

Insurance-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report March 1, 2025 to May 31, 2025

Book Value at February 28, 2025	Interest Income Received		Other Deduction(s)	Other Addition(s)	Book/Market Value at May 31, 2025	Maturity <u>Date</u>	Interest <u>Rate</u>	Accrued Interest on CDs		
\$1,072,977.64	\$12,227,36	\$ 80.85			\$1,085,124.15			\$513.49		
Account Balances at Trustee/Depositories										
	\$840,124.15	06/1/2025	428%							
	Spring Hill	State Bank, L	Longview, Tex	` '	<u>\$245,000.00</u>	5/12/2026	4.25%	\$513.49		
				Subtotal	\$1,085,124.15					

/s/ Jesse Saucillo	6/30/2025
Investment Officer	Date
/s/ Sami Chadli	7/3/2025
Investment Officer	Date

^{*} 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.



Required Report Outlining Amendments to the Public Funds Investment Act (PFIA)

This is a summary of the Texas Legislature's recently passed legislation that amended the Public Funds Investment Act (PFIA), located at Chapter 2256 of the Texas Government Code. There was one bill amending the PFIA during the 2025 regular legislative session, and its changes were minimal.

SB 21 – SB 21 established the Texas Strategic Bitcoin Reserve for the purpose of investing in cryptocurrency, and authorized the comptroller of public accounts to administer the reserve and make related investments. Most of the bill amended Chapter 403 of the Government Code, which established the reserve.

SB 21 also amended Section 2256.004(a) of the Government Code, a section of the PFIA specifying situations where the PFIA does not apply. Section 2256.004(a)(2) previously stated that "state funds invested as authorized by Section 404.024" were not covered. Section 404.024 relates to the comptroller's investment authority. SB 21 replaced the phrase "as authorized by Section 404.024" with "by the comptroller." The applicable language in Section 2256.004(a) now reads:

- (a) This subchapter does not apply to:
 - (1) ...
 - (2) state funds invested by the comptroller;
 - (3) ...

SB 21 effectively broadened the exemption from the PFIA to all state funds invested by the comptroller.

SB 21's amendments went into effect immediately upon the governor's approval on June 20, 2025.

OFFICE OF CONSUMER CREDIT COMMISSIONER INVESTMENT POLICY STATEMENT

[Effective August 16, 2024 August 15, 2025-]

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 August 16, 2024 August 15, 2025 to re-approve this policy as revised to clarify content within this policy. Previously, this policy was reviewed and approved on August 18, 2023 August 16, 2024.

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.

Texas Financial E	ducation Endowment Fund (TTSTC #3071)
Enabling Legislation	§14.113, Tex. Fin. Code
Distribution Policy	Annual distributions, payable quarterly or annually, are calculated as 3.5% times the twenty-quarter, moving-average value of the Fund as of March 31 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 <u>Texas</u> 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.

In accordance with Section 341.602(f) of the Finance Code, the OCCC Residential Mortgage Loan Originator Recovery Fund may be invested and reinvested under the prudent person standard described by Section 11b, Article VII, Texas Constitution. Interest from these investments shall be deposited to the credit of the fund. An investment may not be made under Section 341.602(f) if the investment will impair the necessary liquidity required to satisfy payment of judgment awarded under Chapter 341, Subchapter G of the Finance Code.

The Texas Financial Education Endowment Fund is to be invested with the TTSTC. In accordance with Section 14.113 of the Finance Code, the fund may be invested and reinvested under the prudent person standard described by Section 11b, Article VII, Texas Constitution. Interest from those investments will be deposited to the credit of the account. The Investment Policy Statement for Texas Endowment Funds managed by the TTSTC is adopted by reference for the oversight of the Texas Financial Education Endowment Fund.

{See https://assets.ttstc.com/ttstc-public/20/20250101 ENDOW IPS FINAL.pdf https://assets.ttstc.com/ttstc-public/20/2024-01-01%20Endowment%20IPS.pdf}

These policies include:

- An investment return objective of <u>providing as near as practicable a predictable, stable stream</u>
 of distributions, maintaining the inflation-adjusted value of distributions over the long-term;
 and maintaining the inflation-adjusted value of the corpus, after distributions and fund
 expenses over the long-term, subject to the liquidity needs of the fund 6%
- <u>Investment guidelines</u> A securities lending objective to enhance current income to the extent consistent with the preservation of capital and maintenance of liquidity
- Portfolio rebalancing
- Total fund leverage Portfolio hedging and overlays
- <u>Investment strategies and substrategies, asset Asset</u> allocation targets, and performance benchmarks
- Risk evaluation management guidelines
- Investment manager expectations
- Consistency Fixed income, growth equity, and real return estate and all asset strategies

The investment policies of the TTSTC 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 below¹.

¹ The Office is prohibited from investing funds in companies that discriminate against firearm and ammunition industries or that boycott energy companies per Chapter 2274 of the Government Code.

- A. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, with a maximum allowable maturity² of 10 years;
- B. Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of 10 years;
- C. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S. provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 10 years from the date the collateralized mortgage obligation is acquired by the Agency;
- D. 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 U.S. 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 U.S. with a maximum allowable maturity of 10 years;
- E. 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 10 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;
- F. Bonds issued, assumed, or guaranteed by the State of Israel;
- G. Interest-bearing deposit accounts that are guaranteed or insured by the FDIC or its successor;
- H. Other interest-bearing deposit accounts not described above if:
 - i. The funds are invested through a broker with a main office or branch office in this state as selected by the Agency from an approved list, or through a depository institution with a main office or branch office in this state;
 - ii. The selected broker or depository institution arranges for the deposit of the funds in deposit accounts in one or more federally insured institutions, regardless of where located;
 - iii. The full amount of principal and accrued interest in such deposit accounts is insured by the U.S. or an instrumentality of the U.S.; and
 - iv. The Agency appoints a custodian of the deposit accounts that is:
 - a. The depository institution selected to broker the deposits;
 - A state or national bank designated by the comptroller as a state depository with its main office or a branch office in this state, that has capital stock and surplus of \$5 million or more;
 - c. The Texas Treasury Safekeeping Trust Company;
 - d. A Federal Reserve Bank or a branch of a Federal Reserve Bank;
 - e. A Federal Home Loan Bank;
 - f. A financial institution authorized to exercise fiduciary powers that is designated by the comptroller as custodian; or
 - g. A clearing broker dealer registered with the Securities and Exchange Commission (SEC) and operating under SEC Rule 15c3 (17 C.F.R. Section 240.15c3-3)
- I. A certificate of deposit issued by depository institution that has its main office or a branch office in this state, if the certificate:
 - i. Is guaranteed or fully insured by the FDIC, or its successor;
 - ii. Is secured by obligations allowable under Gov't Code § 2256.009(a) for direct investment by the Agency; or
 - iii. Is secured as provided under the Public Funds Collateral Act (Gov't Code Ch. 2257); and

² 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

iv. Does not have a maturity exceeding 36 months.

A certificate of deposit must be fully secured as described above but may be secured by combination of the listed alternatives.

Bids for certificates of deposit may be solicited:

- Orally;
- o In writing;
- o Electronically; or
- In any combination of those methods.
- J. A repurchase agreement³, collateralized on a daily basis at a minimum of 102% of market value, including a direct security repurchase agreement and a reverse security repurchase agreement, that:
 - i. With respect to a reverse security repurchase agreement, does not have a defined termination date exceeding 90 days;
 - ii. Is secured by a combination of cash and obligations allowable under Gov't Code §2256.009(a)(1) or § 2256.013;
 - iii. Requires securities being purchased or cash held by the Agency to be pledged to the Agency, either directly or through a joint account approved by the Agency, held in the Agency's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with the Agency or with a third party selected and approved by the Agency;
 - iv. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; or made directly with a state agency with the authority to invest in repurchase agreements as defined by Gov't Code § 404.024 (c-1);
 - v. Requires that money received under the terms of a reverse security repurchase agreement must 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 security repurchase agreement;
 - vi. Provides that an investing entity that contracts with an investment management firm may authorize the firm to invest the Agency's public funds or other funds under the Agency's control in repurchase agreements using a joint account;
 - vii. Requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing entity must ensure that:
 - a. accounting and control procedures are implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
 - b. each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
 - c. policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.
- K. A no-load money market mutual fund that:
 - i. Is registered with and regulated by the SEC;
 - ii. Provides the Agency with a prospectus and other information required by the Securities

³ A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

⁴ Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

- Exchange Act of 1934 or the Investment Company Act of 1940; and
- iii. Complies with federal SEC Rule 2a-7, promulgated under the Investment Company Act of 1940 (17 C.F.R. § 270-2a-7).

L. A no-load mutual fund that:

- i. Is registered with the SEC;
- ii. Has an average weighted maturity of less than two years; and
- iii. Either:
 - a. Has a duration of one year or more and is invested exclusively in obligations authorized in this policy; or
 - b. Has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

In general, investments that were authorized at the time they were purchased or otherwise obtained may be retained under this policy even if later revisions of the policy render the investments in noncompliance. One exception is any investment that requires a minimum rating if the rating declines to below the minimum.

The investing entity is required to take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. An exception also exists with respect to investments in companies that engage in business in Sudan or Iran, or with a foreign terrorist organization, as set forth in the state's divestiture requirements in Gov't Code Chapter 2270. These divestiture requirements expire in 2037.

4.Unauthorized Investments

The following are not authorized investments under this policy:

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and
- E. No portion of bond proceeds, reserves and funds held for debt service may be invested in no-load mutual funds described in Gov't Code §2256.014(b);
- F. Investments in companies doing business in Sudan, in Iran, or with a foreign terrorist organization.⁴
- G. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁵

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 a signed, written report of investment transactions for all funds covered by this policy for the preceding reporting period, to include:

- A. The investment position of the Agency on the date of the report;
- B. 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);

⁵ Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php

- C. The maturity date of each separately invested asset that has a maturity date;
- D. The fund for which each individual investment was acquired;
- E. The state of compliance, including any non-compliance, of the investment portfolio with this policy;
- F. Income received and expenses incurred in conjunction with investments; and,
- G. Any other information as required by the Finance Commission.

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

7. Rates of Return, Market Pricing and Ratings Changes

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 longerterm 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, rating changes, and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives. The investment officer will use the same methods and procedures as a prudent investor, exercising reasonable care, skill, and caution.

8. Diversification

Investments in FDIC-insured deposits (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:

- A. The aggregate investment in no-load mutual funds described in Gov't Code §2256.014(b) may not exceed 15 % of the monthly average fund balance of a covered investment fund held by the Agency, excluding bond proceeds and reserves and other funds held for debt service;
- B. No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- C. Investment in any one mutual fund may not exceed 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 Director of Licensing, and Finance and HR is designated as the Investment Officer and is responsible for the investment of the funds held and invested by the Agency. The Investment Officer is authorized to:

- A. Obtain external investment expertise if deemed necessary to fulfill investment objectives;
- B. Delegate routine business transactions within authorized and established investments; and,
- C. 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 Agency

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.

Commission outlining any recent amendments pertaining to the Public Funds Investment Act and other statutes, and will provide appropriate recommendations to update the Investment Policy as needed.

11.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, market risks, portfolio diversification, and compliance with applicable statutes.

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 annual 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). The quality of all investment must meet the needs of the agency and be managed in accordance with this policy.

13. Acknowledgment of the Policy by Business Organizations Seeking to Sell Investments to the Agency

A written copy of this policy must be presented to any business organization⁶ 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:

- A. Has received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,
- B. 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:
 - i. Is dependent on an analysis of the makeup of the Agency's entire portfolio;
 - ii. Requires an interpretation of subjective investment standards; or
 - iii. Relates to investment transactions of the Agency that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

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.

⁶ A "business organization" means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity's funds.

Acknowledgment

I, (<u>broker/banker/trust company officer</u>), a qualified representative of (<u>name of brokerage facility/bank/trust company</u>) 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 (<u>name of brokerage facility/bank</u>) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Office of Consumer Credit Commissioner and (<u>name of the brokerage facility/bank/trust company</u>) 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; requires an interpretation of subjective investment standards; or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the (<u>name of the brokerage facility/bank/trust company</u>) has accepted discretionary investment authority.

City to the transfer of the tr	
Signature of Qualified Representative	Date

OFFICE OF CONSUMER CREDIT COMMISSIONER INVESTMENT POLICY STATEMENT [Effective August 15, 2025]

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 August 15, 2025 to re-approve this policy as revised to clarify content within this policy. Previously, this policy was reviewed and approved on August 16, 2024.

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.

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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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Enabling Legislation	§14.113, Tex. Fin. Code
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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 Texas 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.

In accordance with Section 341.602(f) of the Finance Code, the OCCC Residential Mortgage Loan Originator Recovery Fund may be invested and reinvested under the prudent person standard described by Section 11b, Article VII, Texas Constitution. Interest from these investments shall be deposited to the credit of the fund. An investment may not be made under Section 341.602(f) if the investment will impair the necessary liquidity required to satisfy payment of judgment awarded under Chapter 341, Subchapter G of the Finance Code.

The Texas Financial Education Endowment Fund is to be invested with the TTSTC. In accordance with Section 14.113 of the Finance Code, the fund may be invested and reinvested under the prudent person standard described by Section 11b, Article VII, Texas Constitution. Interest from those investments will be deposited to the credit of the account. The Investment Policy Statement for Texas Endowment Funds managed by the TTSTC is adopted by reference for the oversight of the Texas Financial Education Endowment Fund.

[See https://assets.ttstc.com/ttstc-public/20/20250101 ENDOW IPS FINAL.pdf

These policies include:

- An investment return objective of providing as near as practicable a predictable, stable stream
 of distributions, maintaining the inflation-adjusted value of distributions over the long-term;
 and maintaining the inflation-adjusted value of the corpus, after distributions and fund
 expenses over the long-term, subject to the liquidity needs of the fund
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- Risk evaluation
- Investment manager expectations
- Consistency, growth, and real return strategies

The investment policies of the TTSTC 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 below¹.

¹ The Office is prohibited from investing funds in companies that discriminate against firearm and ammunition industries or that boycott energy companies per Chapter 2274 of the Government Code.

- A. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, with a maximum allowable maturity² of 10 years;
- B. Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of 10 years;
- C. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S. provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 10 years from the date the collateralized mortgage obligation is acquired by the Agency;
- D. 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 U.S. 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 U.S. with a maximum allowable maturity of 10 years;
- E. 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 10 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;
- F. Bonds issued, assumed, or guaranteed by the State of Israel;
- G. Interest-bearing deposit accounts that are guaranteed or insured by the FDIC or its successor;
- H. Other interest-bearing deposit accounts not described above if:
 - i. The funds are invested through a broker with a main office or branch office in this state as selected by the Agency from an approved list, or through a depository institution with a main office or branch office in this state;
 - ii. The selected broker or depository institution arranges for the deposit of the funds in deposit accounts in one or more federally insured institutions, regardless of where located;
 - iii. The full amount of principal and accrued interest in such deposit accounts is insured by the U.S. or an instrumentality of the U.S.; and
 - iv. The Agency appoints a custodian of the deposit accounts that is:
 - a. The depository institution selected to broker the deposits;
 - b. A state or national bank designated by the comptroller as a state depository with its main office or a branch office in this state, that has capital stock and surplus of \$5 million or more;
 - c. The Texas Treasury Safekeeping Trust Company;
 - d. A Federal Reserve Bank or a branch of a Federal Reserve Bank;
 - e. A Federal Home Loan Bank;
 - f. A financial institution authorized to exercise fiduciary powers that is designated by the comptroller as custodian; or
 - g. A clearing broker dealer registered with the Securities and Exchange Commission (SEC) and operating under SEC Rule 15c3 (17 C.F.R. Section 240.15c3-3)
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 - iii. Is secured as provided under the Public Funds Collateral Act (Gov't Code Ch. 2257); and
 - iv. Does not have a maturity exceeding 36 months.

A certificate of deposit must be fully secured as described above but may be secured by combination

² 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

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Bids for certificates of deposit may be solicited:

- Orally;
- In writing;
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 - i. With respect to a reverse security repurchase agreement, does not have a defined termination date exceeding 90 days;
 - ii. Is secured by a combination of cash and obligations allowable under Gov't Code §2256.009(a)(1) or § 2256.013;
 - iii. Requires securities being purchased or cash held by the Agency to be pledged to the Agency, either directly or through a joint account⁴ approved by the Agency, held in the Agency's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with the Agency or with a third party selected and approved by the Agency;
 - iv. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; or made directly with a state agency with the authority to invest in repurchase agreements as defined by Gov't Code § 404.024 (c-1);
 - v. Requires that money received under the terms of a reverse security repurchase agreement must 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 security repurchase agreement;
 - vi. Provides that an investing entity that contracts with an investment management firm may authorize the firm to invest the Agency's public funds or other funds under the Agency's control in repurchase agreements using a joint account;
 - vii. Requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing entity must ensure that:
 - a. accounting and control procedures are implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
 - b. each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
 - c. policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.
- K. A no-load money market mutual fund that:
 - i. Is registered with and regulated by the SEC;
 - ii. Provides the Agency with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; and
 - iii. Complies with federal SEC Rule 2a-7, promulgated under the Investment Company Act of

³ A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

⁴ Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

L. A no-load mutual fund that:

- i. Is registered with the SEC;
- ii. Has an average weighted maturity of less than two years; and
- iii. Either:
 - a. Has a duration of one year or more and is invested exclusively in obligations authorized in this policy; or
 - b. Has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

In general, investments that were authorized at the time they were purchased or otherwise obtained may be retained under this policy even if later revisions of the policy render the investments in noncompliance. One exception is any investment that requires a minimum rating if the rating declines to below the minimum.

The investing entity is required to take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. An exception also exists with respect to investments in companies that engage in business in Sudan or Iran, or with a foreign terrorist organization, as set forth in the state's divestiture requirements in Gov't Code Chapter 2270. These divestiture requirements expire in 2037.

4.Unauthorized Investments

The following are not authorized investments under this policy:

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and
- E. No portion of bond proceeds, reserves and funds held for debt service may be invested in no-load mutual funds described in Gov't Code §2256.014(b);
- F. Investments in companies doing business in Sudan, in Iran, or with a foreign terrorist organization.⁴
- G. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁵

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 a signed, written report of investment transactions for all funds covered by this policy for the preceding reporting period, to include:

- A. The investment position of the Agency on the date of the report;
- B. 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);
- C. The maturity date of each separately invested asset that has a maturity date;
- D. The fund for which each individual investment was acquired;

⁵ Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php

- E. The state of compliance, including any non-compliance, of the investment portfolio with this policy;
- F. Income received and expenses incurred in conjunction with investments; and,
- G. Any other information as required by the Finance Commission.

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

7. Rates of Return, Market Pricing and Ratings Changes

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 longerterm 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, rating changes, and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives. The investment officer will use the same methods and procedures as a prudent investor, exercising reasonable care, skill, and caution.

8. Diversification

Investments in FDIC-insured deposits (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:

- A. The aggregate investment in no-load mutual funds described in Gov't Code §2256.014(b) may not exceed 15 % of the monthly average fund balance of a covered investment fund held by the Agency, excluding bond proceeds and reserves and other funds held for debt service;
- B. No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- C. Investment in any one mutual fund may not exceed 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 Director of Licensing, Finance and HR is designated as the Investment Officer and is responsible for the investment of the funds held and invested by the Agency. The Investment Officer is authorized to:

- A. Obtain external investment expertise if deemed necessary to fulfill investment objectives;
- B. Delegate routine business transactions within authorized and established investments; and,
- C. 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 Agency

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.

Within 180 days of the end of each Legislative session, the Agency will provide a report to the Finance Commission outlining any recent amendments pertaining to the Public Funds Investment Act and other statutes, and will provide appropriate recommendations to update the Investment Policy as needed. $72\,$

11.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, market risks, portfolio diversification, and compliance with applicable statutes.

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 annual 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). The quality of all investment must meet the needs of the agency and be managed in accordance with this policy.

13. Acknowledgment of the Policy by Business Organizations Seeking to Sell Investments to the Agency

A written copy of this policy must be presented to any business organization⁶ 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:

- A. Has received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,
- B. 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:
 - i. Is dependent on an analysis of the makeup of the Agency's entire portfolio;
 - ii. Requires an interpretation of subjective investment standards; or
 - iii. Relates to investment transactions of the Agency that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

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.

⁶ A "business organization" means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity's funds.

Acknowledgment

I, (<u>broker/banker/trust company officer</u>), a qualified representative of (<u>name of brokerage facility/bank/trust company</u>) 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 (<u>name of brokerage facility/bank</u>) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Office of Consumer Credit Commissioner and (<u>name of the brokerage facility/bank/trust company</u>) 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; requires an interpretation of subjective investment standards; or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the (<u>name of the brokerage facility/bank/trust company</u>) has accepted discretionary investment authority.

		_
Signature of Qualified Representative	Date	

OCCC Investment Training				
Staff Member	Date	Course	Sponsor	Hours
Mirand Diamond	8/22/2024	PFIA	Univ North Texas	5
Leslie Pettijohn Mridula Lekhak	7/18/2025 3/13/2025	PFIA PFIA	Univ North Texas Univ North Texas	5 5



INVESTMENT POLICY

Overview

This policy governs the investment of funds of the Recovery Fund and Mortgage Grant Fund ("the Funds") which are administered by the Department of Savings and Mortgage Lending ("the SML Department"), to the extent the Department has statutory investment authority. The Recovery Fund was established as mandated by the 76th Legislature and is organized pursuant to Finance Code Chapter 156 Subchapter F. The Mortgage Grant Fund was created established by the 87th Legislature and is organized pursuant to Finance Code Chapter 156 Subchapter G. While this agencythe DepartmentSML is not subject to the requirements in the Public Funds Investment Act (Government Code Chapter 2256), except as specifically authorized by the 87th legislature, 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 reapproved this policy on August 165, 20245, as revised to incorporate changesd to Government Code Chapter 2270 regarding investments in countries designated as a "country of concern." Previous changes to this policy were approved on August 168, 20243.

It is the policy of the Department ML to invest funds in compliance with the following priorities, in 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

According to In accordance with the Texas Constitution. Section 11b Article VII, Section 11b, each of the Funds shall be managed and invested as a prudent investor would, exercising reasonable care, skill, and caution, would invest in light of the purposes, terms, distribution requirements, and other circumstances of the Funds then prevailing, while taking into consideration the investment of all the assets of each of the Funds rather than a single investment.

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

¹ As defined by Government Code Section 2270.0001(2-b).

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appropriate mix of investments.

Identification of Covered Funds

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

Types of Authorized Investments

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

According to Finance Code Section 156.501(c), <u>applicable to the Recovery Fund</u>, and <u>Finance Code Section 156.553(b)</u>, <u>applicable to the Mortgage Grant Fund</u>, the amounts in the <u>Recovery FundFunds</u> may be invested and_reinvested in accordance with Government Code Chapter 2256 and under the standard described by the Texas Constitution, <u>Section 11b</u> Article VII, <u>Section 11b</u>; however, <u>an</u> investment may <u>not be madelimited</u> if it will impair the necessary liquidity <u>required</u> to satisfy claims awarded to residential mortgage loan applicants from the <u>Recovery FundFunds</u>.

According to Finance Code Section 156.553(b), the amounts in the Mortgage Grant Fund may be invested and reinvested in accordance with Government Code Chapter 2256 and under the standard described in the Texas Constitution Section 11b Article VII.

Authorized investments according to the Public Funds Investment Act, as well as their applicable standards, requirements, and any exceptions, may be found at in Government Code Sections 2256.009 through _2256.016, and include:

- 1. Obligations of, or Guaranteed by, Governmental Entities
- 2. Certificates of Deposit and Share Certificates
- 3. Repurchase Agreements
- 4. Securities Lending Programs
- 5. Bankers' Acceptances
- 6. Commercial Paper
- 7. Mutual Funds
- 8. Guaranteed Investment Contracts
- 9. Investment Pools

To provide for more flexibility and obtain a higher rate of return, while still maintaining liquidity and preserving principal, the Department's ML's maximum allowable maturity period² for any individual investment is 36 months (60 months for Obligations of, or Guaranteed by,

² "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 <u>SML</u>the <u>Department</u>.

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Governmental Entities) and a minimum acceptable credit rating of A. To further limit—the investment risk, the DepartmentSML 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 either obligations that are described by Government Code Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Government Code Section 2256.009(b), or in accordance with Government Code Chapter 2257; and 3) 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.
- 2. Repurchase Agreements A Direct or reverse security repurchase agreements with TTSTC (or its successor) or another authorized entity under this policy, which are:
 - a. -is collateralized on a daily basis at a minimum of 102% of market value;
 - b. is 100% secured by securities authorized by the Public Funds Investment Act;
 - c. <u>are is</u> placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state, or made directly with a state agency with the authority to invest in repurchase agreements, as defined <u>in</u> Government Code Section 404.024-(c-1).
 - d. requires securities being purchased or cash held by the DepartmentSML to be pledged to the DepartmentSML, either directly or through a joint account approved by the DepartmentSML, held in the Department's SML's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with the DepartmentSML or with a third party selected and approved by the DepartmentSML;
 - e. <u>pProvides</u> that an investing entity that contracts with an investment management firm may authorize the firm to invest <u>the Department'sSML's</u> public funds or other funds under <u>the Department'sSML's</u> control in repurchase agreements using a joint account.
 - f. requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing entity must ensure that:
 - Accounting and control procedures are implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
 - ii. Each party participating in the joint account retains the sole rights of

³ A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule-Regulation 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

⁴ Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

SAVINGS AND MORTGAGE LENDING

- ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
- iii. Policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.
- 3. Obligations of, or Guaranteed by, Governmental Entities Obligations, including letters of credit, of the United States or its agencies and instrumentalities (including the Federal Home Loan Banks), 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 A₂ with a maximum allowable maturity of 60 months.
- 4. Investment Pools Investment pools with TTSTC or another authorized entity, which that pools investments, asin authorized by the Public Funds Investment Act investments, according to the requirements of Government Code Section 2256.016.

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; unless the reason for noncompliance is that the investment's rating declines to below the minimum rating required by this policy. In such cases, the investing entity is required to take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. An exception also exists with respect to investments in companies that engage in business in Sudan-or, Iran, or another country of concern, or with a designated foreign terrorist organization, as set forth in the state's divestiture requirements in Government Code Chapter 2270, effective September 1, 2017. These divestiture requirements expire in 2037.

Unauthorized Investments

Unauthorized Investments under this policy are The following investments are not authorized under this policy:

- 1. <u>IAII</u> investments in securities not specifically listed in this policy as eligible securitiesauthorized under this policy;
- 2. <u>IAII</u> investments with <u>a</u> maturity <u>and or credit rating that does not comply with <u>the requirements of</u> this policy;</u>
- 3. [All-investments obtained through an unauthorized entity not authorized under this policy;
- IAII investments which that technically comply with the this policy, but through inherent characteristics or external influences and factors, might have the effect of preventing could prevent the Department Lorent Lorent Indiana.
- 5. <u>IAII investments in companies doing business in Sudan, Iran, or in another country of concern, or engaging in business with a designated foreign terrorist organization; and</u>

⁵ Lists of companies with ties to Sudan, Iran, or another country of concern, and foreign terrorist organizations are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php.

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6. <u>IAII investments</u> in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁶

Strategy for the Recovery Fund and Mortgage Grant Fund

The investment strategy for funds received into the Recovery Fundthe Funds is to place funds in either authorized investments set forth in this policy, or in the TTSTC, with amounts and maturities determined using the following priorities in order of importance:

- the suitability of the investment to the available balances and anticipated needs of <u>each</u> of the <u>Recovery</u> Funds;
- preservation and safety of principal;
- liquidity;
- marketability of the investment if the need arises to liquidate the investment before maturity;
- · diversification of the investment portfolio; and
- yield.

Strategy for the Mortgage Grant Fund

The investment strategy for funds received into the Mortgage Grant Fund is to place funds in either authorized investments set forth in this policy, or in the TTSTC, with amounts and maturities determined by using the following priorities in order of importance:

- (1) the suitability of the investment to the anticipated needs of the Mortgage Grant Fund,
- (2) preservation and safety of principal;
- (3) liquidity;
- (4) marketability of the investment, if the need arises to liquidate the investment before maturity;
- (5) diversification of the investment portfolio; and
- (6) yield.

Safekeeping of Investments

All funds, securities, etc.or other investments, held made under this policy, where possible, will be placed held under in the name of the 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 Funds 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;

⁶ Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php

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- The compliance, including 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 or deemed relevant to this
 policy. The reports shall be submitted to the Finance Commission at regularly scheduled
 meetings.

Investment Management

The investment management of the Funds must be of sufficient quality and capability to understand the suitability of the investments and meet the financial requirements of the Department SML and each of the Funds.

Rates of Return, Market Pricing, and Ratings Changes

The DepartmentSML 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, rating changes, and rates of return on all investments to ensure that their ratings, values, and yields are consistent with risk and meet investment objectives, using the same methods and procedures a prudent investor, exercising reasonable care, skill, and caution, would use.

Diversification

Investments in FDIC-insured deposits, 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.

<u>Settlement</u>

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

Investment Officer

The Director of Operations is the designated primary Investment Officer ("Investment Officer") and is responsible for the funds held and invested by the DepartmentSML. The Chief Accountant is designated as the secondary Investment Officer who will act as Investment Officer, if the primary Investment Officer is unavailable. 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 SML.

SAVINGS AND MORTGAGE LENDING

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 SML, the Investment 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.

Within six months of the end of each Legislative session, the Investment Officer will provide a report to the Finance Commission outlining any amendments made to the Public Funds Investment Act and other statutes impacting the agency's investments, and provide recommendations to update the Investment Policy, as needed.

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, market risks, portfolio diversification, and compliance with the Public Funds Investment Act.

Any training conducted or approved by any state or federal agency, independent of the DepartmentSML, 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 and Exchange Commission and be members of Financial Industry Regulatory Authority (FINRA).

Acknowledgment of the Policy by Business Organizations Seeking to Sell Investments to the DepartmentSML

A written-copy of this policy must be presented to any business organization offering to engage in an investment transaction with the DepartmentSML. Any business organization 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 DepartmentSML shall execute a written acknowledgment (Appendix) that the business organization:

1	— Has received and	d reviewed the	Investment Policy	of the De	nartmentSMI	hne
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⁷ A "business organization" means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity's funds.

SAVINGS AND MORTGAGE LENDING

- -Has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the DepartmentSML and the organization that are not authorized by the Department's investment policythis policy, except to the extent that this authorization:
 - a. is dependent on an analysis of the makeup of the Department's SML's entire portfolio;
 - b. requires an interpretation of subjective investment standards; or
 - c. relates to investment transactions of the DepartmentSML that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

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

SAVINGS AND MORTGAGE LENDING

Appendix

Acknowledgment

I, (<u>broker/banker/trust company officer</u>), a qualified representative of <u>(name of brokerage facility/bank/trust company)</u> , 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/trust company) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department of Savings and Mortgage Lending (SML) 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 SML's entire portfolio; requires an interpretation of subjective investment standards; or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the (name of the brokerage facility/bank/trust company) has accepted discretionary investment authority.
Signature of Qualified Representative Date



INVESTMENT POLICY

Overview

This policy governs the investment of funds of the Recovery Fund and Mortgage Grant Fund ("the Funds") which are administered by the Department of Savings and Mortgage Lending ("SML"). The Recovery Fund was established by the 76th Legislature and is organized pursuant to Finance Code Chapter 156 Subchapter F. The Mortgage Grant Fund was established by the 87th Legislature and is organized pursuant to Finance Code Chapter 156 Subchapter G. While SML is not subject to the requirements in the Public Funds Investment Act (Government Code Chapter 2256), except as specifically authorized by the 87th legislature, 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 reapproved this policy on August 15, 2025, as revised to incorporate changes to Government Code Chapter 2270 regarding investments in countries designated as a "country of concern." Previous changes to this policy were approved on August 16, 2024.

It is the policy of SML to invest funds in compliance with the following priorities, in 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

In accordance with the Texas Constitution, Article VII, Section 11b, each of the Funds shall be managed and invested as a prudent investor would, exercising reasonable care, skill, and caution in light of the purposes, terms, distribution requirements, and other circumstances of the Funds then prevailing, while taking into consideration the investment of all the assets of each of the Funds rather than a single investment.

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.

¹ As defined by Government Code Section 2270.0001(2-b).

SAVINGS AND MORTGAGE LENDING

Identification of Covered Funds

Funds covered by this policy include amounts deposited in the Recovery Fund as prescribed in Finance Code Chapter 156, Subchapter F, and the Mortgage Grant Fund as prescribed in Finance Code Chapter 156, Subchapter G.

Types of Authorized Investments

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

According to Finance Code Section 156.501(c), applicable to the Recovery Fund, and Finance Code Section 156.553(b), applicable to the Mortgage Grant Fund, the amounts in the Funds may be invested and reinvested in accordance with Government Code Chapter 2256 and under the standard described by the Texas Constitution, Article VII, Section 11b; however, investment may limited if it will impair the necessary liquidity to satisfy claims awarded to residential mortgage loan applicants from the Funds.

Authorized investments according to the Public Funds Investment Act, as well as their applicable standards, requirements, and any exceptions, may be found in Government Code Sections 2256.009 - 2256.016, and include:

- 1. Obligations of, or Guaranteed by, Governmental Entities
- 2. Certificates of Deposit and Share Certificates
- 3. Repurchase Agreements
- 4. Securities Lending Programs
- 5. Bankers' Acceptances
- 6. Commercial Paper
- 7. Mutual Funds
- 8. Guaranteed Investment Contracts
- 9. Investment Pools

To provide for more flexibility and obtain a higher rate of return, while still maintaining liquidity and preserving principal, SML's maximum allowable maturity period² for any individual investment is 36 months (60 months for Obligations of, or Guaranteed by, Governmental Entities) and a minimum acceptable credit rating of A. To further limit investment risk, SML 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

² "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 SML.

SAVINGS AND MORTGAGE LENDING

insurance agency or its successor; or 2) 100% secured by either obligations that are described by Government Code Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Government Code Section 2256.009(b), or in accordance with Government Code Chapter 2257; and 3) 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.

- 2. Repurchase Agreements³ A Direct or reverse security repurchase agreement with TTSTC (or its successor) or another authorized entity under this policy, which:
 - a. is collateralized on a daily basis at a minimum of 102% of market value;
 - b. is 100% secured by securities authorized by the Public Funds Investment Act;
 - c. is placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state, or made directly with a state agency with the authority to invest in repurchase agreements, as defined in Government Code Section 404.024(c-1).
 - d. requires securities being purchased or cash held by SML to be pledged to SML, either directly or through a joint account⁴ approved by SML, held in SML's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with SML or with a third party selected and approved by SML;
 - e. provides that an investing entity that contracts with an investment management firm may authorize the firm to invest SML's public funds or other funds under SML's control in repurchase agreements using a joint account.
 - f. requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing entity must ensure that:
 - Accounting and control procedures are implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
 - ii. Each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
 - iii. Policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.

³ A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Regulation 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

⁴ Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

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- 3. Obligations of, or Guaranteed by, Governmental Entities Obligations, including letters of credit, of the United States or its agencies and instrumentalities (including the Federal Home Loan Banks), 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.
- Investment Pools Investment pools with TTSTC or another authorized entity that pools investments, as authorized by the Public Funds Investment Act in Government Code Section 2256.016.

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; unless the reason for noncompliance is that the investment's rating declines to below the minimum rating required by this policy. In such cases, the investing entity is required to take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. An exception also exists with respect to investments in companies that engage in business in Sudan, Iran, or another country of concern, or with a designated foreign terrorist organization, as set forth in the state's divestiture requirements in Government Code Chapter 2270. These divestiture requirements expire in 2037.

Unauthorized Investments

The following investments are not authorized under this policy:

- 1. Investments in securities not specifically authorized under this policy;
- Investments with a maturity or credit rating that does not comply with this policy;
- 3. Investments obtained through an entity not authorized under this policy;
- 4. Investments that technically comply with this policy, but through inherent characteristics or external influences and factors, might have the effect of preventing SML from reaching its investment goals under this policy;
- 5. Investments in companies doing business in Sudan, Iran, or another country of concern, or with a designated foreign terrorist organization;⁵ and
- 6. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁶

Strategy for the Recovery Fund and Mortgage Grant Fund

The investment strategy for the Funds is to place funds in either authorized investments set forth in this policy, or in the TTSTC, with amounts and maturities determined using the following priorities in order of importance:

⁵ Lists of companies with ties to Sudan, Iran, or another country of concern, and foreign terrorist organizations are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php.

⁶ Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php

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- the suitability of the investment to the available balances and anticipated needs of each of the Funds;
- preservation and safety of principal;
- liquidity;
- marketability of the investment if the need arises to liquidate the investment before maturity;
- diversification of the investment portfolio; and
- vield.

Safekeeping of Investments

All funds, securities, or other investments made under this policy, where possible, will be held in the name of the 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 Funds 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 compliance, including 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 or deemed relevant to this
 policy. The reports shall be submitted to the Finance Commission at regularly scheduled
 meetings.

Investment Management

The investment management of the Funds must be of sufficient quality and capability to understand the suitability of the investments and meet the financial requirements of SML and each of the Funds.

Rates of Return, Market Pricing, and Ratings Changes

SML 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, rating changes, and rates of return on all investments to ensure that their ratings, values, and yields are consistent with risk and meet investment objectives, using the same methods and procedures a prudent investor, exercising reasonable care, skill, and caution, would use.

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Diversification

Investments in FDIC-insured deposits, 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.

 $\frac{\textbf{Settlement}}{\textbf{Settlement of all transactions, except investment pool funds and mutual funds, shall be on a}$ delivery versus payment basis.

Investment Officer

The Director of Operations is the designated primary Investment Officer ("Investment Officer") and is responsible for the funds held and invested by SML. The Chief Accountant is designated as the secondary Investment Officer who will act as Investment Officer, if the primary Investment Officer is unavailable. 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 SML.

If the Investment Officer is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to SML, the Investment 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.

Within six months of the end of each Legislative session, the Investment Officer will provide a report to the Finance Commission outlining any amendments made to the Public Funds Investment Act and other statutes impacting the agency's investments, and provide recommendations to update the Investment Policy, as needed.

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, market risks, portfolio diversification, and compliance with the Public Funds Investment Act.

Any training conducted or approved by any state or federal agency, independent of SML, 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.

SAVINGS AND MORTGAGE LENDING

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 and Exchange Commission and be members of Financial Industry Regulatory Authority (FINRA).

<u>Acknowledgment of the Policy by Business Organizations Seeking to Sell Investments to SML</u>

A copy of this policy must be presented to any business organization⁷ offering to engage in an investment transaction with SML. Any business organization 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 SML shall execute a written acknowledgment (Appendix) that the business organization:

- 1. Has received and reviewed the Investment Policy of SML; and,
- 2. Has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between SML and the organization that are not authorized by this policy, except to the extent that this authorization:
 - a. is dependent on an analysis of the makeup of SML's entire portfolio;
 - b. requires an interpretation of subjective investment standards; or
 - c. relates to investment transactions of SML that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

The Investment Officer may not acquire or otherwise obtain any authorized investment described in this policy or renew depository or other agreements from a business organization that has not delivered to SML the instrument in substantially the form provided.

⁷ A "business organization" means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity's funds.

SAVINGS AND MORTGAGE LENDING

Appendix

Acknowledgment

I, (<u>broker/banker/trust company officer)</u> , a qualified representative of <u>(name of brokerage</u> 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/trust company) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department of Savings and Mortgage Lending (SML) 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 SML's entire portfolio; requires an interpretation of subjective investment standards; or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the (name of the brokerage facility/bank/trust company) has accepted discretionary investment authority.
Signature of Qualified Representative Date



Investment Officer Training Report August 2025

Name/Designation	Date	Course	Provider	Hours
Antonia Antov – Primary	August 2025	Texas Public Funds	University of North Texas	5
Investment Officer		Investment Act	Center for Public Management	
Chris Churchill - Secondary	August 2025	Texas Public Funds	University of North Texas	5
Investment Officer		Investment Act	Center for Public Management	
According to Government Code Sec. 2256.007, investment officer training requirements are on a				
state fiscal biennium basis.				



TEXAS DEPARTMENT OF BANKING

★ Dedicated to Excellence in Texas Banking ★

ADMINISTRATIVE MEMORANDUM – 2027

August 15, 2025

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TO: Finance Commission Members

FROM: Charles G. Cooper, Banking Commissioner

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

Texas

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 (Texas Government Code Chapter 2256), 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 August <u>15</u>, <u>2025</u>, to re-approve this policy <u>as revised to incorporate changes to Texas Government Code Chapter 2270 regarding investments in countries of concern.</u> Previously, this policy was reviewed and approved August <u>16</u>, <u>2024</u>.

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Investment Policy

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

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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

In addition to operating funds, this policy includes funds acquired through seizure of accounts held by a trust-funded prepaid funeral contract seller, or liquidation of a trust company or uninsured bank.

Types of Authorized Investments

The funds or a portion of the funds may be placed in the Texas Treasury Safekeeping Trust Company (or its successor). Pursuant to Section 404.106 of the <u>Texas</u> Government Code (Gov't 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 Gov't Code specifies those obligations in which the Comptroller is authorized to invest.

Insofar as the funds or a portion of the funds¹ are deposited in a financial institution, the Department may utilize the investment securities listed below, which closely follows the requirements in the Gov't Code Chapter 2256.

- Obligations, including letters of credit, of the United States (U.S.) or its agencies and instrumentalities, including the Federal Home Loan Banks with a maximum allowable maturity² of 10 years.
- 2. Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of 10 years.
- 3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S., provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 10 years from the date the collateralized mortgage obligation is acquired by the Department.
- 4. Other obligations, the principal and interest of which are unconditionally guaranteed or

¹ Includes funds seized under Chapter 154.353.

² "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.

- insured by, or backed by the full faith and credit of, this state or the U.S. 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 U.S. with a maximum allowable maturity of 10 years.
- 5. 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 10 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.
- 6. Bonds issued, assumed, or guaranteed by the State of Israel.
- 7. Interest-bearing deposit accounts that are guaranteed or insured by the FDIC or its successor.
- 8. Other interest-bearing deposit accounts not described above if:
 - a. The funds are invested through a broker with a main office or branch office in this state as selected by the Department from an approved list, or through a depository institution with a main office or branch office in this state;
 - b. The selected broker or depository institution arranges for deposit of the funds in deposit accounts in one or more federally insured institutions, regardless of where located;
 - c. The full amount of principal and accrued interest in such deposit accounts is insured by the U.S. or an instrumentality of the U.S.; and
 - d. The Department appoints a custodian of the deposit accounts that is:
 - i. The depository institution selected to broker the deposits;
 - ii. A state or national bank designated by the comptroller as a state depository with its main office or a branch office in this state, that has capital stock and surplus of \$5 million or more;
 - iii. The Texas Treasury Safekeeping Trust Company;
 - iv. A Federal Reserve Bank or a branch of a Federal Reserve Bank;
 - v. A Federal Home Loan Bank;
 - vi. A financial institution authorized to exercise fiduciary powers that is designated by the comptroller as a custodian; or
 - vii. A clearing broker dealer registered with the Securities and Exchange Commission (SEC) and operating under SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).
- A certificate of deposit issued by a depository institution that has its main office or a branch office in this state, if the certificate:
 - a. Is guaranteed or insured by the FDIC, or its successor;

- b. Is secured by obligations described by Gov't Code § 2256.009(a) for direct investment by the Department; or
- Is secured as provided under the Public Funds Collateral Act (Gov't Code Chapter 2257); and
- d. Does not have a maturity exceeding 36 months.

A certificate of deposit must be fully secured as described above but may be secured by a combination of the listed alternatives.

Bids for certificates of deposit may be solicited:

- · Orally;
- In writing;
- Electronically; or
- In any combination of those methods.
- 10. A repurchase agreement,³ collateralized on a daily basis at a minimum of 102% of market value, including a direct security repurchase agreement and a reverse security repurchase agreement that:
 - a. With respect to a reverse security repurchase agreement, does not have a defined termination date exceeding 90 days;
 - Is secured by a combination of cash and obligations described by Gov't Code § 2256.009(a)(1) or § 2256.013;
 - c. Requires securities being purchased or cash held by the Department to be pledged to the Department, either directly or through a joint account⁴ approved by the Department, held in the Department's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with the Department or with a third party selected and approved by the Department;
 - d. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state, or made directly with a state agency with the authority to invest in repurchase agreements as defined by Gov't Code § 404.024 (c-1); and
 - e. Requires that money received under the terms of a reverse security repurchase agreement must 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 security repurchase agreement;
 - f. Provides that an investing entity that contracts with an investment management

³ A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

⁴ Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

firm may authorize the firm to invest the Department's public funds or other funds under the Department's control in repurchase agreements using a joint account;

- g. Requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing entity must ensure that:
 - Accounting and control procedures are implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
 - ii. Each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
 - iii. Policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.
- 11. A no-load money market mutual fund that:
 - a. Is registered with and regulated by the SEC;
 - b. Provides the Department with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; and
 - c. Complies with federal SEC Rule 2a-7, promulgated under the Investment Company Act of 1940 (17 C.F.R. § 270,2a-7).
- 12. A no-load mutual fund that:
 - a. Is registered with the SEC;
 - b. Has an average weighted maturity of less than two years; and
 - c. Either:
 - i. Has a duration of one year or more and are invested exclusively inobligations authorized in this policy; or
 - ii. Has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

In general, 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. One exception is any investment that requires a minimum rating if the rating declines to below the minimum. The investing entity is required to take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. An exception also exists with respect to investments in companies that engage in business in Sudan or Iran or another country of concern, or with a foreign terrorist organization, as set forth in the state's divestiture requirements in Gov't Code Chapter 2270, These divestiture requirements expire in 2037.

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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:

- 1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- 2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- 3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- 4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index;
- No portion of bond proceeds, reserves and funds held for debt service may be invested in no-load mutual funds described in Gov't Code § 2256.014(b);
- 6. Investments in companies doing business in Sudan, in Iran or another country of concern, or with a foreign terrorist organization;⁵ and
- Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁶

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

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Lists of companies with ties to Sudan, Iran or another country of concern and foreign terrorist organizations are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php.

⁶ Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php

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:

- 1. 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);
- 3. The maturity date of each separately invested asset that has a maturity date;
- 4. The fund for which each individual investment was acquired;
- 5. The statement of compliance, including any non-compliance, of the investment portfolio with this policy;
- 6. Income received and expenses incurred in conjunction with investments; and,
- 7. 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, Market Pricing, and Ratings Changes

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, rating changes, and rates of

return on all investments to ensure that their ratings, values, and yields are consistent with risk and meet investment objectives. The Investment Officer will use the same methods and procedures as a prudent investor, exercising reasonable care, skill, and caution.

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:

- The aggregate investment in no-load mutual funds described in Gov't Code § 2256.014(b)
 may not exceed 15% of the monthly average fund balance of a covered investment fund
 held by the Department, excluding bond proceeds and reserves and other funds held for
 debt service;
- 2. No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- Investment in any one mutual fund may not exceed 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

The Director of the Non-Depository Supervision Division is designated as the primary Investment Officer and is responsible for the investment of the funds held and invested by the Department. The Chief Financial Officer is designated as the secondary Investment Officer and will perform the functions of the primary Investment Officer if the primary Investment Officer is unavailable. The Investment Officer is authorized to:

- 1. Obtain external investment expertise if deemed necessary to fulfill investment objectives.
- 2. Delegate routine business transactions within authorized and established investments; and,
- 3. 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.

Within six months of the end of each Legislative session, if amendments have been made to the Public Funds Investment Act, the Investment Officer will provide a report to the Finance Commission outlining the amendments and provide recommendations to update the Investment Policy.

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, market risks, portfolio diversification, and compliance with the Public Funds Investment Act.

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). The quality of all investments must meet the needs of the agency and be managed in accordance with this policy.

Acknowledgment of the Policy by Business Organizations Seeking to Sell Investments to the Department

A written copy of this policy must be presented to any business organization⁷ offering to engage

⁷ A "business organization" means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity's funds.

in an investment transaction with the Department. Any business organization 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:

- 1. Has received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,
- 2. 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:
 - a. Is dependent on an analysis of the makeup of the Department's entire portfolio;
 - b. Requires an interpretation of subjective investment standards; or
 - c. Relates to investment transactions of the Department that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

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 business organization who has not delivered to the Department the instrument in substantially the form provided.

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Appendix

Acknowledgment

I, (<u>broker/banker/trust company officer</u>), a qualified representative of (<u>name of brokerage facility/bank/trust company</u>), 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/trust company) 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; requires an interpretation of subjective investment standards; or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the (name of the brokerage facility/bank/trust company) has accepted discretionary investment authority.

Signature of Qualified Representative	Date



TEXAS DEPARTMENT OF BANKING

★ Dedicated to Excellence in Texas Banking ★

ADMINISTRATIVE MEMORANDUM – 2027

August 15, 2025

TO: Finance Commission Members

FROM: Charles G. Cooper, Banking Commissioner

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

Texas

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 (Texas Government Code Chapter 2256), 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 August 15, 2025, to re-approve this policy as revised to incorporate changes to Texas Government Code Chapter 2270 regarding investments in countries of concern. Previously, this policy was reviewed and approved August 16, 2024.

Investment Policy

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

In addition to operating funds, this policy includes funds acquired through seizure of accounts held by a trust-funded prepaid funeral contract seller, or liquidation of a trust company or uninsured bank.

Types of Authorized Investments

The funds or a portion of the funds may be placed in the Texas Treasury Safekeeping Trust Company (or its successor). Pursuant to Section 404.106 of the Texas Government Code (Gov't 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 Gov't Code specifies those obligations in which the Comptroller is authorized to invest.

Insofar as the funds or a portion of the funds¹ are deposited in a financial institution, the Department may utilize the investment securities listed below, which closely follows the requirements in the Gov't Code Chapter 2256.

- 1. Obligations, including letters of credit, of the United States (U.S.) or its agencies and instrumentalities, including the Federal Home Loan Banks with a maximum allowable maturity² of 10 years.
- 2. Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of 10 years.
- 3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S., provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 10 years from the date the collateralized mortgage obligation is acquired by the Department.
- 4. Other obligations, the principal and interest of which are unconditionally guaranteed or

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¹ Includes funds seized under Chapter 154.353.

² "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.

- insured by, or backed by the full faith and credit of, this state or the U.S. 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 U.S. with a maximum allowable maturity of 10 years.
- 5. 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 10 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.
- 6. Bonds issued, assumed, or guaranteed by the State of Israel.
- 7. Interest-bearing deposit accounts that are guaranteed or insured by the FDIC or its successor.
- 8. Other interest-bearing deposit accounts not described above if:
 - a. The funds are invested through a broker with a main office or branch office in this state as selected by the Department from an approved list, or through a depository institution with a main office or branch office in this state;
 - b. The selected broker or depository institution arranges for deposit of the funds in deposit accounts in one or more federally insured institutions, regardless of where located;
 - c. The full amount of principal and accrued interest in such deposit accounts is insured by the U.S. or an instrumentality of the U.S.; and
 - d. The Department appoints a custodian of the deposit accounts that is:
 - i. The depository institution selected to broker the deposits;
 - ii. A state or national bank designated by the comptroller as a state depository with its main office or a branch office in this state, that has capital stock and surplus of \$5 million or more;
 - iii. The Texas Treasury Safekeeping Trust Company;
 - iv. A Federal Reserve Bank or a branch of a Federal Reserve Bank;
 - v. A Federal Home Loan Bank;
 - vi. A financial institution authorized to exercise fiduciary powers that is designated by the comptroller as a custodian; or
 - vii. A clearing broker dealer registered with the Securities and Exchange Commission (SEC) and operating under SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).
- 9. A certificate of deposit issued by a depository institution that has its main office or a branch office in this state, if the certificate:
 - a. Is guaranteed or insured by the FDIC, or its successor;

- b. Is secured by obligations described by Gov't Code § 2256.009(a) for direct investment by the Department; or
- c. Is secured as provided under the Public Funds Collateral Act (Gov't Code Chapter 2257); and
- d. Does not have a maturity exceeding 36 months.

A certificate of deposit must be fully secured as described above but may be secured by a combination of the listed alternatives.

Bids for certificates of deposit may be solicited:

- Orally;
- In writing;
- Electronically; or
- In any combination of those methods.
- 10. A repurchase agreement,³ collateralized on a daily basis at a minimum of 102% of market value, including a direct security repurchase agreement and a reverse security repurchase agreement that:
 - a. With respect to a reverse security repurchase agreement, does not have a defined termination date exceeding 90 days;
 - b. Is secured by a combination of cash and obligations described by Gov't Code § 2256.009(a)(1) or § 2256.013;
 - c. Requires securities being purchased or cash held by the Department to be pledged to the Department, either directly or through a joint account approved by the Department, held in the Department's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with the Department or with a third party selected and approved by the Department;
 - d. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state, or made directly with a state agency with the authority to invest in repurchase agreements as defined by Gov't Code § 404.024 (c-1); and
 - e. Requires that money received under the terms of a reverse security repurchase agreement must 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 security repurchase agreement;
 - f. Provides that an investing entity that contracts with an investment management

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³ A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

⁴ Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

firm may authorize the firm to invest the Department's public funds or other funds under the Department's control in repurchase agreements using a joint account;

- g. Requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing entity must ensure that:
 - i. Accounting and control procedures are implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
 - ii. Each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
 - iii. Policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.

11. A no-load money market mutual fund that:

- a. Is registered with and regulated by the SEC;
- b. Provides the Department with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; and
- c. Complies with federal SEC Rule 2a-7, promulgated under the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7).

12. A no-load mutual fund that:

- a. Is registered with the SEC;
- b. Has an average weighted maturity of less than two years; and
- c. Either:
 - i. Has a duration of one year or more and are invested exclusively in obligations authorized in this policy; or
 - ii. Has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

In general, 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. One exception is any investment that requires a minimum rating if the rating declines to below the minimum. The investing entity is required to take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. An exception also exists with respect to investments in companies that engage in business in Sudan or Iran or another country of concern, or with a foreign terrorist organization, as set forth in the state's divestiture requirements in Gov't Code Chapter 2270. These divestiture requirements expire in 2037.

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:

- 1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- 2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- 3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- 4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index;
- 5. No portion of bond proceeds, reserves and funds held for debt service may be invested in no-load mutual funds described in Gov't Code § 2256.014(b);
- 6. Investments in companies doing business in Sudan, in Iran or another country of concern, or with a foreign terrorist organization;⁵ and
- 7. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁶

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

⁵ Lists of companies with ties to Sudan, Iran or another country of concern and foreign terrorist organizations are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php.

⁶ Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php

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:

- 1. The investment position of the Department on the date of the report;
- 2. 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);
- 3. The maturity date of each separately invested asset that has a maturity date;
- 4. The fund for which each individual investment was acquired;
- 5. The statement of compliance, including any non-compliance, of the investment portfolio with this policy;
- 6. Income received and expenses incurred in conjunction with investments; and,
- 7. 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, Market Pricing, and Ratings Changes

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, rating changes, and rates of

return on all investments to ensure that their ratings, values, and yields are consistent with risk and meet investment objectives. The Investment Officer will use the same methods and procedures as a prudent investor, exercising reasonable care, skill, and caution.

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:

- 1. The aggregate investment in no-load mutual funds described in Gov't Code § 2256.014(b) may not exceed 15% of the monthly average fund balance of a covered investment fund held by the Department, excluding bond proceeds and reserves and other funds held for debt service;
- 2. No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- 3. Investment in any one mutual fund may not exceed 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

The Director of the Non-Depository Supervision Division is designated as the primary Investment Officer and is responsible for the investment of the funds held and invested by the Department. The Chief Financial Officer is designated as the secondary Investment Officer and will perform the functions of the primary Investment Officer if the primary Investment Officer is unavailable. The Investment Officer is authorized to:

- 1. Obtain external investment expertise if deemed necessary to fulfill investment objectives.
- 2. Delegate routine business transactions within authorized and established investments; and,
- 3. 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.

Within six months of the end of each Legislative session, if amendments have been made to the Public Funds Investment Act, the Investment Officer will provide a report to the Finance Commission outlining the amendments and provide recommendations to update the Investment Policy.

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, market risks, portfolio diversification, and compliance with the Public Funds Investment Act.

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.

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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). The quality of all investments must meet the needs of the agency and be managed in accordance with this policy.

Acknowledgment of the Policy by Business Organizations Seeking to Sell Investments to the Department

A written copy of this policy must be presented to any business organization⁷ offering to engage

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in an investment transaction with the Department. Any business organization 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:

- 1. Has received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,
- 2. 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:
 - a. Is dependent on an analysis of the makeup of the Department's entire portfolio;
 - b. Requires an interpretation of subjective investment standards; or
 - c. Relates to investment transactions of the Department that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

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 business organization who has not delivered to the Department the instrument in substantially the form provided.

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Appendix

Acknowledgment

I, (<u>broker/banker/trust company officer</u>), a qualified representative of <u>(name of brokerage facility/bank/trust company)</u>, 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/trust company) 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; requires an interpretation of subjective investment standards; or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the (name of the brokerage facility/bank/trust company) has accepted discretionary investment authority.

Signature of Qualified Representative	Date

<u>Texas Department of Banking Investment Officer Training</u>

Name of Investment Officer	Date Training Completed	Course Name	Course Sponsor	Hours
Jesse Saucillo	December 9, 2024	Public Funds Investment Act Training	North Central Texas Council of Governments and Government Treasurers' Organization of Texas	5 hours
Sami Chadli	July 30, 2025	Public Funds Investment Act Training	Texas State University's Office of Distance and Extended Learning	5 hours

Office of Consumer Credit Commissioner Operating Statement and Budget Analysis For the Quarter Ending May 31, 2025

						(QUA	RTER PER	RFO	RMANCE			FY	2025 PER	FOF	RMANCE	
		FY 2024 ACTUAL		FY 2025 BUDGET		d Quarter BUDGET		I Quarter CTUAL	•	/er)/Under BUDGET	Percent BUDGET	YTD BUDGET	Α	YTD CTUAL	•	er)/Under UDGET	Percent BUDGET
REVENUES																	
Industry																	
Consumer Lending Industry	\$	2,230,988	\$	1,975,150	\$	33,522	\$	54,135	\$	(20,613)	161.5%	\$ 1,949,977	\$	1,715,045	\$	234,931	88.09
Credit Access Industry		901,700		859,800	·	34,545	·	2,900	\$	31,645	8.4%	827,376	·	631,400	\$	195,976	76.39
MVSF Industry		4,301,213		4,283,650		298,100		239,208	\$	58,892	80.2%	3,994,823	4	4,088,986	\$	(94,162)	102.49
Pawn		732,927		752,385		290,864		95,716	\$	195,148	32.9%	310,887		104,032	\$	206,855	33.59
Registered Entities		350,100		320,350		35,476		26,145	\$	9,331	73.7%	300,867		345,510	\$	(44,643)	114.89
Penalties		50,305		-		0		31,875	\$	(31,875)	0.0%	-		146,883	\$	(146,883)	0.09
Miscellaneous Revenue		783,106		663,500		165,875		159,985	\$	5,890	96.4%	497,625		519,517	\$	(21,892)	104.49
TOTAL REVENUES	\$	9,350,341	\$	8,854,835	\$	858,382	\$	609,964	\$	248,418	71.1%	\$ 7,881,554	\$	7,551,373	\$	330,181	95.89
EXPENDITURES																	
Personnel Costs																	
Employee Compensation	\$	4,973,604	\$	5,642,194	¢	1,398,820	ф	1,266,432	\$	132,388	90.5%	\$ 4,198,261	φ,	3,889,634	\$	308,627	92.6%
Employee Compensation Employee Benefits	φ	1,627,303	φ	1,781,341	Φ	445,335	Φ	411,360	φ \$	33,975	90.5%	1,336,006		1,246,487	Ф \$	89,518	93.39
Add'l Health/Retirement		73,518		84,633		21,158		18,907	\$	2,252	89.4%	63,475		57,678	\$	5,796	90.9%
Other Personnel Costs		69,457		117,494		29,373		29,134	\$	239	99.2%	88,120		117,173		(29,053)	133.0%
Subtotal Personnel Costs	\$	6,743,882	\$	7,625,662	\$	1,894,686	\$	1,725,833	\$	168,854	91.1%	,	\$:	5,310,973	<u>Ψ</u>	374,889	93.4%
	_	2,1 12,222		1,020,002		1,000,000	· ·	.,,		,		+ =,===,===		-,,		,	
Travel																	
In-State Travel	\$	518,628	\$	587,602	\$	146,901	\$	117,133	\$	29,768	79.7%	\$ 440,702	\$	364,036	\$	76,666	82.6%
Out of State - Travel		17,355		27,052		6,763		5,035	\$	1,728	74.5%	20,289		19,235	\$	1,054	94.89
Subtotal Travel	\$	535,983	\$	614,654	\$	153,664	\$	122,168	\$	31,495	79.5%	\$ 460,991	\$	383,271	\$	77,721	83.19
Operating Costs																	
Professional Services & Fees	\$	40,322	\$	97,694	\$	14,583	\$	5,255	\$	9.328	36.0%	\$ 64,311	\$	33,515	\$	30,796	52.19
Consumables	Ψ	6,883	Ψ	4,800	Ψ	1,200	Ψ	2,205	\$	(1,005)	183.7%	3,600	Ψ	5,304	\$	(1,704)	147.39
Office Utilities		16,885		19,875		4,969		7,082	\$	(2,114)	142.5%	14,906		15,687		(781)	105.29
Rent - Building/Space		3,525		1,500		375		0	\$	375	0.0%	1,125		880	\$	245	78.29
Rent - Equipment/Other		2,754		2,700		675		776	\$	(101)	115.0%	2,025		2,547	\$	(522)	125.89
Communications		73,294		77,572		19,393		18,233	\$	1,160	94.0%	58,179		57,089	\$	1,090	98.19
Information Technology		300,663		538,136		134,534		134,384	\$	150	99.9%	403,601		385,484	\$	18,117	95.59
Employee Training		17,349		25,605		6,401		4,480	\$	1,921	70.0%	19,204		11,305	\$	7,899	58.9%
Misc. Operating Costs		264,307		291,941		31,685		43,632	\$	(11,947)	137.7%	227,630		206,104	\$	21,526	90.5%
Subtotal Operating Costs	\$	725,983	\$	1,059,822	\$	213,816	\$	216,047	\$	(2,231)	101.0%	\$ 794,580	\$	717,915	\$	76,665	90.4%
Camp Hubbard Costs																	
Land Acquisition			\$	-	\$	-	\$	-	\$	-		\$ -	\$	723,403	\$	(723,403)	0.0%
TOTAL EXPENDITURES	\$	8,005,848	\$	9,300,138	\$	2,262,166	\$	2,064,048	\$	198,118	91.2%	\$ 6,941,433	\$	7,135,562	\$	(194,128)	102.8%
EXPENDITURES (OVER) / UNDER REVENUES	\$	1,344,493	\$	(445,303)	\$(1,403,783)	\$(1	,454,084)	\$	50,300		\$ 940,122	\$	415,811	\$	524,309	

Office of Consumer Credit Commissioner Budget Variance Analysis For the Quarter Ending May 31, 2025

Revenues: Overall revenues are 96% of the budget.

Consumer Lending ($\sqrt{12\%}$) – Regulated lenders received a greater renewal discount of 30%. A 20% discount had been budgeted.

Credit Access Industry ($\sqrt{24\%}$) – CABs renewed at a 76% renewal rate, significantly below the 94% predicted renewal rate.

Pawn ($\sqrt{67\%}$) – Timing of pawn shop renewal submissions crossing Q3 and Q4 caused this negative variance. Most pawn shops renewed in June at the renewal rate projected.

Registered Entities (\uparrow 15%) – Registered creditors that renewed exceeded the projected number of renewals by 9%. Late filing fees for registered creditors were 73% above projections. Refund anticipation loan facilitators filed new registrations applications at a rate of roughly 35% above expectations.

Expenditures: Overall expenditures are 103% of the budget.

Expenditure Type	In-State	Ou	t of State		Total	
Expenditure Type	FY25		FY25	Totat		
Regulatory Supervision	\$ 315,246		-	\$	315,246	
Development & Training	\$ 46,988	\$	19,235	\$	66,223	
Non-Employee	\$ 1,802		-	\$	1,802	
Total	\$ 364,036	\$	19,235	\$	383,271	

Travel ($\sqrt{17\%}$) – Examiner turnover and an emphasis on enterprise level examinations has resulted in reduced costs, which is expected to continue in Q4.

Professional Services ($\sqrt{48\%}$) – Certain expenses for accounting, legal and architectural services have not yet been incurred.

Employee Training Costs ($\sqrt{41\%}$) – Reimbursements of previously paid tuition costs by separating employees were credited in Q1 offsetting most of the incurred Q1 expenditures.

Miscellaneous Operating Costs (\downarrow 10%) - Building maintenance fees and court costs are less than anticipated. A digitization project has been put on hold. Lastly, the reimbursement for Statewide Allocated Costs (SWCAP) is scheduled to be paid in Q4 and will be significantly greater than the amount budgeted.

Office of Consumer Credit Commissioner Liquidity Report

For the Quarter Ending May 31, 2025

		Actual
Cash at Beginning of Period	\$	17,020,691
Revenues Over (Under) Expenditures	\$	(1,454,084)
Increase (Decrease) in Payables/Encumbrances	\$	(959,963)
(Increase) Decrease in Receivables	\$	(13,535)
Other source of funds (transfer)	\$	-
Cash at End of Period	\$	14,593,109
Reserved Cash Balance: Building Maintenance/IT Long-term facilities planning Payables (net of receivables) Lump sums for Retirements Program Funds Other Total Reserved Cash Balance	\$\$\$\$\$\$	9,739,272 698,408 284,567 - - 10,722,247
Unreserved Cash Balance: Future Operations Total Unreserved Cash Balance	\$ \$	3,870,862 3,870,862
Total Cash Balance	\$	14,593,109
Unreserved Cash / FY 2025 Monthly Budget		5.0

Department of Savings and Mortgage Lending

Operating Statement and Budget Analysis For the Quarter Ending May 31, 2025

							QU	JARTER PERI	FOR	MANCE				FY 2025 PERF	OR	MANCE	
		FY2024		FY 2025	_	rd Quarter	3	3rd Quarter	•	ver)/Under	Percent		YTD	YTD	٠,	ver)/Under	Percent
		ACTUAL		BUDGET		BUDGET		ACTUAL		BUDGET	BUDGET		BUDGET	ACTUAL		BUDGET	BUDGET
REVENUES																	
Thrift Industry	_	4 074 044		4 050 700				4 405 455		(440.040)	444 40/	_				(0.40.000)	440.00/
Assessments	\$	4,871,914	\$	4,053,722	\$	1,013,111	\$	1,125,457	\$	(112,346)	111.1%	\$	3,077,264	3,390,294	\$	(313,030)	110.2%
Application Fees		3,800		16,000		4,000		5,100		(1,100)	127.5%		12,000	9,300		2,700	77.5%
Mortgage Industry		4 00 4 000		5 000 170		-		450.045		(405.045)	400 50/		-	-		(5.40, 050)	440 40/
Licensing Fees		4,934,296		5,609,170		347,100		452,915		(105,815)	130.5%		5,263,595	5,813,254		(549,659)	110.4%
Administrative Penalties		50,100		-		-		34,380		(34,380)	0.0%		-	2,004,772		(2,004,772)	0.0%
Misc. Revenues	_	787,288	Φ.	617,110	•	161,125	Φ.	213,149	Φ.	(52,024)	132.3%	Φ.	475,750	590,343	Φ.	(114,593)	124.1%
TOTAL REVENUES	\$	10,647,398	\$	10,296,002	\$	1,525,336	\$	1,831,001	\$	(305,665)	120.0%	Ъ	8,828,609	11,807,963	\$	(2,979,354)	133.7%
EXPENDITURES																	l
Personnel Costs																	
Employee Compensation	\$	5,634,941	\$	6,948,079	\$	1,790,145		1,513,010	\$	277,135	84.5%	\$	5,137,934	4,556,965	\$	580.969	88.7%
Employee Benefits	Ť	1,718,341	_	2,068,485	Ψ.	534,505		458,700	Ψ.	75,805	85.8%	~	1,531,214	1,356,685	Ť	174,529	88.6%
Add'l Health/Retirement		78,812		103,833		26,848		21,742		5,106	81.0%		76,822	64,757		12,065	84.3%
Other Personnel Costs		92,863		109,913		31,160		35,798		(4,638)	114.9%		86,193	87,195		(1,002)	101.2%
Subtotal Personnel Costs	\$	7,524,958	\$	9,230,310	\$	2,382,658	\$	2,029,251	\$	353,407	85.2%	\$	6,832,163	6,065,601	\$	766,562	88.8%
		, , , , , , , , , , , , , , , , , , , ,	·	-,,-	Ť	, ,	Ė	, , , , , ,		,			, , , , , , , , , , , , , , , , , , , ,	.,,.	Ė	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
Travel Costs																	
In-State		116,276	\$	176,500	\$	44,125		34,602	\$	9,523	78.4%	\$	132,375	108,611	\$	23,764	82.0%
Out-of-State		45,176		60,000		15,000		10,855		4,145	72.4%		35,000	25,912		9,088	74.0%
Subtotal Travel Costs	\$	161,452	\$	236,500	\$	59,125	\$	45,457	\$	13,668	76.9%	\$	167,375	134,523	\$	32,852	80.4%
Operating Costs																	
Professional Services		49,708	\$	90,509	\$	1,500		55,255	\$	(53,755)	3683.7%	\$	38,759	90,681	\$	(51,922)	234.0%
Consumables		5,790		8,500		2,125		934		1,191	44.0%		6,375	4,820		1,555	75.6%
Office Utilities		14,407		16,200		4,100		6,042		(1,942)	147.4%		11,975	13,563		(1,588)	113.3%
Rent - Space & Equipment		8,656		16,500		2,000		500		1,500	25.0%		14,000	10,237		3,763	73.1%
Communications		98,464		106,598		18,150		21,559		(3,409)	118.8%		88,548	88,594		(46)	100.1%
Information Technology		324,985		378,300		118,000		41,779		76,221	35.4%		329,650	253,657		75,993	76.9%
Employee Training		59,161		70,000		22,500		16,550		5,950	73.6%		47,500	33,641		13,859	70.8%
Misc. Operating Costs	•	120,064	Φ.	142,585	•	38,965	Φ.	36,143	Φ	2,822	92.8%	Φ	93,360	88,169	Φ	5,191	94.4%
Subtotal Operating Costs	\$	681,235	\$	829,192	\$	207,340	\$	178,762	\$	28,578	86.2%	Ъ	630,167	583,362	Ъ	46,805	92.6%
Camp Hubbard Costs																	
Land Acquisition	\$	_	\$	_	\$	_	\$	632,287		(632,287)	0.0%	\$	_	632,287		(632,287)	0.0%
Subtotal Camp Hubbard Costs	\$	_	\$	_	\$	_	\$	632,287	\$	(632,287)	0.0%		_	632,287	\$	(632,287)	0.0%
Sasteta. Camp Habbara Coolo			*		_		*	332,201	7	(552,257)	0.070	4		332,237	*	(552,257)	0.070
TOTAL EXPENDITURES	\$	8,367,644	\$	10,296,002	\$	2,649,123	\$	2,885,757	\$	(236,634)	108.9%	\$	7,629,705	7,415,774	\$	846,218	97.2%
EVENDITUDES (OVER)																	
EXPENDITURES (OVER)/	_	0.070.75	_		_	(4.400.70=)	_	(4.054.355)	.	(00.00		_	4 400 00:	4.000.405	_	(0.400.005)	
UNDER REVENUES	\$	2,279,754	\$	-	\$	(1,123,787)	\$	(1,054,756)	\$	(69,031)		\$	1,198,904	4,392,189	\$	(3,193,285)	

Department of Savings and Mortgage Lending

Budget Variance Analysis For the Quarter Ending May 31, 2025

Revenues: Overall revenues are 33.7% over budget.

<u>Thrift Assessments</u> – Amounts collected are 10.2% over budget due to higher than budgeted risk-weighted assets.

<u>Thrift Application Fees</u> – Amounts collected are 77.5% of budget due to lower application activity year-to-date.

<u>Licensing Fees</u> - Amounts collected are 10.4% over budget due to the higher than estimated volume of license applications.

<u>Administrative Penalties</u> – The amount includes a multi-state settlement receipt of \$1,945,288.

<u>Miscellaneous Revenues</u> – Actual amounts are 24.1% over budget, due to higher than budgeted depository interest.

Expenditures: Overall expenditures are 2.8% under budget.

Personnel Costs – The category is 11.2% under budget due to unfilled vacancies.

<u>Travel</u> – Travel costs incurred are 19.6% under budget due to lower volume of travel to exam locations and training events than budgeted.

7	Travel Breakdown – FY25										
Category	In-State	Out-of-State	Total								
Regulation and Supervision	\$85,685.49	\$3,541.19	\$89,226.68								
Development and Training	20,974.84	22,371.12	43,345.96								
Other Regulatory Activities	1,070.37	0.00	1,070.37								
Non-Employee Travel	651.19	0.00	651.19								
Total	\$108,381.89	\$25,912.31	\$134,294.20								

<u>Professional Fees and Services</u> – The category is 134% over budget due to fees paid to State Auditor's Office audit - \$50,000, which was not budgeted for.

<u>Information Technology</u> – The category is 23.1% under budget due to the discontinuation of the cybersecurity services contract.

<u>Employee Training</u> – The category is 29.2% under budget due to unfilled vacancies, utilizing free or cost-efficient training platforms training resources.

Department of Savings and Mortgage Lending

Liquidity Report For the Quarter Ending May 31, 2025

	ACTUAL
Cash at Beginning of Period	20,681,154
Revenues Over (Under) Expenditures	(429,398)
Increase (Decrease) in Payables	(612,033)
(Increase) Decrease in Receivables	11,492_
Cash at End of Period	19,651,215
Reserved Cash Balance:	
Bldg. maintenance/IT	\$ -
Long-term facilities planning	9,760,626
Payables (net of receivables)	822,277
Lump Sums for Retirements	223,371
Program Funds	-
Other	
Total Reserved Cash Balance	\$ 10,806,274
Unreserved Cash Balance:	
Future Operations	\$ 8,844,941
Total Unreserved Cash Balance	\$ 8,844,941
Total Cash Balance	\$ 19,651,215
Unreserved Cash/FY2025 Monthly Budget	10.3 months

Texas Department of Banking Operating Statement and Budget Analysis For Period Ending May 2025

				QUARTER PERFO	RMANCE			FY 2025 PERFOR	MANCE	
	FY 2024 ACTUAL	FY 2025 BUDGET	3rd Quarter BUDGET	3rd Quarter ACTUAL	(Over)/Under BUDGET	Percent BUDGET	YTD BUDGET	YTD ACTUAL	(Over)/Under BUDGET	Percent BUDGET
REVENUES										
Bank & Trust Regulation	34,909,256	\$33,902,880	\$9,800,860	\$9,499,031	\$301,830	96.9%	\$29,687,219	\$29,550,216	\$137,004	99.5%
Penalties - Bank & Trust Regulation	13,000	0	φ3,000,000	ψυ, του, συ τ	0	0.0%	Ψ25,007,213	Ψ23,000,210	0	0.0%
Non-Depository Supervision	3,682,995	4,571,913	1,307,175	1,260,373	\$46,802	96.4%	4,213,513	4,112,414	101,099	97.6%
Penalties - Non-Depository Supervision	639,810	154,600	89,300	267,653	(178,353)	299.7%	262,900	2,789,356	(2,526,456)	1061.0%
Miscellaneous Revenues	1,187,727	1,226,400	301,100	341,383	(40.283)	113.4%	925.300	972,158	(46,858)	105.1%
TOTAL REVENUES	40,432,788	\$39,855,793	\$11,498,435	\$11,368,440	\$129,996	98.9%	\$35,088,932	\$37,424,144	(\$2,335,212)	106.7%
EXPENDITURES										
Personnel Costs										ĺ
Employee Compensation	20,709,898	\$25,790,757	\$6,520,050	\$5,682,019	\$838,031	87.1%	\$18,453,793	\$16,937,225	\$1,516,568	91.8%
Employee Benefits	5,811,230	6,955,025	1,833,617	1,555,101	278,516	84.8%	\$5,126,495	\$4,609,713	516,782	89.9%
Add'l Health/Retirement	287,502	370,731	95,613	81,463	14,151	85.2%	\$269,794	\$241,901	27,893	89.7%
Other Personnel Costs	604,725	944,261	147,649	152,995	(5,346)	103.6%	288,754	309,279	(20,525)	107.1%
Subtotal Personnel Costs	27,413,355	\$34,060,775	\$8,596,930	\$7,471,578	\$1,125,351	86.9%	\$24,138,837	\$22,098,119	\$2,040,718	91.5%
Travel										
In-State	1,398,826	\$1,691,339	\$351,666	\$367,952	(\$16,286)	104.6%	\$1,177,044	\$1,105,369	\$71,675	93.9%
Out-of-State	455,110	705,998	181,624	135,258	46,366	74.5%	456,337	338,432	117,905	74.2%
Subtotal Travel	1,853,935	\$2,397,337	\$533,290	\$503,210	\$30,080	94.4%	\$1,633,381	\$1,443,801	\$189,580	88.4%
Operating Costs										
Professional Fees	296.725	\$642,224	\$139,409	\$105,735	\$33.674	75.8%	\$279.974	\$225.988	\$53.985	80.7%
Consumables	93,511	64,327	10,683	7,459	3,224	69.8%	57,582	59,016	(\$1,433)	102.5%
Office Utilities	36,517	40,718	10,721	14,992	(4,271)	139.8%	37,919	45,932	(\$8,013)	121.1%
Rent - Building/Space	449,695	458,066	107,008	108,144	(1,136)	101.1%	376,609	368,084	\$8,525	97.7%
Rent - Equipment/Other	31,702	29,960	5,940	2,382	3,558	40.1%	18,720	15,987	\$2,733	85.4%
Communications	288,633	335,367	76,292	72,306	3,986	94.8%	225,656	218,341	\$7,315	96.8%
Information Technology	632,953	790,050	216,494	125,216	91,278	57.8%	591,250	563,405	\$27,845	95.3%
Employee Training	165,807	273,978	92,155	82,576	9,579	89.6%	184,741	165,919	\$18,821	89.8%
Misc. Operating Costs	571,405	762,992	110,148	95,059	15,089	86.3%	350,874	295,766	55,108	84.3%
Subtotal Operating Costs	2,566,949	\$3,397,681	\$768,851	\$613,870	\$154,981	79.8%	\$2,123,325	\$1,958,439	\$164,885	92.2%
Camp Hubbard Costs										
Land Acquisition	\$0	\$0	\$0	\$0	\$0	0.0%	\$0	\$1,405,389	(\$1,405,389)	0.0%
TOTAL EXPENDITURES	31,834,239	\$39,855,793	\$9,899,070	\$8,588,658	\$1,310,412	86.8%	\$27,895,543	\$26,905,748	\$989,795	96.5%
EXPENDITURES (OVER) / UNDER REVENUES	8,598,549	\$0	\$1,599,365	\$2,779,782	(\$1,180,417)		\$7,193,389	\$10,518,396	(\$3,325,007)	

Texas Department of Banking

Overview of Budget Variances for the Third Quarter of Fiscal Year 2025 - (Variances in excess of \$1,000 and 5% from budget are reported).

Penalties - Non-Depository Supervision – The variance is due to the higher than anticipated collected penalties primarily associated with regulatory non-compliance matters by money services businesses.

Miscellaneous Revenues – The variance is due to a higher interest rate of return than budgeted for deposited funds.

Employee Compensation and Benefits – The positive variance relates to vacant staff positions. Vacancies in terms of FTEs as of May 31, 2025 are listed below:

Administrative 9 Examiners 39

Travel Breakdown

	In-State Travel	Out-of-State Travel
Regulatory Supervision	\$293,702	\$45,057
Development and Training	51,128	77,440
Other Regulatory Activities	20,855	12,761
Non-Employee	2,267	0
Total	\$367,952	\$135,258

Out-of-State Travel – The positive variance is due to: (1) staff vacancies; (2) fewer conducted examinations than anticipated; and (3) training related travel that did not materialize.

Professional Fees – The positive variance is mainly due to lower State Office of Administrative Hearings fees than budgeted and Office of Attorney General billings that have not materialized.

Consumables – The positive variance is due to budgeted expenditures that did not materialize as based on history.

Utilities - The negative variance is due to unbudgeted electric utility charges related to the recently acquired property.

Rent – Equipment/Other – The positive variance is due to lift rentals for contingent repairs that did not materialize.

Information Technology – The positive variance is due to laptop expenditures that were lower than expected and a partial completion of an information technology project.

Employee Training – The positive variance is due to staff vacancies and training related travel that did not materialize.

Misc. Operating Costs – The positive variance is due to lower agency-wide staff conference expenditures than anticipated.

TEXAS DEPARTMENT OF BANKING Liquidity Report For the Period Ending May 31, 2025

	Actual
Cash at Beginning of Period	\$34,524,069
Revenues Over (Under) Expenditures	2,779,782
, , ,	
Increase (Decrease) in Payables/Encumbrances	(7,517)
(Increase) Decrease in Receivables Cash at End of Period	1,352,441
	\$38,648,775
Reserved Cash Balance:	
Bldg. maintenance/IT	\$0
Long-term facilities planning	9,068,024
Payables (net of receivables)	3,132,622
Lump Sums for Retirements	851,112
Program Funds	0
Other	0
Total Reserved Cash Balance	\$13,051,758
Unreserved Cash Balance:	
Future Operations	25,597,017
Total Unreserved Cash Balance	\$25,597,017
Total Cash Balance	\$38,648,775
Unreserved Cash/FY2025 Monthly Budget	7.71 months

Office of Consumer Credit Commissioner Proposed Budget Fiscal Year 2026

	Budget 2025	Budget 2026
	2020	2020
REVENUE:		
Regulated Lenders	\$ 1,975,150	\$ 2,207,063
Credit Access Industry	859,800	601,590
MV Industry	4,283,650	5,122,108
Pawn Industry	752,385	875,696
Registered Industry	320,350	325,885
Miscellaneous Revenues	663,500	613,500
TOTAL REVENUES:	\$ 8,854,835	\$ 9,745,842
EXPENDITURES:		
Personnel Costs		
Employee Compensation	\$ 5,642,194	\$ 5,317,869
Employee Benefits	1,781,341	1,764,169
Add'l Health/Retirement	84,633	79,768
Other Personnel Costs	117,494	131,774
Subtotal Personnel Costs	\$ 7,625,662	7,293,580
Travel		
In-State	587,602	483,800
Out-of-State	43,052	20,000
Out-of-State Reimbursements	(16,000)	-
Subtotal Travel	614,654	503,800
Other Expenditures		
Professional Fees & Services	97,694	90,653
Consumable Supplies	4,800	5,000
Office Utilities	19,875	27,000
Rent - Buildings/Space	1,500	-
Rent - Equipment/Other	2,700	2,870
Communications	77,572	78,754
Information Technology	538,136	442,364
Employee Training	25,605	16,850
Misc. Operating Costs	291,941	477,024
Subtotal Operating Costs	1,059,822	1,140,515
Total Operating Costs	9,300,138	8,937,895
Building Project *funded from reserves*	-	
TOTAL EXPENDITURES:	\$ 9,300,138	\$ 8,937,895
EXPENDITURES (OVER)/UNDER REVENUE:	\$ (445,303)	\$ 807,947
FTE's	75	68

Office of Consumer Credit Commissioner Proposed Budget Fiscal Year 2026

									\$ Change	% Change
		Budget	١.	Estimated	% of 2025		Budget	B.	udget 2025 to	Budget 2025 to
		2025		FY 2025	Budget		2026		Budget 2026	Budget 2026
										_
REVENUE:	_							_		
Regulated Lenders	\$	1,975,150	\$	1,719,623	87.1%	\$, - ,	\$	231,913	11.7%
Credit Access Industry		859,800		636,900	74.1%		601,590		(258,210)	-30.0%
MV Industry		4,283,650		4,156,255	97.0%		5,122,108		838,458	19.6%
Pawn Industry		752,385		725,641	96.4%		875,696		123,311	16.4%
Registered Industry		320,350		358,130	111.8%		325,885		5,535	1.7%
Miscellaneous Revenues		663,500		990,256	149.2%		613,500		(50,000)	-7.5%
TOTAL REVENUES:	\$	8,854,835	\$	8,586,805	97.0%	\$	9,745,842	\$	891,007	10.1%
EXPENDITURES:										
Personnel Costs										
Employee Compensation	\$	5,642,194	\$	5,195,348	92.1%	\$	5,317,869	\$	(324,325)	-5.7%
Employee Benefits		1,781,341	ľ	1,642,189	92.2%	'	1,764,169		(17,172)	-1.0%
Add'l Health/Retirement		84,633		76,777	90.7%		79,768		(4,865)	-5.7%
Other Personnel Costs		117,494		136,751	116.4%		131,774		14,280	12.2%
Subtotal Personnel Costs	\$	7,625,662	\$	7,051,065	92.5%		7,293,580		(332,082)	-4.4%
Travel										
In-State		587.602		442.587	75.3%		483.800		(103,802)	-17.7%
Out-of-State		43,052		40.000	92.9%		20.000		(23,052)	-53.5%
Out-of-State Reimbursements		(16,000)		40,000	0.0%		20,000		16,000	-100.0%
Subtotal Travel		614,654		482,587	78.5%	-	503,800		(110,854)	-100.0%
Subtotal Travel		014,034		402,307	76.5%		503,600		(110,654)	-10.070
Other Expenditures										
Professional Fees & Services		97,694		44.965	46.0%		90.653		(7,041)	-7.2%
Consumable Supplies		4,800		4,933	102.8%		5,000		200	4.2%
Office Utilities		19,875		14,370	72.3%		27,000		7,125	35.8%
Rent - Buildings/Space		1,500		880	58.7%		-		(1,500)	-100.0%
Rent - Equipment/Other		2,700		3,301	122.3%		2,870		170	6.3%
Communications		77,572		71.098	91.7%		78.754		1.183	1.5%
Information Technology		538,136		413,843	76.9%		442.364		(95,772)	-17.8%
Employee Training		25,605		14,585	57.0%		16,850		(8,755)	-34.2%
Misc. Operating Costs		291.941		500.187	171.3%		477.024		185,083	63.4%
Subtotal Operating Costs		1,059,822		1,068,162	100.8%		1,140,515		80,693	7.6%
Total Operating Costs		9,300,138		8,601,814	92.5%	+	8,937,895		(362,243)	-3.9%
Building Project *funded from reserves*		-		723,401	32.J /0		0,337,033		(502,245)	-3.9 /6
TOTAL EXPENDITURES:	\$	9,300,138	\$	9,325,215	100.3%	\$	8,937,895	\$	(362,243)	-3.9%
EVENDITURE (OVER)	\$, ,				\$		
EXPENDITURES (OVER)/UNDER REVENUE:	j þ	(445,303)	φ	(738,410)		\$	ōU7,947	Þ	1,253,250	

FTE's 75 68



BUDGET INFORMATION FY2025-FY2026

	FY 2025		F	Y 2026
	Approv	ed Budget	Propo	sed Budget
REVENUES				
Thrift Industry				
Assessments	\$	4,053,722	\$	3,001,765
Application Fees		16,000		12,000
Mortgage Industry				
Licensing Fees		5,609,170		6,101,595
Administrative Penalties		-		-
Misc. Revenues		617,110		758,000
TOTAL REVENUES	\$	10,296,002	\$	9,873,360
EXPENDITURES				
Personnel Costs				
Employee Compensation	\$	6,948,079	\$	7,319,390
Employee Benefits		2,068,485	*	2,190,832
Add'l Health/Retirement		103,833		109,552
Other Personnel Costs		109,913		111,067
Subtotal Personnel Costs	\$	9,230,310	\$	9,730,841
Troval				
Travel In-State	Φ.	17C F00	ф	476 E00
	\$	176,500	\$	176,500
Out-of-State	\$	60,000	\$	54,400
Subtotal Travel	•	236,500	Ъ	230,900
Operating Costs				
Professional Fees	\$	90,509	\$	84,186
Consumables		8,500		8,500
Office Utilities		16,200		22,640
Rent - Space &Equipment		16,500		18,500
Communications		106,598		92,620
Information Technology		378,300		311,660
Employee Training		70,000		65,000
Misc. Operating Costs		142,585		165,220
Subtotal Operating Costs	\$	829,192	\$	768,326
TOTAL EXPENDITURES	\$	10,296,002	\$	10,730,067
IOTAL EXPENDITURES	Ф	10,290,002	Φ	10,730,007
EXPENDITURES (OVER)/				
UNDER REVENUES	\$		\$	(856,707)*

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^{*}The FY26 budgeted deficit will be covered by existing cash reserves.

Department of Savings and Mortgage Lending Budget Information FY2025-FY2026

	FY 2025		FY 2025	% of FY2025		FY2026	;	\$ Change	% Change
									FY25 Budget to
	BUDGET	ES	STIMATED	BUDGET		BUDGET	F١	/26 Budget	FY26 Budget
REVENUES									
Thrift Industry									
Assessments	\$ 4,053,722	\$	4,197,665	103.6%	\$	3,001,765	\$	(1,051,957)	
Application Fees	16,000		9,400	58.8%		12,000		(4,000)	-25.0%
Mortgage Industry									
Licensing Fees	5,609,170		6,173,739	110.1%		6,101,595		492,425	8.8%
Administrative Penalties	-		2,069,697	0.0%		-		-	0.0%
Misc. Revenues	617,110		790,343	128.1%	L	758,000		140,890	22.8%
TOTAL REVENUES	\$10,296,002	\$	13,240,844	128.6%	\$	9,873,360	\$	(422,642)	-4.1%
EXPENDITURES									
Personnel Costs									
Employee Compensation	\$ 6,948,079	\$	6,217,681	89.5%	18	7,319,390	\$	371,311	5.3%
Employee Benefits	2,068,485	Ψ	1,836,073	88.8%	*	2,190,832	•	122,347	5.9%
Add'l Health/Retirement	103,833		87,506	84.3%		109,552		5.719	5.5%
Other Personnel Costs	109,913		167,723	152.6%		111,067		1.154	1.0%
Subtotal Personnel Costs	\$ 9,230,310	\$	8,308,983	90.0%	\$	9,730,841	\$	500,531	5.4%
	, -,,-	Ť	-,,-			-,,-	Ť	,	
Travel									
In-State	\$ 176,500	\$	144,318	81.8%	\$	176,500	\$	-	0.0%
Out-of-State	60,000		34,549	57.6%	<u> </u>	54,400	ļ.,	(5,600)	-9.3%
Subtotal Travel	\$ 236,500	\$	178,867	75.6%	\$	230,900	\$	(5,600)	-2.4%
Operating Costs									
Professional Fees	\$ 90,509	\$	110,781	122.4%	\$	84,186	\$	(6,323)	-7.0%
Consumables	8,500	Ψ	6,820	80.2%	ΙΨ	8,500	Ψ	(0,323)	0.0%
Office Utilities	16,200		19,210	118.6%		22,640		6.440	39.8%
Rent - Space & Equipment			11,637	70.5%		18,500		2.000	12.1%
Communications	106,598		106,208	99.6%		92,620		(13,978)	-13.1%
Information Technology	378,300		333,180	88.1%		311,660		(66,640)	-17.6%
Employee Training	70,000		40,903	58.4%		65,000		(5,000)	
Misc. Operating Costs	142,585		211,787	148.5%		165,220		22,635	15.9%
Subtotal Operating Costs	\$ 829,192	\$	840,526	101.4%	\$	768,326	\$	(60,866)	-7.3%
	,	·	•			•	·	, ,	
Camp Hubbard Costs									
Land Acquisition	-		632,287	0.0%					
Subtotal Camp Hubbard Costs	\$ -	\$	632,287	0.0%	\$	-			
TOTAL EXPENDITURES	\$10,296,002	\$	9,960,663	96.7%	\$	10,730,067	\$	434,065	4.2%
EXPENDITURES (OVER)									
EXPENDITURES (OVER)/	c	Φ.	2 200 404		-	(0EC 707)	Γ Φ	(056 707)	1
UNDER REVENUES	\$ - 76	\$	3,280,181		\$	(856,707)	Ф	(856,707)	
FTEs	76					77			

Texas Department of Banking Proposed Budget - FY 2026

	Budget 2025	Budget 2026*
REVENUE		
Bank & Trust Regulation	\$33,902,880	\$37,321,624
Penalties - Bank & Trust Regulation	0	0
Non-Depository Supervision	4,571,913	4,834,100
Penalties - Non-Depository Supervision	154,600	223,300
Miscellaneous Revenues	1,226,400	597,400
TOTAL REVENUES	\$39,855,793	\$42,976,424
EXPENDITURES		
Personnel Costs		
Employee Compensation	\$25,790,757	\$27,600,126
Employee Benefits	6,955,025	7,168,960
Add'l Health/Retirement	370,731	406,794
Other Personnel Costs	944,261	881,364
Subtotal Personnel Costs	\$34,060,775	\$36,057,245
Travel		
In-State	\$1,691,339	\$1,849,561
Out-of-State	705,998	708,116
Subtotal Travel	\$2,397,337	\$2,557,677
	, , ,	, , ,
Operating Costs		
Professional Fees	\$642,224	\$665,999
Consumables	64,327	74,524
Office Utilities	40,718	54,713
Rent - Building/Space	458,066	698,588
Rent - Equipment/Other	26,960	30,882
Communications	335,367	376,422
Information Technology	790,050	988,150
Employee Training	273,978	322,164
Misc. Operating Costs	765,992	1,150,061
Subtotal Operating Costs	\$3,397,681	\$4,361,503
TOTAL EXPENDITURES	\$39,855,793	\$42,976,425
EXPENDITURES (OVER) /		
UNDER REVENUES	\$0	\$0

^{*} FY 2026 budgeted assessments are net approximately \$7.05 million in Bank and Trust that are not expected to be assessed to operate the Department.

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FTEs

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Texas Department of Banking Proposed Budget - FY 2026

	Budget 2025	Estimated FY 2025*	% of 2025 Budget	Budget 2026**	\$ Change Budget 2025 to Budget 2026	% Change Budget 2025 to Budget 2026
REVENUE						
Bank & Trust Regulation	\$33,902,880	\$37,469,494	110.52%	\$37,321,624	\$3,418,744	10.08%
Penalties - Bank & Trust Regulation	0	0	0.00%	0	0	0.00%
Non-Depository Supervision	4,571,913	4,129,411	90.32%	4,834,100	262,188	5.73%
Penalties - Non-Depository Supervision	154,600	3,525,056	2280.11%	223,300	68,700	44.44%
Miscellaneous Revenues	1,226,400	1,302,743	106.22%	597,400	(629,000)	-51.29%
TOTAL REVENUES	\$39,855,793	\$46,426,704	116.49%	\$42,976,424	\$3,120,632	7.83%
EXPENDITURES						
Personnel Costs						
Employee Compensation	\$25,790,757	\$23,165,462	89.82%	\$27,600,126	\$1,809,369	7.02%
Employee Benefits	6,955,025	6,201,914	89.17%	7,168,960	213,935	3.08%
Add'l Health/Retirement Other Personnel Costs	370,731 944,261	328,390 641,612	88.58% 67.95%	406,794 881,364	36,063 (62,897)	9.73% -6.66%
Subtotal Personnel Costs	\$34.060.775	\$30,337,377	89.07%	\$36,057,245	\$1,996,470	5.86%
Subtotal Fersonnel Costs	ψ34,000,773	ψ30,337,377	03.07 70	ψ30,037,243	ψ1,990,470	3.00 /0
Travel						
In-State	\$1,691,339	\$1,548,270	91.54%	\$1,849,561	\$158,222	9.35%
Out-of-State	705,998	450,552	63.82%	708,116	2,118	0.30%
Subtotal Travel	\$2,397,337	\$1,998,822	83.38%	\$2,557,677	\$160,340	6.69%
Operating Costs						
Professional Fees	\$642,224	\$456,628	71.10%	\$665,999	\$23,775	3.70%
Consumables	64,327	54,200	84.26%	74,524	10,197	15.85%
Office Utilities	40,718	54,082	132.82%	54,713	13,995	34.37%
Rent - Building/Space	458,066	450,504	98.35%	698,588	240,522	52.51%
Rent - Equipment/Other	26,960	21,177	78.55%	30,882	3,922	14.55%
Communications	335,367	282,404	84.21%	376,422	41,055	12.24%
Information Technology	790,050	770,705	97.55%	988,150	198,100	25.07%
Employee Training	273,978	242,727	88.59%	322,164	48,186	17.59%
Misc. Operating Costs Subtotal Operating Costs	765,992 \$3.397.681	786,715 \$3.119.143	102.71% 91.80%	1,150,061 \$4,361,503	384,070 \$963.822	50.14% 28.37%
Subtotal Operating Costs	\$3,397,001	Ф 3,119,143	91.0070	\$4,301,303	φ903,622	20.31 70
Camp Hubbard Costs						
Land Acquisition	\$0	\$1,405,389	0.00%	\$0	\$0	0.00%
TOTAL EVDENDITUDES	\$20.05F.702	\$26,060,724	02.400/	¢40.076.40F	\$2.400.620	7 020/
TOTAL EXPENDITURES	\$39,855,793	\$36,860,731	92.49%	\$42,976,425	\$3,120,632	7.83%
EXPENDITURES (OVER) /						
UNDER REVENUES	\$0	\$9,565,973		\$0		
FTEs	236	192		236	0	

^{*} FY 2025 forecast using a combination of estimated projections and annualized June 30, 2025 actuals.

^{**} FY 2026 budgeted assessments are net approximately \$7.05 million in Bank and Trust that are not expected to be assessed to operate the Department.

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Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2025

OFFICE OF CONSUMER CREDIT COMMISSIONER Austin, Texas

Internal Audit Annual Report

Fiscal Year 2025

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Garza/Gonzalez & Associates, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and Audit Committee Members Office of Consumer Credit Commissioner Austin, Texas

We performed procedures to assess the effectiveness and efficiency of the Office of Consumer Credit Commissioner's (OCCC) internal control structure over the Business Licensing Area (the Area) and its compliance with the applicable chapters of the Texas Finance Code, relevant rules of the Texas Administrative Code, and the Area's established policies and procedures, for the nine months ended May 31, 2025.

Our audit procedures determined that OCCC's internal control structure over the Area was adequate, and no material instances of noncompliance were noted. However, we did identify certain matters, detailed in this report, that present opportunities to strengthen internal controls and enhance compliance with OCCC's policies and procedures. Based on their degree of risk or effect in relation to the audit objective, these matters were rated as Priority, High, Medium, or Low, as described in the "Summary and Related Rating of Observations/Findings and Recommendations" section of this report.

We also conducted follow-up procedures on findings and recommendations from prior year internal audit reports that were not fully implemented. This report reflects the results and implementation status of our follow-up procedures, and includes all information required for compliance with State of Texas Internal Audit Annual Report requirements.

This report was prepared by Garza/Gonzalez & Associates, LLC, an independent Certified Public Accounting firm, following Generally Accepted Government Auditing Standards, International Standards for the Professional Practice of Internal Auditing, and the Institute of Internal Auditors' Code of Ethics contained in the Professional Practices Framework.

We have discussed the comments and recommendations for the Area, as well as the follow-up results, with various OCCC personnel. We are available to provide additional information if needed.

July 18, 2025

Garga Honzales & associates, LLC

Internal Audit Annual Report Fiscal Year 2025

INTRODUCTION

The Office of Consumer Credit Commissioner (OCCC) operates pursuant to Chapter 14 of the Texas Finance Code, and under the oversight of the Texas Finance Commission, who appoints the Consumer Credit Commissioner.

The OCCC's primary functions are to:

- Regulate fairly, efficiently, and effectively, addressing both consumers and creditors by enforcing Texas credit laws and licensing qualified lenders;
- Educate consumers and credit providers about their rights, remedies, and responsibilities;
- Communicate collaboratively with and encourage communication among the credit industry, consumer public, and the agency; and,
- Protect and safeguard consumers against abusive and deceptive lending practices.

OCCC was granted Self-Directed, Semi-Independent (SDSI) status during the 81st Legislative Session. As an SDSI agency, OCCC does not require legislative budget approval; instead, the Finance Commission determines its spending authority or limits. OCCC's operating funds are generated from fees assessed to regulated businesses, with no reliance on legislative appropriations.

2025 Internal Audit Plan

The following internal audit functions were performed in accordance with OCCC's 2025 Internal Audit Plan, dated November 25, 2024, and approved by the Audit Committee and Finance Commission on December 13, 2024:

- Risk Assessment & Preparation of the 2025 Internal Audit Plan
- TFEE Fund Investment Portfolio Administration (Required Periodic Audit) Audit
- Business Licensing Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the 2025 Internal Audit Annual Report
- Other Tasks

This report (Report No. 2) contains the results of the Business Licensing Audit, reflects the results of the follow-up procedures performed this year on the findings from the prior internal audits, and complies with the State of Texas Internal Audit Annual Report requirements. The TFEE Fund Investment Portfolio Administration Audit report, dated March 20, 2025, was presented to and approved by the Audit Committee and Finance Commission on April 25, 2025.

Internal Audit Annual Report Fiscal Year 2025

I. Compliance with Texas Government Code 2102.015: Required Posting of Internal Audit Information

To comply with the provisions of Texas Government Code, Section 2102.015 and the State Auditor's Office guidelines, within 30 days of approval by the Finance Commission, OCCC will post the following information on its website:

- An approved fiscal year 2026 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2025 internal audit annual report, as required by Texas Government Code, Section 2102.009.

OCCC will also post periodic internal audit reports on its website, unless the content is considered confidential or exempt from public disclosure under Texas Government Code Chapter 552. These periodic reports and the internal audit annual report will include any identified weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor, as well as a summary of the actions taken by OCCC to address such concerns.

II. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards*, 2018 Revision, Technical Update April 2021, Sections 3.64-3.106.

III. External Quality Assurance Review

The internal audit department's most recent *Peer Review Report*, dated January 20, 2025, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

IV. Internal Audit Plan for Fiscal Year 2025

The approved Internal Audit Plan (Plan) included two audits to be performed during fiscal year 2025. The Plan also included a follow-up on prior year internal audit recommendations that were not fully implemented as of fiscal year 2024, other tasks as assigned by the Finance Commission or Audit Committee, and preparation of the 2025 Internal Audit Annual Report.

Risk Assessment

Utilizing information obtained through the completed questionnaires received and background information reviewed, 12¹ potential audit topics were identified. A risk analysis utilizing 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

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¹ Excludes the TFEE Fund Investment Portfolio Administration area, as it requires a biennial audit.

Internal Audit Annual Report Fiscal Year 2025

Following are the results of the risk assessment performed for the 12 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Examinations	Legal and Enforcement	Procurement/Contract Management/HUB
Business Licensing	Management Information Systems (MIS) [Includes Disaster Recovery Plan]	Fiscal Division (Includes Asset Management & Travel)
	Payroll and Human Resources	Revenue Accounting Process
	Business Registration & Professional Licensing	Complaint Intake and Investigation
	Diceising	Records Management
		TFEE Fund Grant Administration

In the prior 3 years, the following audits and functions were performed by the internal auditor:

Fiscal Year 2024:

- Risk Assessment & Preparation of the Internal Audit Plan
- Examinations: Data Collection Area Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2023:

- Risk Assessment & Preparation of the Internal Audit Plan
- TFEE Fund Investment Portfolio Administration Audit (Required Periodic Audit)
- Human Resources and Payroll Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2022:

- Risk Assessment & Preparation of the Internal Audit Plan
- Regulated Lenders Examinations Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Internal Audit Annual Report Fiscal Year 2025

The internal audits and other tasks performed for fiscal year 2025 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	TFEE Fund Investment Portfolio Administration Objective: To determine OCCC's compliance with applicable state and rules, and established policies and procedures, over the administration of the Texas Financial Education Endowment (TFEE) Fund investment portfolio.	3/20/2025
2.	Business Licensing Objective: To assess whether OCCC's policies, procedures, and internal controls over the Business Licensing Area are adequately designed and operating effectively to ensure the proper processing of license applications and compliance with applicable chapters of the Texas Finance Code (TFC) and Texas Administrative Code (TAC).	7/18/2025
2.	Internal Audit Annual Report – Follow-up on findings and recommendations that were presented in the Prior Year Internal Audit Report.	7/18/2025
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

Internal Audit Annual Report Fiscal Year 2025

V. Executive Summary

Business Licensing Area

Organizational Structure

The Licensing and Registration Department (Department) is overseen by the Director of Licensing, Finance, and Human Resources (Director), who reports to the Commissioner. The Department consists of a Licensing Manager, three Licensing and Permit Specialists (Specialists), and one Compliance Analyst, who are responsible for processing business licensing applications. Additionally, two Customer Service Specialists provide support and assistance to applicants and licensees.

In addition to processing applications and providing customer service, the Department also offers technical support for the Application, Licensing, Examination, and Compliance System (ALECS), which is used by both applicants and licensees.

The Department encompasses two separate auditable areas: *Business Licensing* and *Business Registration* and *Professional Licensing*. This report focuses solely on the Business Licensing area (Area).

Types of Business Licenses

The Area is responsible for processing license applications for regulated lenders, motor and commercial motor vehicle sales entities, property tax lenders, pawnshops, and credit access businesses. The following table outlines the applicable governing provisions from the Texas Finance Code (TFC) and the Texas Administrative Code (TAC):

License Type	TFC	TAC
Regulated Lenders	Chapter 342, Subchapter B	Chapter 83, Subchapter A
Motor Vehicle Sales Entities & Commercial Motor Vehicle Sales Entities	Chapter 348, Subchapter F Chapter 353, Subchapter F	Chapter 84, Subchapter F
Property Tax Lenders	Chapter 351, Subchapter B	Chapter 89, Subchapters C & D
Pawnshops	Chapter 371, Subchapter B	Chapter 85, Subchapter A
Credit Access Businesses	Chapter 393, Subchapter G	Chapter 83, Subchapter B

New Applications

As of December 1, 2024, all business license applications must be submitted online through ALECS, with the exception of Property Tax Lender licenses, which are submitted via the Nationwide Multi-State Licensing System (NMLS). Licensing forms and instructions are available on the OCCC website, along with checklists for each license type to assist applicants in submitting the required documentation.

Business license applicants must provide various forms of documentation and information, as required under the applicable chapters of the TFC and TAC. ALECS is designed with automated checks to verify the completeness of the application. It prevents applicants from proceeding unless all required fields are completed and necessary documents are uploaded. ALECS also confirms that the appropriate licensing fee has been paid, based on license type and applicable regulations.

Internal Audit Annual Report Fiscal Year 2025

Once an application is completed and the applicable fees are paid, ALECS routes the application to the Department's licensing queue, where it is marked as "Received", indicating it is awaiting assignment to a Specialist. The Licensing Manager reviews the queue on a weekly basis and generates a report to evaluate each Specialist's current workload. Applications are then assigned accordingly to balance workloads and are transferred from the queue to the designated Specialist's dashboard.

As of May 31, 2025, the following applications were processed by the Area:

Application Type	License Type	Number of Applications
New Applications	Motor Vehicle Sales Entities	729
	Commercial Motor Vehicle Sales Entities	9
	Credit Access Businesses	17
	Pawn Shops	6
	Property Tax Lenders	1
	Regulated Lenders	81
	Total New Applications	843
Transfer Applications	Motor Vehicle Sales Entities	13
	Pawn Shops	9
	Property Tax Lenders	1
	Regulated Lenders	2
	Total Transfer Applications	25
Relocation	Pawn Shops	9
	Total Applications Processed	877

Application Review and Approval Process

The Department's goal is to review applications within 14 days of assignment to the specialist's dashboard. When reviewing applications, the Specialist utilizes license-specific checklists to determine whether sufficient information has been provided to accept the application. In rare cases where the application is complete upon initial submission, the Specialist will recommend approval and forward the application to the Director for final review and approval.

If the application is incomplete or lacks required documentation, the Specialist sends a Request for Information (RFI) to the applicant through ALECS. The system automatically generates an email notifying the applicant that an RFI has been issued and instructing them to log into ALECS to review the request details.

If the applicant is unable or unwilling to provide the requested information, the Specialist may recommend denying the application, or the applicant may voluntarily withdraw it. In such cases, an Intent to Deny letter is sent to the applicant as a final effort to obtain the missing information. This letter gives the applicant 30 days to either submit the outstanding documentation or request an appeal hearing. If the information is not provided within 30 days, the Specialist recommends denial of the application. Requests for withdrawal and denial recommendations are submitted to the Licensing Manager for final approval.

Once an application is deemed complete, the Specialist forwards it to the Director for final review. If approved, ALECS generates an automated email notifying the applicant of the approval. The applicant can then log into ALECS to print their license. If not approved, the Director returns the application to the Specialist with comments or instructions for further action. All activity related to the application—including assignments, approvals, RFIs, and status changes—is documented within ALECS.

Internal Audit Annual Report Fiscal Year 2025

For Business License applications, principal parties or owners are required to undergo fingerprinting. OCCC subscribes to their criminal history records through the Texas Department of Public Safety (DPS). These records are not printed or stored in ALECS; they remain securely maintained within the DPS system.

Processing Timelines

The applicable section of the TAC states that applicants will ordinarily be notified within 14 days if their application is incomplete, along with a description of the information for acceptance. The TAC also states that license applications will ordinarily be approved or denied within a maximum of 60 calendar days after the date of filing a completed application.

License Transfer

License transfers include the addition or removal of an owner, change in entity type, etc. Licensees are required to submit similar information required for new applications and the applicable processing fee. These types of applications are processed in the same manner as new application in ALECS.

License Amendments

Licensees may request changes to their address, name, or license status by submitting an amendment form along with the applicable processing fee. Supporting documentation, such as an IRS form or documentation from the Secretary of State, mut be submitted to verify the exact changes being requested. A Specialist or Customer Service Specialist will review the submitted information, and the Licensing Manager will conduct the final review.

License Renewals & Reinstatements

Business licenses are issued for a 1-year period, and renew on the 1st of the month applicable to the license type. A 30-day grace period is provided following the renewal due date. The table below outlines the renewal and reinstatement timelines by license type:

License Type	Due Date	Grace Period Ends & Reinstatement Period Begins
Regulated Lenders	December 1 st	December 31st
Motor Vehicle Sales Entities	October 1 st	October 31st
Property Tax Lenders	December 1 st	December 31 st
Pawnshops	June 1st	June 30 th
Credit Access Business	December 1 st	December 31 st

To renew a business license, the licensees log into ALECS, select "Renew License," and pay the required renewal fees.

Internal Audit Annual Report Fiscal Year 2025

If a business license is not renewed by the end of the grace period, the license will be cancelled. Cancelled licenses may be reinstated within 180 days of cancellation by submitting a reinstatement request in ALECS and paying a late filing fee of \$1,000, in addition to the renewal fee, for each license being reinstated. If the license is not reinstated within the 180 day-period, the licensee must submit a new application to obtain a license.

Performance Measures

Performance measures are reported to the Finance Commission at the end of each quarter. The Area's objective is to maintain a consistent focus on regulatory and agency compliance, while completing prompt and thorough reviews of all license applications. The Area strives to process 80% of license applications within 60 days, from the date of receipt to the date of completion. The total number of business license applications processed, along with the percentage completed within 60 days, is reported to the Finance Commission.

To obtain the necessary data, the Licensing Manager prepares the *Application Status Report* at the beginning of each month. This report reflects the number of applications, by license type, that were received, approved, denied and withdrawn. Additionally, the Licensing Manager calculates both the average and median processing times for business license applications.

Audit Objective, Scope, And Methodology

Objective

The objective of the audit was to assess whether OCCC's policies, procedures, and internal controls over the Business Licensing Area are adequately designed and operating effectively to ensure the proper processing of license applications and compliance with applicable chapters of the Texas Finance Code (TFC) and Texas Administrative Code (TAC).

Scope

The scope of this audit included a review and testing of selected functions performed by the Area during the 9-month period from September 1, 2024 through May 31, 2025 (audit period).

Methodology

The audit methodology included reviewing applicable laws and regulations, the Area's policies and procedures, and other relevant documentation. Remote interviews and correspondence were also conducted with OCCC personnel to gain an understanding of current practices and control activities.

We performed procedures to achieve the audit objective, including the following:

- 1. Reviewed applicable sections of the Texas Finance Code (TFC) and Texas Administrative Code (TAC) relevant to each industry regulated by the Area.
- 2. Reviewed the Area's documented policies and procedures, specifically:
 - a. New Application Procedures for each license type.
 - b. Transfer Application Procedures for each license type.

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- 3. Gained an understanding of the business licensing application review and approval process, procedures, and internal controls, including an overview of ALECS, through remote interviews with relevant staff and a review of various internal and external documentation, specifically:
 - a. New Application Checklists utilized by Licensing Specialists.
 - b. Transfer of License Checklists utilized by Licensing Specialists.
 - c. Checklists used for each type of business license.
 - d. Screenshots of various screens in ALECS.
- 4. Obtained the *Applications Processed FY 2025 To Date* report listing all the applications that were processed during the audit period, and randomly selected 25 applications to test for compliance with the Area's policies and procedures, and applicable sections of the TFC and TAC. Specifically, we:
 - a. Verified that responses to incomplete applications were sent within 14 calendar days of receipt of the application.
 - b. Verified that the application was approved or denied by OCCC within a maximum of 60 calendar days.
 - c. Ensured the appropriate checklist was completed by the Licensing Specialist.
 - d. Ensured the Licensing Specialist properly recommended to approve or deny the application.
 - e. Verified that approved applications were authorized by the Licensing Director and denied applications were approved by the Licensing Manager.
 - f. Confirmed that a *Letter of Intent to Deny* was sent to the applicant and the applicant was given 30 days to appeal or provide the missing information.
 - g. Confirmed that the Net Asset Requirements outlined in the applicable sections of the TFC were met for each license type, except Motor Vehicle Sales Finance.
- 5. From the 25 applications randomly selected in procedure 4, a haphazard sample of 5 applications was selected. For each of these applications, 3 different types of documents from the respective checklists that applicants were required to submit were reviewed.
- 6. Obtained the *Actual Performance for Output Measures* report from the April 25, 2025 Finance Commission Board packet and agreed the 2025 Actual number of business applications processed for the 1st and 2nd quarter to the *Application Status Report* and to the *Applications Processed FY 2025 To Date* report.
- 7. Obtained the Licensing performance measures narrative from the April 25, 2025 Finance Commission Board packet and recomputed the *percentage of business license applications processed within the target timeframe of 60 days* that was reported.

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VI. Observations/Findings and Recommendations

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

As OCCC's internal auditors, we used our professional judgment in rating the audit findings identified in this report. The rating system used was developed by the Texas State Auditor's Office and is based on the degree of risk or effect of the findings in relation to the audit objective(s). The table below presents a summary of the observations/findings in this report and the related rating.

Summary of Observations/Findings & Recommendations and Related Ratings						
Finding No.	Title	Rating				
1	Performance Measures	Low				
Observation						
No.						
1	Assessment Fees	-				
2	Performance Measures	1				

Description of Rating

A finding is rated *Priority* if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

A finding is rated *High* if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

A finding is rated *Medium* if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

A finding is rated *Low* if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

OBSERVATIONS/FINDINGS AND RECOMMENDATIONS

Report	Report	Name of	
No.	Date	Report	Observations/Findings and Recommendations
2	7/18/2025	Business Licensing	To ensure the accuracy of the Area's performance measure results reported to the Finance Commission, we compared the number of business license applications processed and the percentage of the annual target achieved (as reported for the 1st and 2nd quarters) to corresponding reports generated from ALECS. Our review identified an overstatement of 12 applications in total across both quarters, resulting in a 1.05% variance in the reported percentage of the annual target met. Although these discrepancies are insignificant, it is essential that all data reported to the Finance Commission be accurate and fully supported to maintain the integrity of reporting. Recommendation We recommend that management perform a quarterly reconciliation between the Area's internal tracking spreadsheets and the official reports generated from ALECS to help ensure the accuracy of data reported to the Finance Commission Management's Response The OCCC agrees with the recommendation and will refine the reconciliation process. Additionally, the transition of business licenses to NMLS over the next couple of years will reduce reliance on ALECS for reporting and may offer enhanced reporting
			mechanisms through NMLS. OBSERVATIONS 1. Assessment Fees
			During our review of 25 business licensing applications, we noted instances in which applications for new licenses were placed on "hold" for approval at the request of the applicant in order to avoid payment of annual assessment fees.
			Assessment fees are due October 1 and are calculated based on the number of active licenses at the start of the assessment period. It is the Area's current practice to contact applicants approximately six weeks prior to October 1 to determine whether they wish to proceed with processing their new license application—thereby incurring the applicable assessment fee—or place the application on hold to defer the fee.
			This practice is not formally documented in the Area's policies or procedures.
			Recommendation
			We recommend that OCCC formally document the process for placing applications on hold to defer assessment fees to help ensure the practice is applied consistently and transparently.
			Management's Response
			The OCCC agrees with the recommendation. The OCCC currently documents correspondence with applicants regarding holding an application until the renewal period begins, and will incorporate this hold process into existing procedures.

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Report No.	Report Date	Name of Report		Observations/Findings a	and Recomm	endations
2	7/18/2025	Business Licensing	The Ar receipt applica Our rev	mance Measures ea strives to process 80% of busing to completion. At the end of the 2 tions were processed within this time with the strict of a sample of 25 applications processing goal, as summarized below Number of Days Past 60 Days 1 – 30 Days	ess license applied quarter, the Armeframe. found that 12 approximations	cations within 60 days from rea reported that 54% of the
				31 – 60 Days 61 – 90 Days	2	
				Over 90 Days	1	
				Total	12	
			We recoprocess Manag	mendation commend that the Area continue ing goal. gement's Response CCC agrees with the recommendate turn-around times for application	ation and will se	

Internal Audit Annual Report Fiscal Year 2025

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with explanation if not yet fully implemented
2	7/18/2025	2025 Follow-	Follow-Up of Prior Year Internal Audits	
		Up	Following is the status of the recommendations made in prior years that had not been fully implemented.	
			Examinations: Data Collection (Report date 6/14/2024)	
			1. Exam Review Status	Fully Implemented
			OCCC should strengthen its current monitoring process to ensure instances described above are detected and addressed in a timely manner until a system-level solution for ALECS is implemented.	
			2. ALECS Account Deletions	Fully Implemented
			OCCC should clarify ALECS account deletion procedure to ensure separating employees' access to ALECS is disabled on their last day of employment.	
			3. Risk Score Calculation	Fully Implemented
			OCCC should strengthen current monitoring to identify unusual risk score values until the root causes are identified and remedied.	

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VII. External Audit Services Procured in Fiscal Year 2025

OCCC procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2025. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

OCCC has provided information on their website home page on how report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. OCCC has also developed a Fraud Prevention Policy that provides information on how to report suspected fraud, waster, and abuse to the SAO.

IX. Proposed Internal Audit Plan for Fiscal Year 2026

The risk assessment performed during fiscal year 2025 was used to identify the following proposed area that is recommended for internal audit and other tasks to be performed for fiscal year 2026. The 2026 Internal Audit Plan will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

- Legal and Enforcement Audit
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission or the Audit Committee

ATTACHMENT

OFFICE OF CONSUMER CREDIT COMMISSIONER History of Areas Audited

For Fiscal Year 2025

			Fiscal Year Audited/Reviewed									
	POTENTIAL AUDIT TOPIC	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
1	Business Licensing			B*	D							A
2	Business Registration & Professional Licensing			A*/B*	D							
3	Complaint Intake and Investigation				D				B*			
4	Examinations		A*		A*/D				A*		A	
5	Fiscal Division (Includes Asset Management & Travel)			В	C*/D*		C1*	A*	В			
6	Legal and Enforcement			B*	D				B*			
7	Management Information Systems [(MIS) Includes Disaster Recovery Plan] a			B*	D*	A1*		E	B*	E		
8	Payroll and Human Resources				C*	F*				A		
9	Procurement/Contract Management/HUB			В	C*/D*							
10	Records Management						A					
11	Revenue Accounting Process			В	D				В			
12	TFEE Fund Grant Administration	A		A*	D							
Requi	red Periodic Audit	•	-						-			
13	TFEE Fund Investment Portfolio Administration			Α	D	A1		Α		Α		Α

^a Periodic vulnerability scans are performed by the DIR or a third-party procured through the DIR, which are considered standardized reviews and therefore not reflected in this schedule by year.

Note: 1. Performance Measures are included in the scope of the applicable audit area(s).

- 2. Effective FY23
 - All examinations-related areas were combined into the "Examinations" auditable area.
 - Business Registration and Professional Licensing were combined into the "Business Registration & Professional Licensing" auditable area.

Legend (audits/reviews with an asterisk are considered limited scope for the audit area)

- A Internal audit performed by Garza/Gonzalez & Associates, CPAs.
- **A1** Internal audit performed by McConnell & Jones LLP.
- **B** Audit performed by the State Auditor's Office (SAO).
- C Post-Payment audit performed by the Comptroller of Public Accounts (CPA).
- C1 Overpayment Recovery audit performed by the CPA.
- **D** Sunset Review performed by the Sunset Advisory Commission.
- E IT assessment performed by the Department of Information Resources (DIR) or a third-party vendor procured through the DIR.
- F Policy review performed by the Texas Workforce Commission.

Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2025

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING Austin, Texas

Internal Audit Annual Report Fiscal Year 2025

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Garza/Gonzalez & Associates, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and Audit Committee Members Department of Savings and Mortgage Lending Austin, Texas

We performed procedures to assess the effectiveness and efficiency of the Department of Savings and Mortgage Lending's (SML) internal control structure over the Thrift Examinations Area (the Area) and its compliance with the applicable chapters of the Texas Finance Code, relevant rules of the Texas Administrative Code, the Federal Deposit Insurance (FDI) Act, and the Area's established policies and procedures, for the seven months ended March 31, 2025.

Our audit procedures determined that SML's internal control structure over the Area was adequate, with no instances of noncompliance identified. However, we noted one observation for management's consideration to further enhance internal controls, which is detailed in this report.

We also conducted follow-up procedures on findings and recommendations from prior year internal audit reports that were not fully implemented. This report reflects the results and implementation status of our follow-up procedures, and includes all information required for compliance with State of Texas Internal Audit Annual Report requirements.

This report was prepared by Garza/Gonzalez & Associates, LLC, an independent Certified Public Accounting firm, following Generally Accepted Government Auditing Standards, International Standards for the Professional Practice of Internal Auditing, and the Institute of Internal Auditors' Code of Ethics contained in the Professional Practices Framework.

We have discussed the audit observation and recommendation for the Area, as well as the follow-up results with various SML personnel. We are available to provide additional information if needed.

June 3, 2025 – 2025 Follow-up

Sorga Hongaly & associates, LLC

June 19, 2025 – Thrift Examinations Audit

207 Arden Grove San Antonio, TX 78215 210/227-1389 Fax 227-0716

Internal Audit Annual Report Fiscal Year 2025

INTRODUCTION

The Department of Savings and Mortgage Lending (SML) is a Texas state agency whose mission is "to supervise and regulate the residential mortgage lending and state savings industries in order to protect Texans, provide a healthy residential mortgage lending environment, and maintain safe and sound savings banks and savings associations for the purpose of increasing the economic prosperity of the state." SML operates under the oversight of the Finance Commission of Texas pursuant to the authority of various provisions of the Texas Finance Code; and, the Texas Administrative Code.

SML's primary goals are as follows:

- 1. **Thrift Industry Regulation**: Supervise, regulate, and enforce the organization, operation, and the liquidation of state savings banks and state savings associations.
- 2. **Mortgage Industry Regulation**: Protect Texas consumers through fair and effective regulation of the residential mortgage industry.
- 3. **Consumer Responsiveness**: Provide consumer assistance by ensuring compliance with statutes and regulations; and, being responsive to inquiries, requests, and complaints from consumers, industry, public officials, and other state and federal governmental entities.

SML was granted Self-Directed, Semi-Independent (SDSI) status during the 81st Legislative Session. As an SDSI agency, SML does not require legislative budget approval; instead, the Finance Commission determines its spending authority or limits. SML's entire operating funds are generated from fees assessed to regulated entities, with no reliance on legislative appropriations.

2025 Internal Audit Plan

The following internal audit functions were performed in accordance with SML's 2025 Internal Audit Plan, dated November 25, 2024, and approved by the Audit Committee and the Finance Commission on December 13, 2024:

- Risk Assessment & Preparation of the 2025 Internal Audit Plan
- Thrift Examinations Audit
- Follow-up of Prior Year Internal Audit
- Preparation of the 2025 Internal Audit Annual Report
- Other Tasks

This report contains the results of the Thrift Examinations Audit, reflects the results of the follow-up procedures performed this year on the findings from the prior internal audits, and complies with the State of Texas Internal Audit Annual Report requirements.

Internal Audit Annual Report Fiscal Year 2025

I. Compliance with Texas Government Code 2102.015: Required Posting of Internal Audit Information

To comply with the provisions of Texas Government Code, 2102.015 and the State Auditor's Office guidelines, within 30 days after approval by the Finance Commission, SML will post the following information on its website:

- An approved fiscal year 2026 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2025 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The internal audit annual report includes any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor, as well as a summary of the actions taken by SML to address such concerns.

II. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards*, 2018 Revision, Technical Update April 2021, Sections 3.64-3.106.

III. External Quality Assurance Review

The internal audit department's most recent *Peer Review Report*, dated January 20, 2025, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

IV. Internal Audit Plan for Fiscal Year 2025

The approved Internal Audit Plan (Plan) included one audit to be performed during fiscal year 2025. The Plan also included a follow-up on prior year internal audit recommendations that were not fully implemented as of fiscal year 2024, other tasks as assigned by the Finance Commission or Audit Committee, and preparation of the 2025 Internal Audit Annual Report.

Risk Assessment

Utilizing information obtained through the completed questionnaires received and background information reviewed, 13 potential audit topics were identified. A risk analysis utilizing 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

Internal Audit Annual Report Fiscal Year 2025

Following are the results of the risk assessment performed for the 13 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Thrift Examinations	Management Information Systems [(MIS)	Procurement/Contract Management/
Mortgage Examinations	Includes Disaster Recovery Plan]	HUB
Thrift Supervision and Compliance	Payroll and Human Resources	Legal and Enforcement
	Revenue Accounting Process	Consumer Responsiveness
		Mortgage Licensing and Registration
		Financial Reporting (includes Asset Management & Travel)
		Records Management
		Mortgage Grant Fund Administration

In the prior 3 years, the following audits and functions were performed by the internal auditor:

Fiscal Year 2024:

- Risk Assessment & Preparation of the Internal Audit Plan
- Mortgage Grant Fund Administration Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2023:

- Risk Assessment & Preparation of the Internal Audit Plan
- Mortgage Examinations Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2022:

- Risk Assessment & Preparation of the Internal Audit Plan
- Legal & Enforcement Audit
- Preparation of the Internal Audit Annual Report

Internal Audit Annual Report Fiscal Year 2025

The internal audit and other tasks performed for fiscal year 2025 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Thrift Examinations Audit Objective: To assess whether the policies, procedures, and internal controls within the Thrift Examinations Area provide reasonable assurance that examinations of Texas-chartered savings banks (thrifts) regulated by SML are conducted effectively, timely, and in compliance with applicable laws and regulations.	6/19/2025
1.	Internal Audit Annual Report – Follow-up on findings and recommendations that were presented in the Prior Year Internal Audit Report.	6/3/2025
	Includes all reported audit results for Fiscal Year 2025.	
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

Internal Audit Annual Report Fiscal Year 2025

V. Executive Summary

Thrift Examinations Area

BACKGROUND

The Thrift Examinations Area (the Area) of the Department of Savings and Mortgage Lending (SML) is responsible for evaluating the safety and soundness of state-chartered savings banks (thrifts), their holding companies, and any savings and loan associations (though none currently exist). This responsibility includes assessing risk management systems, financial condition, and compliance with applicable laws and regulations.

As of March 31, 2025, SML had oversight of 21 state savings banks with total assets of approximately \$303.9 billion, and 16 holding companies.

Rules and Regulations

Thrift examinations performed by the Area are governed by the following rules and regulations:

- Title 7, Part 4 of Texas Administrative Code (TAC), Chapter 75, Rule 75.226
- Texas Finance Code (TFC), Title 3, Subtitle C, Chapter 96, Sec. 96.054
- Section 10 of the Federal Deposit Insurance (FDI) Act

Organizational Structure

The Area is managed by the Deputy Commissioner, who also serves as the Director of Thrift, and reports to the Commissioner.

The Area is organized into two sections: the Thrift Examinations section and the Thrift Supervision section.

The Thrift Examinations section is responsible for conducting examinations in accordance with the Department's established examination priority schedule. It is composed of the following specialized teams:

- Large Financial Institution Team 3 financial examiners Responsible for examining institutions with assets greater than \$10 billion.
- Community Bank Team 5 financial examiners Responsible for examining institutions with assets under \$10 billion.
- Information Technology Team 1 financial examiner Responsible for conducting the IT component of the safety and soundness examinations.
- Compliance Team 1 financial examiner

 Responsible for observing compliance examinations conducted solely by the Federal Deposit

 Insurance Corporation (FDIC) or the Federal Reserve Bank (FRB).

The Thrift Supervision section is comprised of 4 financial examiners. It is responsible for the offsite monitoring of state savings bank (SSB) portfolios and for processing applications, requests, and other correspondence submitted by these institutions.

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Examination Types

The Area conducts both full-scope and limited-scope examinations of SSBs and their holding companies. Although SML has independent authority to conduct these examinations, all are currently performed jointly with either the FDIC or the FRB.

In joint examinations, SML and the federal agency alternate as the lead agency and coordinate on enforcement and supervisory actions to address any identified issues.

The types of examinations performed by the Area include:

- Joint Full-Scope Examinations
- Joint Limited-Scope Examinations (also referred to as Visitations)
- Conversion Examinations
- Holding Company Examinations

As of May 6, 2025—the date of the most current data available—the Area had completed 14 joint full-scope examinations in FY25, with 6 additional examinations in progress. The Area had also completed 3 visitations, with 3 more in progress. No conversion or holding company examinations had been performed during FY25.

Full-Scope Examinations

Full-scope examinations are conducted to evaluate the overall condition of SSBs using the CAMELS rating system, which assesses six key components: <u>Capital</u>, <u>Asset Quality</u>, <u>Management</u>, <u>Earnings</u>, <u>Liquidity</u>, and <u>Sensitivity</u> to Market Risk. These examinations help ensure institutions operate in a safe and sound manner and remain in compliance with applicable laws and regulations.

The frequency of full-scope examinations is determined based on the SSB's risk profile, with particular consideration given to total asset size and the SSB's most recent CAMELS composite rating. A composite CAMELS rating ranges from 1 (strong) to 5 (critically deficient), with higher ratings indicating increased supervisory concern

- SSBs with total assets of \$3 billion or greater and a composite CAMELS rating of 1 or 2, are examined every 12 months.
- SSBs with total assets less than \$3 billion and a composite CAMELS rating of 1 or 2 may be examined every 18 months, provided they are well capitalized, well managed, free from any formal enforcement action, and have not undergone a change in control during the prior 12 months.
- SSBs with total assets less than \$3 billion, a composite CAMELS rating of 1 or 2, but a management component rating of 3, or under a formal enforcement action, are examined every 12 months.
- SSBs of any asset size with a composite CAMELS rating of 3, 4, or 5 are examined every 12 months and are also subject to visitation approximately six months after the full-scope examination to assess progress on any identified regulatory concerns.

For timing purposes, the interval between examinations is measured from the completion date of the prior exam—defined as the transmittal date of the Report of Examination (ROE)—to the start date of the next exam, which is the earlier of either off-site or on-site work commencement. Compliance with examination priority scheduling guidelines is tracked using an Examination Log.

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An ROE is issued to the SSB to formally document the results of the full-scope examination.

Joint Limited-Scope Examinations

Joint Limited-Scope Examinations—also referred to as visitations—are supervisory reviews that do not meet the minimum requirements of a full-scope examination. These examinations are flexible in format and are conducted for various supervisory purposes, such as to:

- Assess changes in an SSB's risk profile
- Monitor compliance with a corrective action program
- Investigate adverse or unusual situations
- Evaluate progress in addressing deficiencies noted during the prior examination
- Serve as an investigative or supervisory tool

Depending on the scope and purpose of the review, examiners may assign a composite rating and component ratings for the areas sufficiently evaluated. Ratings for component not reviewed are carried forward from the most recent full-scope examination.

A standard ROE is not required for limited-scope examinations. Instead, results are typically documented in a memorandum from the EIC to the Commissioner or Deputy Commissioner, summarizing the scope and findings. Appropriate correspondence is also issued to the SSB to formally communicate the results of the examination.

Examination Process

Scheduling

Examinations are scheduled by the Director of Thrift, while the Supervisory Examiner assigns the examination team and key roles using *Shifts*, an application within Microsoft Teams.

The schedule includes all planned examinations, the assigned examiner(s), and identifies the designated Examiner-in-Charge (EIC) for each engagement. An Operations Manager (OM) may also be assigned for complex examinations.

In addition, the working schedule specifies the lead agency for each examination—SML, FDIC, or the FRB.

Pre-Examination

Prior to the start of on-site fieldwork, the EIC and, if applicable, the OM, conduct pre-examination off-site activities. These include planning meetings with the institution to discuss key logistics such as designated points of contact, workspace arrangements, the scope of the examination, and documentation requests.

The EIC is also responsible for completing the Examination Planning Module – Risk Scoping Activities and preparing the Pre-Examination Planning Memorandum. Pre-examination activities are generally completed within one week.

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Examination

SML utilizes the Examination Documentation (ED) Modules, a comprehensive examination tool developed and used by the FDIC, to execute its examination program. These modules include a set of Primary and Supplemental ED Modules that address the major functional areas of a financial institution.

The selection of ED Modules applicable to each examination is determined by the EIC based on the SSB's risk profile and business activities.

Examination teams typically consist of 8 to 10 examiners, depending on the SSB's size and the scope of the review. Once the fieldwork is complete and all applicable ED Modules and supporting documentation have been finalized, the EIC compiles and indexes the workpapers according to the standard format within the Examination Tools Suite (ETS).

ETS is the official tool used to store examination workpapers, generate loan scopes, and produce the ROE for the Community Bank Team. ETS is developed, maintained, and supported by the FDIC, and access to the system is managed accordingly by the FDIC

Post Examination

During the post examination phase, the EIC is responsible for drafting the ROE. Once the draft is complete, it is submitted to one of the three designated Supervisory Analysts within the Thrift Supervision section for review.

The Supervisory Analyst conducts a review of the ROE and prepares the Transmittal Letter, which is addressed to the SSB's Board of Directors. This letter is signed by either the Director of Thrift or the Supervisory Analyst and includes the following:

- Names of the lead examiners
- Examination start date
- Summary of findings, if any
- Required response date from the SSB (if significant findings were noted)

Simultaneously, the ROE undergoes final review and approval by the Commissioner, who provides the final sign-off before the report is officially released. The finalized ROE, which accompanies the Transmittal Letter, includes signatures from the EIC, the FDIC examiner, and either the FDIC Assistant Regional Director or Regional Director.

The review and editing of the ROE is tracked in SharePoint, which allows reviewers to audit all changes made to the report, including added signatures and comments made throughout the review process.

For examinations that result in significant findings, the SSB's Board of Directors is required to formally review and approve the report prior to its release. In these cases, the Department requests a written response from the SSB within 30 to 60 days following issuance of the report. The exact response timeline is determined based on:

- The severity of the findings
- The timing of the report, and
- The SSB's ability to reasonably develop a corrective action plan

Internal Audit Annual Report Fiscal Year 2025

All reported findings are subject to follow-up during the subsequent examination to assess the SSB's progress in addressing the identified issues.

Examiner Training

In accordance with the Area's Training and Development Policy, Thrift Financial Examiners are required to complete 80 hours of training each fiscal year. Annually, the Thrift Director prepares an individual training plan for each employee. These plans are designed to ensure that employees receive sufficient and appropriate training to meet the required hours and to support the development of competencies relevant to their roles.

A Financial Examiner's level (i.e. IV, V, VI, VII) is determined by their job description. When one is able to perform the duties of the classification, they are promoted to that level.

For an examiner to be a Commissioned-Equivalent Examiner, the examiner must complete all five FDIC schools and completed 2 or more full scope examinations under the supervision of a Commissioned-Equivalent Examiner. Examiners can also be commissioned by other regulatory agencies (FDIC, OTS, FRB, etc.).

Performance Measures

There are three performance measures associated with the Area:

Outcome Measure: Percentage of state-chartered savings institutions receiving examination within the required timeframes.

This measure is calculated by dividing the cumulative number of state-chartered savings institutions examined by SML, the FDIC, or the Federal Reserve Bank—according to the examination priority schedule—during the reporting period by the number of savings institutions required to be examined under SML's priority schedule for that same period.

Output Measure: Number of state-chartered savings institution examinations performed.

SML staff maintains a tracking log that records the status of examinations and responses (e.g., examination type, date examination began and completed, date report issued, date of response by the institution, etc.). This log serves as the basis for capturing the number of all types of examinations performed on savings institutions under SML's jurisdiction.

Efficiency Measure: Assets examined per examiner day (in millions)

This measure is calculated by dividing the total assets of state-chartered savings institutions examined by the number of examiner days available during the reporting period.

Internal Audit Annual Report Fiscal Year 2025

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of this audit was to assess whether the policies, procedures, and internal controls within the Thrift Examinations Area provide reasonable assurance that examinations of Texas-chartered savings banks (thrifts) regulated by SML are conducted effectively, timely, and in compliance with applicable laws and regulations.

Scope

The scope of this audit included selected functions within the Area during the 7-month period from September 1, 2024 to March 31, 2025 (audit period).

Methodology

The audit methodology included reviewing applicable laws and regulations, internal policies and procedures, and other relevant documentation. Interviews and walkthroughs were conducted with appropriate SML personnel to gain an understanding of current practices and control activities.

We performed procedures to achieve the audit objective, including the following:

- 1. Reviewed applicable requirements in the Texas Finance Code, Texas Administrative Code, and the Federal Deposit Insurance (FDI) Act relevant to the Area.
- 2. Reviewed the Area's documented policies and procedures, as well as supporting documents such as templates and tracking logs. We also conducted interviews and walkthroughs to evaluate internal controls, processes, and current practices.
- 3. Selected a random sample of 5 out of the 26 examinations that were completed, pending, or in the fieldwork stage during the audit period. For each selected examination, we:
 - a. Verified that commencement occurred in a timely manner based on the established priority schedule.
 - b. Confirmed, as applicable, that the Transmittal Letter and Examination Tracking Log reflected the same examination date.
 - c. Confirmed, as applicable, that the Transmittal Letter and the scheduling application, Shifts, identified the same EIC or Central Point of Contact for large banks.
 - d. Verified, as applicable, that the ROE or Memorandum underwent the appropriate review process by examining the SharePoint ROE Tracking Log or other available supporting documentation.
- 4. Selected 4 Field Examiners to test the following attributes:
 - a. Compliance with designation requirements as a Commissioned-equivalent Examiner, if applicable.
 - b. Completion of the recommended training hours.
- 5. Confirmed the accuracy of reported data for the FY25 second quarter Output Measure: *Number of state-chartered savings institution examinations performed.*

Internal Audit Annual Report Fiscal Year 2025

VI. Observations/Findings and Recommendations

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

As SML's internal auditors, we used our professional judgment in rating the audit findings identified in this report. The rating system was developed by the Texas State Auditor's Office and is based on the degree of risk or effect on the findings in relation to the audit objective(s). The table below presents a summary of the observations/findings and recommendations included in this report and the related rating.

Summary of Observations/Findings & Recommendations and Related Ratings						
Finding No.	Title	Rating				
	None.					
Observation No.	Title					
1	Examination Procedures	-				

Description of Rating

A finding is rated *Priority* if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

A finding is rated *High* if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

A finding is rated *Medium* if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

A finding is rated *Low* if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Internal Audit Annual Report Fiscal Year 2025

OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
1	6/19/25	Thrift	OBSERVATION
		Examinations	1. Examination Procedures
			During our review, we noted that procedures related to the examination process – specifically scheduling, pre-examination, examination, and post-examination activities – are not formally documented. While staff appear to have a thorough understanding of the established practices, the absence of current, formalized procedures may increase the risk of inconsistent operations, particularly in the event of staff turnover or the need to train new personnel.
			Recommendation We recommend that SML formally document its current examination procedures. This documentation should clearly outline responsibilities, timelines, systems and tools used (e.g., SharePoint, ED Modules, ETS), and review/approval steps for each phase of the examination process. Additionally, we recommend that procedures be reviewed and updated periodically to ensure they remain aligned with current practices and technology.
			Management's Response Procedures and work instructions will be documented for the processes noted by December 31, 2025.

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with explanation if not yet fully implemented
1	6/3/25	2025 Follow-Up	Follow-Up of the Prior Year Internal Audits	
		ronow-op	Following is the status of the recommendations made during fiscal year 2024 that had not been fully implemented.	
			Mortgage Grant Fund Administration (Report date 6/24/2024)	
			1. Finance Commission Reports	
			Following were our recommendations related to our review and comparison of the semi-annual report summaries provided to the Finance Commission with the Semi-Annual Reports provided by the grantees:	
			SML should implement a review process for the Semi- Annual Report summaries provided to the Finance Commission to ensure accurate information is presented.	Fully Implemented
			 SML should consider developing and using an online form for the Semi-Annual Reports that the grantees can access, such as a Google form, to automatically summarize the information submitted by the grantee and decrease the opportunity for errors. 	Incomplete/Ongoing
			FY25 Status Explanation: SML has not yet implemented an online form; however, evaluation of such a solution is ongoing.	
			 SML should continue its efforts in developing and implementing a discrepancy form where grantees can provide explanations for identified discrepancies. 	Fully Implemented
			2. Risk Assessments	Fully Implemented
			SML should implement formal procedures for addressing the assessed risks of a grantee and retain documentation of the actions taken to address these risks.	
			3. Grant Application Evaluations	Fully Implemented
			SML should provide training to the MGAC members to assist them in completing the MGAC Reviewing Matrix forms and ensure that each MGAC member completes a form for every application. Additionally, SML should develop, document, and implement processes and procedures for selecting applicants based on their scores and for determining the rationale behind grant award allocations.	

Report No.	Report Date	Name of Report		Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with explanation if not yet fully implemented
1	6/3/25	2025	4.	Application Eligibility Checklist	Fully Implemented
		Follow-Up		SML should ensure that all the required documents, including the checklist, are submitted with the application to verify completeness and the applicant's eligibility. Additionally, SML should consider developing an application checklist that lists all required documentation to assist the Grant Coordinator during the initial review process.	
			5.	Ineligible Applicant	Fully Implemented
				SML should develop procedures to verify applicant eligibility, including confirming that the organization is not licensed with SML, before entering into a grant agreement.	
				Observations	
			1.	Grant Program Due Dates	Fully Implemented
				SML should continue its efforts to develop and implement a calendar for the next grant cycle, which includes establishing deadlines for both SML and applicants. Additionally, an official application due date should be set for the next grant cycle.	
			2.	Grantee Reimbursement Tracker	Fully Implemented
				SML should consider developing and implementing a standardized spreadsheet for grantees to summarize their expenses. This would reduce the burden on the Grant Coordinator and minimize the likelihood of human error.	
			3.	Expense and Variance Reports	Fully Implemented
				As part of the Semi-Annual Reports submitted by the grantees, an Expense and Variance Report was required. This report compares budgeted expenses to actual expenses to date. Variances greater than 5% required explanatory comments and email notification to the Grant Coordinator, while variances of 10% or more required approval from the Grant Coordinator.	
				We recommended that SML assess the necessity of these procedures and requirements for the administration of the MGF program.	

DEPARTMENT OF SAVINGS AND MORTGAGE LENDINGInternal Audit Annual Report
Fiscal Year 2025

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with explanation if not yet fully implemented
1	6/3/25	2025 Follow-Up	FY25 Status Clarification: SML determined the procedure and variance reporting requirements for the program were unnecessary. In June 2024, SML implemented the use of an MGF Budget or Goal Change Request Form, which—if approved—becomes an addendum to the grantee's Grant Agreement. The updated MGAM requires grantees to submit this form immediately when requesting a budget change of ±10% in any budget category. The internal SML MGF—Grant Program Procedures outlines the process for reviewing and approving these requests. Following is the status of the recommendation made during fiscal year 2023 that had not been fully implemented. Mortgage Examinations (Report date 6/9/2023)	
			 Examination Files Testing Training should be provided to the Mortgage Examiners to enforce the importance of compliance with established policies and procedures; and, to ensure all required procedures are consistently performed. 	Fully Implemented

Internal Audit Annual Report Fiscal Year 2025

VII. External Audit Services Procured in Fiscal Year 2025

SML procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2025. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

SML has provided information on their website home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. SML has also developed a Fraud Prevention Policy that provides information on how to report suspected fraud, waste, and abuse to the SAO.

IX. Proposed Internal Audit Plan for Fiscal Year 2026

The risk assessment performed during fiscal year 2025 was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2026. The Internal Audit Plan for Fiscal Year 2026 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

- Thrift Supervision and Compliance Audit
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission or the Audit Committee

ATTACHMENT

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING History of Areas Audited For Fiscal Year 2025

Fiscal Year Audited/Reviewed POTENTIAL AUDIT TOPIC 2016 2018 2022 2023 2024 2015 2017 2019 2020 2021 2025 Consumer Responsiveness **B*** D **B*** Financial Reporting (Includes Asset Management & Travel) D*/E* 2 В В Legal and Enforcement В D **B*** 3 A Management Information Systems [(MIS) Includes Disaster Recovery Plan] R* C/D* A1* \mathbf{C} C B*/C A 5 Mortgage Examinations A В* D G^* A **B*** Mortgage Grant Fund Administration A Mortgage Licensing and Registration G* B* D Payroll and Human Resources E* F*B*/F*H* 9 Procurement/Contract Management/HUB E*/D* В Α Records Management Α Revenue Accounting Process В D* В 11 12 Thrift Examinations Α D A/B* Thrift Supervision and Compliance B* A/D 13

Note: Performance Measures are included in the scope of the applicable audit area(s).

Legend (audits/reviews with an asterisk are considered limited scope for the audit area)

- A Internal audit performed by Garza/Gonzalez & Associates, CPAs.
- A1 Internal audit performed by McConnell & Jones LLP.
- **B** Audit performed by the State Auditor's Office (SAO).
- C IT assessment performed by the Department of Information Resources (DIR) or a third-party vendor procured through the DIR.
- **D** Sunset Review performed by the Sunset Advisory Commission.
- E Post Payment Audit performed by the Comptroller of Public Accounts (CPA).
- F Review performed by the Texas Workforce Commission.
- G Mortgage accreditation review performed by the Conference of State Bank Supervisors.
- H Criminal checks review performed by the Department of Public Safety (DPS).

Periodic vulnerability scans are performed by the DIR or a third-party procured through the DIR, which are considered standardized reviews and therefore not reflected in this schedule by year.

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Texas Financial Education Endowment (TFEE)

J. ACTIVITIES RELATING TO THE TEXAS FINANCIAL ENDOWMENT FUND

The 2024-2025 TFEE third grant cycle semi-annual reports were due at the end of July. Reimbursement requests are under review and are being processed. The complete third semi-annual report will be available during the October Finance Commission meeting.

The application window for TFEE's 2026-2027 grant cycle opened on June 23, 2025. TFEE is currently soliciting applications through its website, in-person, by direct targeted email, and via social media. Agency staff presented information about TFEE at the Texas Bankers Association Financial Literacy Summitt in July and an informational webinar was held on August 11. The deadline to submit applications is September 1, 2025. Agency staff have prepared a grant scoring training video for Grant Advisory Committee members (GAC). Grant applications will be reviewed and scored in September, with recommendations for grant awards during the October Finance Commission meeting. The 2026-2027 grant cycle will begin January 1, 2026.



Mortgage Grant Fund Activities Report — July 31, 2025

Activities Relating to the Mortgage Grant Fund (MGF)

2023-2024 Grant Cycle Longitudinal Reports

Grantees awarded under the 2023–2024 MGF cycle were required to submit final longitudinal reports by June 30, 2025. These reports evaluate program impact, financial literacy gains, and pathways to homeownership after the grant period ends.

Summary of Outcomes

- Individuals served: Across the cohort, over 4,800 individuals were reached with financial coaching, counseling, workshops, and education.
- Homeownership outcomes: At least 161 home purchases were documented across programs, including:
 - o 115 through Credit Coalition
 - o 17 through Brazos Valley Affordable Housing
 - 11 through Galilee CDC
 - Additional households prepared or pre-approved through other programs
- Workshops and courses:
 - Over 100 total courses delivered, including financial literacy and homebuyer education.
 - Galilee CDC hosted 40 classes, and Grassroots offered 24 financial and 16 homebuyer education classes.
 - Several programs incorporated Spanish-language instruction, hybrid/virtual models, and onsite sessions at sober living facilities, housing authorities, or rural outreach events.
- Challenges noted:
 - Long-term engagement and class attendance remain difficult, particularly with high-need populations.
 - Economic pressures, especially inflation, interest rates, and rising home prices, continue to hinder progress.
 - Barriers to digital access and inconvenient class scheduling were cited repeatedly.
 - Some grantees noted that program success was driven heavily by mandatory partner referrals rather than voluntary participation.

2025-2026 Grant Cycle - Reimbursement Period Open

The 2025-2026 MGF grant cycle concluded its first semi-annual reporting and reimbursement period on June 30, 2025. Grantees' semi-annual reports, including reimbursement requests, were due by July 30, 2025.

In July, the Grant Coordinator conducted meetings with all moderate-risk grantees to review potential areas of concern, assess associated risks, and evaluate the mitigation strategies currently in place. No significant risks were identified during these discussions, and all grantees remain in compliance with program requirements.

Program Administration Updates

Effective July 10, 2025, the Mortgage Grant Fund rules previously located in 7 TAC Chapter 51 have been relocated to 7 TAC Chapter 52. The Grant Coordinator is updating all MGF program materials to reflect this change.

Updates to the Mortgage Grant Administration Manual (MGAM) have been made accordingly. As required by statute, changes made to the MGAM must be approved by the Finance Commission and are therefore included in the August FC meeting materials.



Mortgage Grant Administration Manual

Effective: 10/28/2022

Revised: 06/05/202408/15/2025



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II. Purpose

The Mortgage Grant Administration Manual (MGAM)'s purpose is to <u>establish outline</u> the policies and procedures for the administration of the Mortgage Grant Fund (MGF) grant program.

A. Background

The MGF was established by the 87th Texas Legislature by enactment of Texas Finance Code Chapter 156, Subchapter G. The MGF is also governed by SML's administrative rules (regulations)-contained in 7 Texas Administrative Code Chapter 51, Subchapter E52. The MGF is funded primarily by excess revenue transferred from the Recovery Fund (Texas Finance Code Chapter 156, Subchapter F) and penalties collected by SML. Funds distributed from the MGF are only used for the purposes set forth in Texas Finance Code Section 156.554to provide grants to qualified organizations that provide adult financial education to consumers relating to mortgage loans.

III. Administration and Investment

The Commissioner of the Department of Savings and Mortgage Lending (SML) serves, as manager of the MGF and, manages the fund in accordance with Texas Finance Code Chapter 156, Subchapter Gadministers all aspects of the MGF, with oversight from the Finance Commission of Texas.

The MGF is subject to the written Investment Policy adopted by SML.

W.III. Roles and Responsibilities

A. Finance Commission (FC)

- 1. May request reports from the Commissioner regarding the status and activities of the MGF.
- 2. Makes recommendations to the Commissioner as appropriate.
- 3. Approves the MGAM, and any amendments to the MGAM.

B. Finance Commission Audit Committee (AC)

- a) Proposes program amendments to the Commissioner, including amendments to the MGAM.
- b) Approves the MGAM, and any amendments to the MGAM.



- 1. Receives periodic reports from the Commissioner regarding the status and activities of the MGF grant program.
- c)2. Mand makes recommendations to the Commissioner as appropriate.

C. Department of Savings and Mortgage Lending (SML) Commissioner (Commissioner)

- a)1. Serves as manager of the fund and provides grant coordination oversight.
- b)2. Administers all aspects of the fund, which includes the deposit, transfer, disbursement, allocation, investment, and reinvestment of assets of the MGF.
- <u>e)3.</u> Maintains financial records of revenue and expenditures.
- <u>d)4.</u> Appears at hearings or judicial proceedings related to the fund.
- e)5. Allocates funds to the MGF grant program each grant cycle.
- f)6. Reviews and approves recommendations regarding program improvements.
- g)7. Develops programfunding objectives priorities and identifies methods to support adult mortgage financial education to consumers regarding relating to mortgage loans.
- h)8. Appoints members to the Mortgage Grant Advisory Committee (MGAC).
- i)9. Determines the final selection of grant recipients, funded grant activities, and award amounts.

D. Grant Coordinator

- a)1. Works under the direction and oversight of the Commissioner.
- b)2. Provides reports and presentations regarding the status of the grant program and Grantee activities status and activities of the MGF grant program.
- e)3. Acts as liaison between Grantees, the Commissioner, and the MGAC.
- <u>d)4.</u> Makes recommendations based on observed program needs to the MGAC and the Commissioner.
- e)5. Ensures compliance with the records retention policy.
- f)6. Recommends policy and procedure amendments to ensure successful and effective implementation of the MGF grant program.
- <u>g)7.</u> Makes recommendations concerning MGAC membership.
- h)8. Publicizes and promotes MGF grant application opportunities.



- <u>i)9.</u> Ensures consistency with the Texas Grant Management Standards (TxGMS) adopted by the Texas Comptroller of Public Accounts.
- <u>j)10.</u> Maintains the MGF webpages, located on the SML website <u>(sml.texas.gov)</u>, <u>with program information and materials</u>.

E. Mortgage Grant Advisory Committee (MGAC)

- a)1. Evaluates grant applications to determine whether the application should be approved, recommends modifications to the goals for funded grant activities, and the amount of the grant award; Recommends program improvements to the Commissioner and Grant Coordinator.
- At the request of the Grant Coordinator, Monitors ongoing grant awards to determine evaluates grant compliance and address issues of non-compliance;
- b)3. Considers potential amendments to the MGAM-; and
- c)4. Evaluates potential candidates for appointment to the MGAC.
- d) Monitors ongoing grant awards to determine compliance.
- e) Reviews and recommends potential grant recipients for the MGF grant program to the Commissioner and Grant Coordinator.

V.IV. Mortgage Grant Advisory Committee Policy

F.A. Composition

- a)1. The MGAC serves in an advisory role to the Commissioner and Grant Coordinator concerning administration of the fund and the grant awards to be made from the fund MGF grant program as stated in 7 Texas Administrative Code § 52.51.404.
- b)2. The MGAC consists of no more than six members with varied experience in mortgage lending, mortgage financial education, or grant administration, as described by the list of roles below. (list ____ The list below is not all-inclusive exhaustive, and the Commissioner reserves the right to may include other appropriate backgrounds as appropriate).
 - a) Mortgage Loan Financial Education Consultant informs the group of existing programs and advocates for the needs of the mortgage financial education community.
 - Educational Consultant understands best practices for impacting delivering education. Assesses the program proposals grant proposals for effective measures of knowledge gained.



- c) Office of Consumer Credit Commissioner (OCCC) Representative Recommended by OCCC to advocate for programs that include mortgage loan education concerning loans or transactions regulated by the OCCC (secondary mortgage loans, home equity loans, residential property tax loans, and manufactured housing loans) focused on asset building, affordable housing, and preparation for home ownership.
- d) Grant Administrator Objectively a<u>A</u>ssesses, evaluates, and makes recommendations regarding the grant administration process.
- e) Consumer Advocate Advocates for consumers based on community engagement and needs assessment.
- e)3. The MGAC designates, through a majority vote, one MGAC member to serve as the presiding officer at MGAC meetings.

G.B. Conflict of Interest

- a)1. Members An MGAC member may not derive any personal profit or gain, directly or indirectly, by participating with the MGF.
- b)2. Members Each MGAC member must attest to the MGAC sign a Conflict of Interest Policy form annually, prior to participating in the Grantee selection process and program discussions.
- e)3. Members Each MGAC member must disclose to the Grant Coordinator any personal or professional interests that may pose a potential conflict and must refrain from participating in any discussion or funding decisions related to the conflict of interest or funding decisions.
- d)4. Members Each MGAC member must refrain from obtaining using applicant or Grantee information for personal or private solicitation purposes at any time during the term of their appointment.

H.C. Appointment and Terms

- a)1. Prospective MGAC members are may be recommended by the MGAC and are appointed by the Commissioner.
- b)2. Each MGAC member is appointed to a four-year term that corresponds with grant cycles. The Commissioner may establish shorter or longer terms to maintain staggered terms. MGAC members take office immediately following their appointment.



e)3. In the event of an MGAC vacancy due to a regularly expired term or vacancy during an unexpired term, the Commissioner appoints a new MGAC member(s).

L.D. Meetings

- a)1. Meetings are attended by:
 - (1)a) the Commissioner;
 - (2)b) the Grant Coordinator;
 - (3)c) MGAC Members; and
 - (4)d) any other participant(s) invited by the Commissioner deems helpful or appropriate.
- b)2. The MGAC meets during the grant cycle for the following purposes (. This list is not all-inclusive exhaustive).
 - (1)a) Providing consultation and technical assistance to the Grant Coordinator.
 - (2)b) Assisting with major project management decisions associated with awarded grants, including:
 - i. evaluating and recommending candidates for the MGF grant program to the Commissioner and Grant Coordinator:
 - ii. monitoring <u>a Grantee's</u> <u>budget and project's</u> unspent funds <u>and</u> <u>associated funding</u>; and
 - iii. offering input, interviewing, and recommending new MGAC members to the Commissioner and Grant Coordinator.
 - (3)c) The MGAC makes recommendations to the Commissioner and Grant Coordinator for MGAC membership, consideration of specific award allocations, termination of grant agreements for noncompliance, and amendments to program policies and procedures.

VI.V. Mortgage Grant Fund Oversight

MGF grant funds are used to support the priority and goals for the MGF grant program set by the Commissioner. The priority of the grant fund is to promote financial literacy that enables Texans to secure home ownership.



J.A. Audits

The Commissioner, AC, or FC may request an internal or external audit to examine compliance if and when deemed necessary.

K.B. Reimbursement Requests

- a)1. Are executed pursuant to the grant agreement.
- b)2. Are based upon satisfactory compliance and performance outcomes.

VII.VI. Maximum Grant Awards

- a)1. The Commissioner determines the funding available and allocated to each of the purposes of Finance Code § 156.554(b)for each grant cycle.
- b)2. The aggregate award amount is determined by the Commissioner prior to each grant cycle.

VIII. Process Overview

LA. Intention

The MGF may have one competitive grant cycle every two years. Announcements for the grant proposals application period are made available after the June Texas Finance Commission meetingin Summer of each even-numbered year, with submissions grant applications due by the end of August of every even even-numberedthat year.

M.B. Stage 1 – Administration

- a)1. The MGAC and Grant Coordinator provide the Commissioner with policy recommendations based on observed program needs.
- 2. The Grant Coordinator:
 - <u>a) 1)</u> develops and revises forms for the <u>grant cycle</u>, <u>including the </u><u>G</u>grant <u>Aa</u>pplication, <u>G</u>grant <u>Aa</u>greement, grant reports, and evaluation and tracking tools;
 - b) 2) establishes the timeline for the grant cycle; and
 - b)c) ____3) publicizes opportunities to apply for a grant from the MGF.



N.C. Stage 2 – Policy Development and Implementation

- a)1. The MGAC provides recommendations to the Commissioner to for approve program development and to approve program modifications.
- b)2. Upon On the Commissioner's approval of program requirements for the grant cycle, the Grant Coordinator ensures all administrative and Grantee documentation are is in place for grant announcements, such as applications, webinars, grant reports, grant agreements, and policies and procedures; and updates the MGF webpage accordingly.

O.D. Stage 3 – Grantee Selection

- a)1. The Grant Coordinator receives and prepares applications for the first phase of screening by: confirming: confirming eligibility, ensuring applications are complete and have beenwere timely submitted, logging applicant information, conducting a risk assessment, and submitting eligible applications to the MGAC for evaluation.
- b)2. The MGAC evaluates applications and provides recommendations to the Commissioner upon after reviewing of the MGF budget, grant structure, number of awards and amounts to be funded, method of funding, and reporting requirements.
- —The Commissioner reviews recommendations from the MGAC and selects award recipients.

e)4. After selections have been made, the Grant Coordinator sends each applicant an award letter or a letter of regret. The Grant Coordinator sends grant recipients a grant agreement for their review and signature. The grant agreement must be fully executed by the Commissioner or designee, and the Grantee, before grant activities approved for funding may begin.

P.E. Stage 4 – Manage Grant and Measure Progress

The grant cycles starts, and the Grantee begins funded grant activities. The Grantee Grantee is responsible for tracksing and reportings program progress to the Grant Coordinator, as well as assessinges and communicatingtes program successes, challenges, and impact.

1.

a)2. In collaboration with the MGAC, tThe Grant Coordinator develops a strategy for ongoing grant managementmonitors grant compliance and to ensure

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- reports are timely submittedsubmitted timelyensures Grantee reports are submitted in a timely manner.
- b)3. The Grant Coordinator processes reimbursement requests and recommends disbursements from the fund. The Commissioner approves eligible disbursements from the fund. Funding is dependent on program impact and grant compliance.
- e)1. The Grantee is responsible for tracking and reporting program progress, as well as assessing and communicating program success, challenges, and impact.
- d)—The Grant Coordinator provides technical assistance to Grantees and offers opportunities for regular consultation.
- e)4. The Grantee submits a final report summarizing the impact, results, and consumer follow-up surveys (longitudinal report, due six months after program completion).
- f)5. Program evaluation addresses The Grant Coordinator evaluates areas of risk or concern, identifies issues of non-compliance, identifies risks, and recommends directs specific deliverables corrective action to remedy non-compliance. The Grant Coordinator may request the assistance of the MGAC for this purpose, which may make recommendations.
 - g) The MGAC makes recommendations to remedy issues of non-compliance.

IX. VIII. Purpose of the MGF Grant Program Funding Priorities and Goals

Q.Priorities

This section identifies priorities that support statewide mortgage financial education and consumer credit building activities that lead to tangible improvements in financial health, enabling consumers to obtain and maintain mortgage loans. With recommendations from MGAC, the Commissioner selects where the program's efforts will focus prior to the start of a new grant award cycle. The purpose of the MGF grant program is to provide funding to qualified organizations that provide adult financial education to consumers relating to mortgage loans. Applicants for a grant must establish goals that demonstrate how their proposed grant activities align with the purpose of the MGF grant program. Goals approved for funding are included in the



grant agreement governing the grant award. Prohibited and permissible uses of MGF grant funds are specified in the grant agreement. Activities that align with the purpose of the MGF grant program include, but are not limited to:

- Education that helps Texans understand the benefits and potential drawbacks of home ownership;
- 2. Educating Texans about the different mortgage loan types (e.g., conventional (conforming loans), FHA, VA, and USDA), their eligibility requirements, and associated costs;
- 3. Educating Texans about the typical criteria used to evaluate a consumer's qualifications for a mortgage loan (e.g., credit score, debt-to-income, loan-to-value);
- 4. Educating Texans about opportunities for financial assistance to obtain a mortgage loan (e.g., down payment assistance programs);
- 5. Consumer credit counseling that improves the financial characteristics of Texas consumers to qualify for a mortgage loan, including budgeting and saving strategies, building credit, and improving credit scores; and
- 6. Train-the-trainer programs relating to the above.

R. Goals

The type of activities (goals) that support the MGF grant program are those that:

- a) Identify and support financial literacy education;
- b) Counseling that leads to homeownership; and
- c) Train-the-trainer programs relating to goals (a) and (b) above.

These activities must provide financial literacy that leads to home ownership by working directly with members of the community without financial prejudice.

Key areas to financial literacy that lead to home ownership include the following topics:

- a) Budgeting and saving
- b) Building and improving credit
- c) Investment homeownership
- d) Debt management

X.IX. Pre-award Requirements



A. Organizational Eligibility

Non-profit organizations, governmental organizations, schools, for-profit entities impacting Texanspolitical subdivisions of Texas, and auxiliary mortgage loan activity companies (see Appendix A, Definitions) licensed by SML, and mortgage loan servicers (see Appendix A) registered with SML that are non-profit organizations are eligible to apply for grant funding. Other than auxiliary mortgage loan activity companies, and mortgage loan servicers that are non-profit organizations, eligibility is not open to financial service providers registered financial services companies registered under Texas Finance Code § 156.2012, or any entities regulated by the Finance Commission of Texas. any other entities licensed by or registered with SML.

B. Program Criteria and Grant Application

- a)1. The During the application period for a grant cycle, Program Guidelines and Instructions for application submission are posted on the MGF webpage, located on the SML's website (sml.texas.gov).
- b)1. An Applicant's program must accomplish the following:
 - (1)a) Align with MGF goals the purpose of the MGF grant program or strategies.
 - (2)b) Demonstrate effective evaluative evaluation tools and metrics, including the ability to collect and report required data in the semi-annual report.
- (3) Predict or provide evidence of program impact.
- (4) Provide longitudinal evidence of performance and outcomes at the end of the grant cycle including the ability to demonstrate adequate return on investment and documented strategic goals.
- e)1. Applicants must read and follow all application guidelines and instructions.
- d) Applications that do not comply with the guidelines and instructions on the MGF webpage are not considered.
- e)1. Meeting eligibility criteria and timely submission of ting a Grant Application does not guarantee award of a grant in any amount.

C. Application Submission

a)1. Applicants may apply via mail or emailmust apply electronically and follow all instructions for submitting the application. Documents submitted by email



receive an automatic date stamp upon receipt; this "digital" date stamp provides sufficient and accurate evidence of timely submission. Documents received by regular mail are stamped with a date received on the day the document is physically received.

- b)2. A new grant programming cycle opens on January 1 of every odd-numbered year. The application submission period occurs in the even-numbered year preceding the grant programming cycle, typically beginning in the Summer, and with applications due by the end of August of that year.
- 3. Applicants may apply for a grant programming cycle of:
 - <u>a) 1) one year, beginning on January 1 of every odd-numbered year and ending December 31 of every odd-numbered year</u> and
 - e)b) 2) two years, beginning on January 1 of every odd-numbered year and ending December 31 of the following even-numbered year.
- d)4. The Grant Coordinator confirms receipt of a grant application via responsive email sent to the Applicants, of Grant Applications received. Applications are only accepted on or before the due date. Late or incomplete applications are not considered.

D. Application Review and Selection Process

- a) Funding consideration is given to organizations whose programs align with the purpose of the MGF grant program grant program priorities and goals. Successful applicants must demonstrate evidence based programming that increases financial education, literacy, and capability that leadsleading to long-term, tangible improvements in financial health that would enable the consumer to obtain and maintain a mortgage loan.
- b)1. The application review and selection process consists of the following steps.
 - (1)a) The Grant Coordinator collects and reviews each application for for eligibility.
 - (2)b) The Grant Coordinator conducts a risk assessment.
 - (3)c) The Grant Coordinator submits eligible applications to the MGAC for evaluation consideration.
 - (4)d) The MGAC evaluates applications and recommends goal modifications, if warranted, and funding for programs.
 - (5)e) The Commissioner makes the final selections of award recipients and award amounts.



c)2. Upon completion of When the competitive application and review process is complete, the Grant Coordinator sends each applicant an award letter or letter of regret no later than the end of December of the year preceding the grant cycle year.

E. Public Records

- a)1. Texas Public Information Act: All information, documentation, and other materials submitted are subject to public disclosure under the Texas Public Information Act (Texas Government Code Chapter 552), unless a specific exception applies.
- b)2. A full-list of individuals and organizations selected for an award is published on the MGF webpage, located on the SML website (sml.texas.gov).
- e)3. Information may be publicly available and published online (MGF webpage, SML website, or Finance Commission website).

XI.X. Post-award Requirements

A. Grant Agreements

- a)1. Grant Agreement has the meaning assigned in Appendix A, Definitions.
- b)2. Once a Grantee has been selected, and prior to the Grantee initiating beginning any grant-funded grant activities, the Grantee and the Commissioner or the Commissioner's designee, must sign the Grant Agreement.
- c)3. The terms of the grant award are defined specified in the Grant Agreement and end either one or two years after the grant has been awarded unless it ends earlier in accordance with another provision.
- 4. Expenses incurred before the beginning of or after the Grant Agreement ends are not eligible for reimbursement.
- d)5. The Commissioner may withhold reimbursements when a grantee is not in compliance with the Ggrant Aagreement or other requirements outlined in 7 Texas Administrative Code Section §52.6(g).
- e)6. Unless otherwise specified by the Grant Agreement, the Grantee must collect required data and report grant-funded activities until the end of the grant cycle unless otherwise specified by the Grant Agreement.



B. Mortgage Grant Fund's (Grantor) Obligation

- a)1. The Grantor reimburses the Grantee for actual, allowable, and allocable costs incurred by the Grantee pursuant to the Grant Agreement up to the maximum amount of the grant award.
- b)2. The Grantor is not obligated to pay unauthorized costs. The Grantee must obtain prior written approval from the Grantor, if the Grantee anticipates any of the following:
 - (1)a) altering the scope of the grant including changes to the approved budget or goals; or
 - (2) adding funds to previously unapproved budget categories;
 - (3) changing funds in any awarded budget category by more than 10% of the total amount awarded for that category.; or
 - (4)b) adding new line items to any awarded budget category.
- c)3. The Grantor's maximum liability under the Grant Agreement is the "Amount Awarded." amount of the grant award specified in the Grant Agreement.
- <u>d)4.</u> Reimbursement of awarded funds is not an entitlement or right. Reimbursement depends on, <u>among other things</u>, strict compliance with all terms, conditions, and provisions of the Grant Agreement, <u>statutory requirements</u>, and <u>this manualthe MGAM</u>.
- e)5. The Grantor monitors a Grantee's performance and expenditures. The Grantor may conduct virtual or on-site audits of grant programs.

C. Grantee's Obligation

- a) The Grantee may use grant funds only to create, deliver, or expand the Grantee's financial education programs within the State of Texas and in compliance with the grant program requirements.
- b)1. Grantee must use grant funds in accordance with all the following:
 - (1)a) all applicable federal and state laws and regulations;
 - (2)b) Grantee's applicationthe MGAM;
 - (3)c) the terms of the Grant Agreement signed by the Commissioner or the Commissioner's designee and the grantee;
 - (4)d) the MGAM; all reporting and monitoring requirements, as outlined in the Ggrant Aagreement; and



- (5)e) any other guidelines and instructions—as posted on the MGF webpage for the applicable grant cycle.
- e)2. The Grantee must cooperate fully with the Grantor.
- d)3. The Grantee must notify the Grantor within 30 days of discovering any significant changes or events occurring during the term of the Grant Agreement that could potentially impact the progress or outcome of the grant program, including, but not limited to, the following changes:
 - (1)a) Changes in the Grantee's management personnel or other key individuals;
 - (2)b) Changes in the Grantee's operating location, the location of business records, or the location where funded assets or equipment is located; Physical or mailing address
 - (3)c) Loss of operating funds (other than MGF grant funds), including any funding disclosed in the grant application funding; and
 - (4)d) Changes to the Grantee's non-profit status with the Internal Revenue Service, if applicable.
- e)4. Failure to give the required 30-day notice of significant changes or events is grounds for termination of the Grant Agreement.
- <u>5.</u> The Grantee's fiscal and programmatic management <u>must</u> include <u>internal</u> <u>controls designed to:</u>
 - a) ensures
 accountability for all funds and materials received from the Grantor;
 - <u>b)</u> compliance with <u>the</u> Grantor's rules, policies, and procedures, as well as applicable federal and state laws and regulations; and
 - f)c)correction of fiscal and program management deficiencies identified through self-evaluation or the Grantor's monitoring processes.
- g)6. The Grantee must develop, implement, and maintain all the following:
 - (1)a) financial management and control systems that include appropriate financial planning, including the development of budgets that adequately reflect all functions and resources necessary to carry out authorized activities and the adequate determination of costs;
 - (2)b) financial management systems, including accurate and complete payroll, accounting, and financial reporting records;
 - (3)c) cost source documentation such as receipts, bills, invoices, and statements;



- (4)d) effective internal and budgetary controls to trace the use of MGF funds specifically and separately from other funds used to support the same program;
- (5)e) documentation evidencing determination of reasonableness, allocation of costs, and timely and appropriate audits and resolution of any findings; and
- (6)f) annual financial statements, including statements of financial position, activities, and cash flows, prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) or other recognized accounting principles deemed acceptable to the Grantor.
- h)7. The Grantee must submit progress reports and reimbursement requests using the semi-annual reportcurrent forms prescribed by the Commissioner for the applicable grant cycle. The progress report must be detailed and include Each reimbursement request must contain legible supporting documentation to justify the reimbursement for all amounts shown in the request.
- i)8. The Grantee must comply with all laws, regulations, requirements, and guidelines applicable to a Grantee providing services to the State of Texas, as these laws, regulations, requirements, and guidelines currently exist and as they are amended throughout the term of the Grant Agreement.
- <u>j)9.</u> If a Grantee fails to use grant funds to <u>create</u>, <u>deliver</u>, <u>or expand financial</u> <u>education</u>, <u>literacy</u>, <u>and capability <u>capability</u> <u>building programs as described in the Grantee's <u>application approved goals as specified in the Grant Agreement</u>, the <u>the Grantor reserves</u> the right to do one or more of the following:</u></u>
 - a) terminate the Grant Agreement;
 - b) withhold grant funds;
 - c) require that the Grantee refund grant funds received;
 - d) submit an amended report to the Coordinator; and
 - e) determine that the Grantee is ineligible for future awards from the MGF.
 - (1) terminate the Grant Agreement;
 - (2) withhold the grant funds;
 - (3) require that the Grantee refund grant funds received;
 - (4) submit an amended report to the Coordinator; and
 - (5) determine that the Grantee is ineligible for future awards from the MGF.



D. Grantee's Reporting Requirements

- 1. MGF Semi-Annual Report: the Grantee must complete and submit a the completed MGF Semi-Annual Report documenting all funded grant activities. The report is the mechanism by which reimbursement requests are made. The MGF Semi-Annual Report covers the following time periods for each grant year and has the following due dates:
 - <u>a) covering the period of January 1st through June 30th, due no later than July 31st_30th; and</u>
 - a)b) and covering the period of July 1st through December 31st, due no later than January 30th 31st of each grant year. This report includes the reimbursement requests.
- b)10. Supporting documentation: the Grantee must submit legible supporting documentation for all expenditures with the submission of the MGF Semi-Annual Report. Examples of supporting documentation include but are not limited to:
 - (1)a) Pay stubs covering the hours and days worked on MGF related activities during the reimbursement request period.
 - (2)b) Dated and itemized invoices, receipts, and contracts indicating services were rendered and payment was made during the semi-annual reporting period.
- e)2. MGF Personnel Time Tracker: the Grantee must use and submit the MGF Personnel Time Tracker provided by the Grantor and submit the tracker and pay stubs, with their MGF Semi-Annual Report, only if submitting for reimbursement of salaries, wages, or fringe benefits. Pay stubs may be redacted to remove sensitive personal information, but must sufficiently identify personnel.
- d)3. Sign-In Sheets or Rosters: the Grantees who offer mortgage financial education programs must submit copies of sign-in sheets or rosters, physical or electronic, listing the name or initials of attendees, and title, date, and length of the education course. The MGF does not prescribe a format for sign-in sheets or rosters and accepts any format submitted by Grantee so long as it contains the information listed in this section.
- e)4. Inventory Report: the Grantee must submit a current inventory report listing all equipment purchased with grant funds. The MGF does not prescribe a format for inventory reports and accepts any format submitted by the Grantee so long as it contains the following information: item, date of purchase, cost,



- where the equipment is being used (location of the property), percentage of time the equipment is being used for the program; and make, model, and serial number, if applicable.
- f)5.MGF Budget or Goal Change Request: Grantee must submit the MGF Budget or Goal Change Request immediately ilf the Grantee requests a +/-10% change to any approved budget category or their approved goals, the -Grantee must submit the MGF Budget or Goal Change Request immediately
- g) MGF Longitudinal Report: Grantee must submit this report to the Grantor no later than six months after the end of the grant cycle or as otherwise stated in the Grant Agreement.
- 6. Reimbursement Request Discrepancy Form: If the Grantor discovers errors or missing information in a Grantee's reimbursement request, the Grantor will return the packet accompanied by the Grantee a completed EXE 6.1.1M MGF Reimbursement Request Discrepancy Form . The form-listsing each discrepancy. and provides space for tThe Grantee must to-document how tehe issue was resolved in the "Response" columnspace provided. The Grantee must (1) complete all response fields, (2) attach any supporting documentation requested, and (3) resubmit the corrected forms and reimbursement materialsdocumentation to the Grantor within the timeframe stated in the notification so processing can resume.
- h)7. Pre- and Post-Program Surveys: Survey data is included in and is submitted with each MGF Semi-Annual Report. The Grantee must also submit the completed surveys to the Grant Coordinator. Surveys may be completed on paper or using an electronic survey mechanism as directed by the Grant Coordinator such as Survey Monkey, provided by the Grant Coordinator. Surveys should be provided to persons who attend the supported MGF program prior to the class, seminar, or similar event (pre-program survey), and after completion of the class, seminar, or similar event (post-program survey).
- i)8. The Grantee must promptly answer any questions by the Grantor, whether in writing or otherwise, in connection with the reports presented to the Grantorrelated to the grant.
- <u>j)1.</u> If <u>the</u> Grantee fails to comply with any of the reporting requirements as set forth in the MGAM, the Grantor may do one or more of the following:
 - a) terminate the Grant Agreement;
 - b) withhold grant funds;
 - c) require that the Grantee refund grant funds received;



- d) submit an amended report to the Coordinator; and
- e) determine that the Grantee is ineligible for future awards from the MGF.
- (1) terminate the Agreement;
- (2) withhold Grant reimbursements;
- (3) require that the Grantee refund Grant reimbursements distributions;
- (4) require that the Grantee submit amended report(s) to the Grantor; and
- (5) determine that the Grantee is ineligible for future MGF grant awards.
- the Grantee exhausts all funds prior to the completion of the grant term, the Grantee is obligated to continue to track, and report grant_grant_related activities for the remaining duration of the term outlined in the Grant Agreement.

XII.XI. Recordkeeping and Monitoring

A. Duty to Maintain Records

- a)1. The Grantee must maintain adequate records to support its charges, procedures, and performance for all work related to the Grant Agreement.
- b)1. The Grantee must maintain records that are deemed necessary by the Grantor, the State Auditor's Office, other auditors of the State of Texas, or any other persons designated by the Grantor, to ensure proper accounting for all costs and performances related to the Grant Agreement.

B. Record Retention

- a)1. For a period of three years after the end of the grant cycle, or until full and final resolution of all audit or litigation matters that arise after the expiration of the term, whichever is later, the Grantee must maintain any records that are necessary to fully disclose the extent of services provided under the Grant Agreement. There are no exceptions to this requirement.
- b)1. The three-year count begins on the date the Grant Coordinator provides notification tonotifies the Grantee that all administrative functions have been closed out for the grant cycle. The notification includes language advising the Grantee that the retention period has started, and disposition instructions of for equipment purchased, using grant funds, during the grant cycle.



C. Access by Grantor and State Auditor's Office

- a)1. During the term of the Grant Agreement and for at least three years thereafter, the Grantee must allow the Grantor and the State Auditor's Office access to and the right to examine the organization, program, premises, books, accounts, records, files, and other papers or property belonging to or in use by the Grantee and pertaining to the Grant Agreement or the use of funds pursuant to the Grant Agreement, in order to ascertain full compliance with the provisions of the Grant Agreement and with Mortgage Grant Fund MGF program guidelines.
- b)1. The Grantee must maintain these records at a location that is readily accessible to the Grantor.
- e)1. The Grantor has the right to make a visual inspection of inspect any assets, goods, or products purchased with grant funds.

D. Audits and Investigations

- a)1. Acceptance of grant funds under the Grant Agreement acts as acceptance of the authority of the Grantor's authority to conduct an audit or investigation in connection withrelated to grant funds.
- b)1. The Grantee agrees to cooperate fully with the Grantor and the State Auditor's Office, or their successors, in the conduct of any audit or investigation, including providing all records requested.
- c)2. The Grantee must ensure that this clause concerning the authority to audit the funds received by the Grantee is included in any subcontract it awards.
- <u>d)3.</u> Any audit of records may be conducted at <u>the</u> Grantee's principal place of business or a location of the Grantee's operations during the Grantee's normal business hours.

E. Disallowance of Grant Funds

The Grantee is liable to the Grantor for any costs disallowed as a result of an audit or investigation, and must, upon demand, immediately reimburse the Grantor for disallowed costs. See Grant Agreement Termination and Adverse Actions for more information.

XIII.XII. Risk Assessments



- a)1. The MGF Risk Assessment is a risk-based monitoring system applicable to MGF Applicants and each Grantee, used to analyze a program's potential risk levels and establish effective monitoring processes.
- b)1. The Grant Coordinator performs a risk assessment for each Applicant after the completed application is received and before the MGAC reviews the application.
- c)2. The Grant Coordinator performs a risk assessment for each Grantee approximately halfway through their grant cycle.
 - (1)a) Grantees on a one-year grant cycle undergo a risk assessment approximately six months into their grant cycle.
 - (2)b) Grantees on a two-year grant cycle undergo a risk assessment approximately one year into their grant cycle.
- d)1. The Grant Coordinator may conduct subsequent additional analyses as needed to ensure the Grantee's program meets the grant's requirementsgoals specified in the Grant Agreement of the grant.
- e)2. Monitoring actions are taken based on the low-risk, moderate-risk, or high-risk assessment provided by the risk assessment.
- f)3. The Grantee is required to provide explanations to the Grant Coordinator, upon request and within 5 business days (business days are considered Monday through Friday, and excluding federal holidays) of the request, on how the Grantee plans to minimize risks identified by the assessment.
- g)4. Grantees are not automatically disqualified based on their risk level or if their risk level increases from a prior risk assessment. The risk level is considered when establishing effective monitoring practices. Higher risk levels may warrant increased scrutiny to ensure the program goals are met.

XIV.XIII. Use of Grant Funds and Property

A. Disbursement of Grant Funds

- a)1. Payments are made on a <u>cost</u> reimbursement basis after the Grantor receives the Grantee's Semi-Annual Report, including receipts and invoices for all expenditures and accompanying reports.
- b)1. Receipts and invoices must match the funds requested on the Grantee's initial approved budget, unless otherwise approved in writing by the Grantor.



B. Allowable Expenditures

- a)1. Grantees may use the grant funds only for allowable expenditures as and the goals identified in the Grantee's applicationGrant Agreement and authorized agreementallowable pursuant to the Texas Grant Management Standards (TxGMS) adopted by the Texas Comptroller of Public Accounts pursuant to Chapter 783 of the Texas Government Code.
- b) Capital expenditures and real estate costs are generally unallowable unless pre-approved. Grantees may not use grant funds for the purchase or lease of real estate, construction, or building renovations. Equipment purchases over \$5,000 per item are also unallowable unless expressly pre-approved by the Grantor. Grantees must obtain written approval before incurring any such expenses to be eligible for reimbursement. Grant funds may not be used for general operating or capital expenditures (e.g., real estate, or any item with a useful life of more than one year and valued over \$5,000).
- e)1. Grantees must produce proof of payment (such as stamped paid invoices or receipts) of all allowable expenditures.
- d)1. All costs must be directly attributable to the project that is the subject of the Grant Agreement program's approved goals.

a) Salaries

Salary costs are reimbursed for direct program activity only. Any salary expenses sought for reimbursement must be accurately recorded. Grantees must submit timesheets with specific duties performed in relation to grant activity for salary to be considered for reimbursement. This documentation is submitted with the Semi-Annual Report.

b) Consultant Services

- a)i. Grantees normally are expected to utilize-use the services of their own officers or employees to the maximum extent in managing and performing the activities supported by the MGF grant award. Where it is necessary for a Grantee to contract for the services of persons who are not its officers or employees, it is expected to do so in accordance with its own written organizational standards.
- b)ii. If the need for consultant services is anticipated, the proposal narrativegrant application should provide appropriate rationale, and the summary proposal budget should estimate the amount of funds that may be required for this purpose. To the extent possible, consultant rates should show separate amounts for actual services and each of the



components of the rate (such as fringe benefits, indirect costs, and other expenses).

- e)iii. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the performing organization are allowable when reasonable in relation to the services rendered. However, payment for a consultant's services may not exceed more than 20% of actual award unless approved by the Commissioner.
- d)iv. In determining the allowable costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors, among others, are relevant.
 - (1) The nature and scope of the service rendered in relation to the service required.
 - (2) The necessity of issuing a <u>sub-award for the servicesecuring the</u> <u>services of a third-party</u>, considering the organization's capability in the particular area.
 - (3) The past pattern of such costs, particularly in the years prior to the grant award.
 - (4) The impact of government contracts and grants on the organization's total activity (ie.eg., what new problems have arisen).
 - (5) The service can be performed more economically by employment employing rather than by consulting.
 - (6) The qualifications of the person rendering the service and the normal/customary fees charged and received by the person for comparable services.
 - (7) The adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).
 - (8) The extent to which the costs would be allowable if performed directly by the Grantee.
- a) Travel Expenditures
 - a)i. Travel costs are reimbursed for certain expenses at the rates authorized by the Grant Agreement and limited by <u>rules</u> and <u>rates</u> promulgated by the Texas Comptroller of Public Accounts (Comptroller).



- b)ii. All travel must be performed in conjunction with official MGF_MGFrelated business. It is the responsibility of each Grantee to track and
 submit (with grant reports) the completed Mileage Log for travel
 reimbursement. Failure to comply with the travel guidelines will result in
 a delay of payment or rejection of travel reimbursement. When tracking
 mileage, Grantees must use the Mileage Log included with the grant
 report.
- e)iii. Grantees should use online mapping tools to compare and compute point-to-point mileage. The allowable reimbursement is determined using the lower of the actual miles driven or the mileage calculated, point to point point-to-point. The Grantor is not required to reimburse Grantees at the maximum rate. The Grantor's maximum mileage reimbursement rate for travel by Grantees is in accordance with the Comptroller. Mileage to and from ordinary in-town errands are is not reimbursed.
- d)iv. Mileage is consistent with state reimbursement rates set by the Comptroller and is subject to change. Refer to TxGMS for conditions related to all travel, lodging, and food_food_related reimbursement expenses. Refer to the Comptroller for specific travel allowances, definitions, and restrictions.
- e)v. Parking is eligible for reimbursement if it is incurred in connection with official MGF-MGF-related business.
- f)vi. Grantees are encouraged to compare airline costs and use the least costly option available, also considering the efficiency of such travel and employee compensation. To be reimbursed for airline travel, a Grantee must submit receipts that containshow, at a minimum the following information: Grantee (employee) name, airline, cost of airfare, travel dates, destinations, ticket number, and seating class. Grantees must also show proof of payment for airfare.

C. Property

1. Use of Property

During the term of the Grant Agreement, any property acquired with grant funds must be used in accordance with the Grant Agreement, to accomplish the purposes of the MGF and the grant program. in whole or in part with MGF funds, must be used for activities that advance tehe purposes of the MGF program. Property must remain inunder the control of the Grantee and be used as intended under the Grant Agreement.



- —RDefinitions
- Equipment: tangible personal property with a per-unit acquisition cost of \$5,000 or more and a useful life of more than one year.
- Supplies: all tangible personal property that does not meet the threshold for equipment (e.g., office supplies, laptops under \$5,000).
- 1. Records of Property

<u>The</u> Grantee must maintain appropriate records of <u>goods or propertyall</u> <u>equipment</u> purchased with grant funds, and must develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of these goods or property. Property records must include:

- a) A description of the property;
- b) serial number or other identification number;
- c) source of funding;
- d) who holds the title;
- e) acquisition date;
- f) cost;
- g) location;
- h) use and condition; and
- i) disposition data (date, method, and sale price if applicable).
- 2. Purchase of Equipment; Title Upon Termination
 - a) The Grantee may not give anycreate a security interest, lien, or otherwise encumber any item of equipment purchased with grant funds.
 - b) The Grantee must permanently identify all equipment purchased using grant funds with appropriate tags or labels affixed to the equipment by affixing appropriate tags or labels to it.
 - c) The Grantee must maintain a current inventory of all equipment, or assets acquired using grant funds and always make said inventory available to the Grantor upon request. The Grantee must also administer a program of maintenance, repair, and protection of equipment or assets to ensure their full availability and usefulness of the equipment or assets.
 - d) If the Grantee is indemnified, reimbursed, or otherwise compensated for any loss of, destruction of, or damage to the assets obtained using grant



funds, it must use the proceeds to repair or replace such equipment or assets. To the extent that <u>the</u> Grantor reimburses <u>the</u> Grantee for its purchase of equipment and supplies using grant funds, upon termination of the Grant Agreement, title to or ownership of all purchased equipment and supplies, at the sole option of <u>the</u> Grantor, will remain with <u>the</u> Grantor.

1. Intellectual Property

- a) Where funds obtained under the Grant Agreement may be used to produce original books, manuals, films, or other original material and intellectual property, <u>the</u> Grantee may copyright such material subject to a royalty-free, non-exclusive, fully paid-up, and irrevocable license that is reserved by <u>the</u> Grantor.
- b) The Grantor has the unrestricted right to use, copy, modify, prepare derivative works, publish, and distribute, at no additional cost to the Grantor, in any manner that the Grantor deems appropriate in its sole discretion, any component of intellectual property developed or created within the scope of the Grant Agreement.

D. Non-allowable Expenditures

Grantees may not use grant funds for any of the following (this list is not an exhaustive list):

- a)1. Advertising, except for hiring and contracting (does not include information sharing and promotion critical to program implementation);
- b)1. Alcoholic beverages or other intoxicants;
- e)2. Any salary or compensation for an elected or appointed city, county, or state government official;
- d)3. Costs incurred outside the project period;
- e)4. Fundraising;
- <u>5.</u> Mortgage payments:
- f)6.Lobbying.

See Appendix 7, Selected Items of Cost Supplement Chart, in the <u>Texas Grant Management Standards (TxGMS)</u> for more information. The Grant Coordinator is available to address questions regarding expense eligibility.



E. Unlawful use of Grant Funds

- a)1. The Grantor may require a refund of grant funds already disbursed to Grantee if one or more of the following events occur.
 - (1)a) Grant funds are misused
 - (2)b) Grant funds are used in an illegal manner
 - (3)c) Grant funds are used for non-allowable expenses
 - (4)d) The Grantee violates the terms or conditions of the Grant Agreement
 - (5)e) The Grantor discovers that the Grantee made any material misrepresentations to the Grantor in obtaining the grant award.
- b) This provision is not exclusive of other grounds for withholding or requiring the refunding of funds, or any other remedy, civil or criminal, which may be available to the Grantor.

XV.XIV. Grant Agreement Termination and Adverse Actions

F.A. Grant Agreement Termination

- 1. Termination for Convenience
 - a) The Grantor or Grantee may terminate a Grant Agreement before the end of the term of the agreement, without cause, by delivering a written notice of termination to the other party at least 30 days before the termination.
 - b) Early termination of the Grant Agreement does not relieve the Grantee from reporting requirements, recordkeeping requirements, or liability to refund Grant funds in the event of misuse.
 - c) If the Grantee terminates the Grant Agreement after receiving reimbursements in an amount that exceeds a pro rata portion of the total amount awarded over the elapsed term of the Grant Agreement, then the



Grantee must refund the portion of the reimbursement that exceeds the pro rata portion of the total amount awarded.

1. Termination for Cause

If the Grantee fails to perform or comply with an obligation of the terms, conditions, and provisions of the Grant Agreement, the Grantor may, upon written notice of the breach to the Grantee, immediately terminate all or any part of the Grant Agreement.

2. No Reimbursement Upon Termination

In the event of termination of the Grant Agreement, <u>the</u> Grantor will make no further disbursement of grant funds to <u>the</u> Grantee beyond those already approved at the time of termination, and <u>the</u> Grantee specifically waives all rights to any of such funds.

G.A. Adverse Actions

Misuse of Grant Funds

If a Grantee fails to comply with reporting requirements or use grant funds to create, deliver, or expand financial education, literacy, and capability building programs as described in the Grantee's application in compliance with the Grant Agreement, the Grantor may do one or more of the following:

- a) terminate the Grant Agreement;
- b) withhold grant funds;
- c) require that the Grantee refund grant funds received;
- d) submit an amended report to the Coordinator; and
- e) determine that the Grantee is ineligible for future awards from the MGF.

2. Refund of Grant Funds

The Grantor may require the Grantee to refund grant funds already disbursed to the Grantee if one or more of the following events occur. This provision is not exclusive of other grounds for withholding or requiring the refunding of funds, or any other remedy, civil or criminal, which may be available to the Grantor.

- a) Grant funds are misused.
- b) Grant funds are used in an illegal manner.
- c) Grant funds are used for non-allowable expenses.



- d) The Grantee violates the terms or conditions of the Grant Agreement.
- e) The Grantor discovers the Grantee made any misrepresentations__to Grantor_in obtaining the grant award.
- 3. Tax Delinquent Status

If the Texas Comptroller of Public Accounts or Texas Secretary of State (SoS) forfeits a Grantee's right to transact business in Texas because the Grantee is in a tax delinquent status with the SoS, the Grantor may do one or more of the following:

- a) Terminate the Grant Agreement.
- b) Suspend the Grant Agreement until <u>the</u> Grantee restores its right to transact business in Texas.
- c) Take any other action provided for in the Grant Agreement.

XVI.XV. Dispute Resolution – Mediation; Noncompliance Actions

- a)1. To the extent authorized by law, the Grantor and Grantee may use a dispute resolution process before pursuing termination or litigation.
- b)1. The Grantor and Grantee may sign an amended Grant Agreement or noncompliance action plan agreeing to the amended terms.
- e)1. The noncompliance action plan may include increased communications between the Grantor and Grantee, site visits, audits, and additional reporting requirements.
- d)1. The dispute may be mediated by a mutually acceptable third party.
- e)1. If mediation occurs, the Grantor and Grantee (without using funds derived from the MGF) will pay all costs of any mediation equally.
- f)1.The Grantor's participation in any mediation or nonbinding dispute resolution process will not be construed as a waiver (by the Grantor) of any of the following:
 - (1)a) any rights, privileges, defenses, remedies, or immunities available to the Grantor as an agency or governmental unit of the State of Texas, or otherwise available to the Grantor;
 - (2)b) the Grantor's termination rights; or
 - (3)c) other termination provisions or expiration dates of the Grant Agreement.



WII.XVI. Definitions

Auxiliary mortgage loan activity company: has the meaning assigned by Finance Code § 156.002.

Equipment: tangible personal property with a per-unit acquisition cost of \$5,000 or more and a useful life of more than one year.

Financial education, literacy, and capability: acquired consumer behaviors and knowledge that lead to tangible improvements in financial health, enabling the consumer to obtain and maintain a mortgage loan.

Grant Agreement: the written contract between the Grantor and Grantee governing the terms and conditions of the grant award.

Grantee: a recipient of Mortgage Grant Funds awarded pursuant to a fully executed Grant Agreement.

Grantor: the Department of Savings and Mortgage Lending (SML) and the Mortgage Grant Fund. The Commissioner may authorize one or more persons, including the Grant Coordinator, to perform any action that the Commissioner is authorized to perform as Grantor under the Grant Agreement.

Mortgage loan servicer: has the meaning assigned by Finance Code § 158.002 in defining "residential mortgage loan servicer."

Supplies: all tangible personal property that does not meet the threshold for equipment (e.g., office supplies, laptops under \$5,000).



Mortgage Grant Administration Manual

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I. Purpose

The Mortgage Grant Administration Manual (MGAM)'s purpose is to outline the policies and procedures for the administration of the Mortgage Grant Fund (MGF) grant program.

Background

The MGF was established by the 87th Texas Legislature by enactment of Texas Finance Code Chapter 156, Subchapter G. The MGF is also governed by SML's administrative rules (regulations) in 7 Texas Administrative Code Chapter 52. Funds distributed from the MGF are used to provide grants to qualified organizations that provide adult financial education to consumers relating to mortgage loans.

II. Administration and Investment

The Commissioner of the Department of Savings and Mortgage Lending (SML) serves as manager of the MGF and administers all aspects of the MGF, with oversight from the Finance Commission of Texas.

The MGF is subject to the Investment Policy adopted by SML.

III. Roles and Responsibilities

A. Finance Commission (FC)

- 1. May request reports from the Commissioner regarding the status and activities of the MGF.
- 2. Makes recommendations to the Commissioner as appropriate.
- 3. Approves the MGAM, and any amendments to the MGAM.

B. Finance Commission Audit Committee (AC)

- 1. Receives periodic reports from the Commissioner regarding the status and activities of the MGF grant program.
- 2. Makes recommendations to the Commissioner as appropriate.

C. Department of Savings and Mortgage Lending (SML) Commissioner (Commissioner)

- 1. Serves as manager of the fund and provides grant coordination oversight.
- 2. Administers all aspects of the fund, which includes the deposit, transfer, disbursement, allocation, investment, and reinvestment of assets of the MGF.



- 3. Maintains financial records of revenue and expenditures.
- 4. Appears at hearings or judicial proceedings related to the fund.
- 5. Allocates funds to the MGF grant program each grant cycle.
- 6. Reviews and approves recommendations regarding program improvements.
- 7. Develops funding priorities and identifies methods to support adult financial education to consumers relating to mortgage loans.
- 8. Appoints members to the Mortgage Grant Advisory Committee (MGAC).
- 9. Determines the final selection of grant recipients, funded grant activities, and award amounts.

D. Grant Coordinator

- 1. Works under the direction and oversight of the Commissioner.
- 2. Provides reports and presentations regarding the status of the status and activities of the MGF grant program.
- 3. Acts as liaison between Grantees, the Commissioner, and the MGAC.
- 4. Makes recommendations based on observed program needs to the MGAC and the Commissioner.
- 5. Ensures compliance with the records retention policy.
- 6. Recommends policy and procedure amendments to ensure successful and effective implementation of the MGF grant program.
- 7. Makes recommendations concerning MGAC membership.
- 8. Publicizes and promotes MGF grant opportunities.
- Ensures consistency with the Texas Grant Management Standards (TxGMS) adopted by the Texas Comptroller of Public Accounts.
- 10. Maintains the MGF webpages located on the SML website (sml.texas.gov).

E. Mortgage Grant Advisory Committee (MGAC)

- 1. Evaluates grant applications to determine whether the application should be approved, recommends modifications to the goals for funded grant activities, and the amount of the grant award;
- 2. At the request of the Grant Coordinator, evaluates grant compliance and address issues of non-compliance;
- 3. Considers potential amendments to the MGAM; and



4. Evaluates potential candidates for appointment to the MGAC.

IV. Mortgage Grant Advisory Committee Policy

A. Composition

- 1. The MGAC serves in an advisory role to the Commissioner and Grant Coordinator concerning administration of the MGF grant program
- The MGAC consists of no more than six members with varied experience in mortgage lending, mortgage financial education, or grant administration, as described by the list of roles below (list is not exhaustive, and the Commissioner may include other appropriate backgrounds as appropriate).
 - a) Mortgage Loan Financial Education Consultant informs the group of existing programs and advocates for the needs of the mortgage financial education community.
 - b) Educational Consultant understands best practices for delivering education. Assesses grant proposals for effective measures of knowledge gained.
 - c) Office of Consumer Credit Commissioner (OCCC) Representative Recommended by OCCC to advocate for programs focused on asset building, affordable housing, and preparation for home ownership.
 - d) Grant Administrator Assesses, evaluates, and makes recommendations regarding the grant administration process.
 - e) Consumer Advocate Advocates for consumers based on community engagement and needs assessment.
- 3. The MGAC designates, through a majority vote, one MGAC member to serve as the presiding officer at MGAC meetings.

B. Conflict of Interest

- 1. An MGAC member may not derive any personal profit or gain, directly or indirectly, by participating with the MGF.
- 2. Each MGAC member must sign a Conflict of Interest form prior to participating in the Grantee selection process.
- Each MGAC member must disclose to the Grant Coordinator any personal or professional interests that may pose a potential conflict and must refrain from participating in any discussion or funding decisions related to the conflict of interest.



 Each MGAC member must refrain from using applicant or Grantee information for personal or private solicitation purposes at any time during the term of their appointment.

C. Appointment and Terms

- 1. Prospective MGAC members may be recommended by the MGAC and are appointed by the Commissioner.
- Each MGAC member is appointed to a four-year term that corresponds with grant cycles. The Commissioner may establish shorter or longer terms to maintain staggered terms. MGAC members take office immediately following their appointment.
- 3. In the event of an MGAC vacancy due to a regularly expired term or vacancy during an unexpired term, the Commissioner appoints a new MGAC member.

D. Meetings

- 1. Meetings are attended by:
 - a) the Commissioner;
 - b) the Grant Coordinator;
 - c) MGAC Members; and
 - d) any other participants the Commissioner deems helpful or appropriate.
- 2. The MGAC meets during the grant cycle for the following purposes (list is not exhaustive).
 - a) Providing consultation and technical assistance to the Grant Coordinator.
 - b) Assisting with major project management decisions associated with awarded grants, including:
 - i. evaluating and recommending candidates for the MGF grant program to the Commissioner and Grant Coordinator;
 - ii. monitoring a Grantee's budget and unspent funds; and
 - iii. offering input, interviewing, and recommending new MGAC members to the Commissioner and Grant Coordinator.
 - c) The MGAC makes recommendations to the Commissioner and Grant Coordinator for MGAC membership, consideration of specific award allocations, termination of grant agreements for noncompliance, and amendments to program policies and procedures.



V. Mortgage Grant Fund Oversight

A. Audits

The Commissioner, AC, or FC may request an internal or external audit to examine compliance when deemed necessary.

B. Reimbursement Requests

- 1. Are executed pursuant to the grant agreement.
- 2. Are based upon satisfactory compliance and performance outcomes.

VI. Maximum Grant Awards

- 1. The Commissioner determines the funding available for each grant cycle.
- 2. The aggregate award amount is determined by the Commissioner prior to each grant cycle.

VII. Process Overview

A. Intention

The MGF may have one competitive grant cycle every two years. Announcements for the grant application period are made in Summer of each even-numbered year, with grant applications due by the end of August of that year.

B. Stage 1 – Administration

- 1. The MGAC and Grant Coordinator provide the Commissioner with policy recommendations based on observed program needs.
- 2. The Grant Coordinator:
 - a) develops and revises forms for the grant cycle, including the grant application, grant agreement, grant reports, and evaluation and tracking tools;
 - b) establishes the timeline for the grant cycle; and
 - c) publicizes opportunities to apply for a grant from the MGF.

C. Stage 2 - Policy Development and Implementation

1. The MGAC provides recommendations to the Commissioner for program development and modifications.



2. On the Commissioner's approval of program requirements for the grant cycle, the Grant Coordinator ensures all administrative and Grantee documentation is in place and updates the MGF webpage accordingly.

D. Stage 3 - Grantee Selection

- 1. The Grant Coordinator receives and prepares applications for the first phase of screening by: confirming eligibility, ensuring applications are complete and were timely submitted, logging applicant information, conducting a risk assessment, and submitting eligible applications to the MGAC for evaluation.
- The MGAC evaluates applications and provides recommendations to the Commissioner after reviewing the MGF budget, grant structure, number of awards and amounts to be funded, method of funding, and reporting requirements.
- 3. The Commissioner reviews recommendations from the MGAC and selects award recipients.
- 4. After selections have been made, the Grant Coordinator sends each applicant an award letter or a letter of regret. The Grant Coordinator sends grant recipients a grant agreement for their review and signature. The grant agreement must be fully executed by the Commissioner and the Grantee before grant activities approved for funding may begin.

E. Stage 4 – Manage Grant and Measure Progress

- 1. The grant cycles starts, and the Grantee begins funded grant activities. The Grantee tracks and reports program progress to the Grant Coordinator, as well as assesses and communicates program successes, challenges, and impact.
- 2. The Grant Coordinator monitors grant compliance and ensures Grantee reports are submitted timely.
- The Grant Coordinator processes reimbursement requests and recommends disbursements from the fund. The Commissioner approves eligible disbursements from the fund. Funding is dependent on program impact and grant compliance.
- 4. The Grant Coordinator provides technical assistance to Grantees and offers opportunities for regular consultation.
- 5. The Grant Coordinator evaluates areas of risk or concern, identifies issues of non-compliance, and directs corrective action to remedy non-compliance. The Grant Coordinator may request the assistance of the MGAC for this purpose, which may make recommendations.



VIII. Purpose of the MGF Grant Program

The purpose of the MGF grant program is to provide funding to qualified organizations that provide adult financial education to consumers relating to mortgage loans. Applicants for a grant must establish goals that demonstrate how their proposed grant activities align with the purpose of the MGF grant program. Goals approved for funding are included in the grant agreement governing the grant award. Prohibited and permissible uses of MGF grant funds are specified in the grant agreement. Activities that align with the purpose of the MGF grant program include, but are not limited to:

- 1. Education that helps Texans understand the benefits and potential drawbacks of home ownership;
- Educating Texans about the different mortgage loan types (e.g., conventional (conforming loans), FHA, VA, and USDA), their eligibility requirements, and associated costs;
- Educating Texans about the typical criteria used to evaluate a consumer's qualifications for a mortgage loan (e.g., credit score, debt-to-income, loan-to-value);
- 4. Educating Texans about opportunities for financial assistance to obtain a mortgage loan (e.g., down payment assistance programs);
- 5. Consumer credit counseling that improves the financial characteristics of Texas consumers to qualify for a mortgage loan, including budgeting and saving strategies, building credit, and improving credit scores; and
- 6. Train-the-trainer programs relating to the above.

IX. Pre-award Requirements

A. Organizational Eligibility

Non-profit organizations, political subdivisions of Texas, auxiliary mortgage loan activity companies (see Appendix A, Definitions) licensed by SML, and mortgage loan servicers (see Appendix A) registered with SML that are non-profit organizations are eligible to apply for grant funding. Other than auxiliary mortgage loan activity companies and mortgage loan servicers that are non-profit organizations, eligibility is not open to any other entities licensed by or registered with SML.

B. Program Criteria and Grant Application

- 1. During the application period for a grant cycle, Program Guidelines and Instructions for application submission are posted on the MGF webpage, located on SML's website (sml.texas.gov).
- 2. An Applicant's program must:



- a) Align with the purpose of the MGF grant program.
- b) Demonstrate effective evaluation tools and metrics, including the ability to collect and report required data in the semi-annual report.
- 3. Applicants must read and follow all application instructions.
- 4. Meeting eligibility criteria and timely submitting a Grant Application does not guarantee the award of a grant in any amount.

C. Application Submission

- 1. Applicants must apply electronically and follow all instructions for submitting the application.
- 2. A new grant cycle opens on January 1 of every odd-numbered year. The application submission period occurs in the even-numbered year preceding the grant cycle, typically beginning in the Summer, and with applications due by the end of August of that year.
- 3. Applicants may apply for a grant programming cycle of:
 - a) one year, beginning on January 1 of every odd-numbered year and ending December 31 of that year; or
 - two years, beginning on January 1 of every odd-numbered year and ending December 31 of the following even-numbered year.
- 4. The Grant Coordinator confirms receipt of a grant application via responsive email sent to the Applicant. Applications are only accepted on or before the due date. Late or incomplete applications are not considered.

D. Application Review and Selection Process

- 1. Funding consideration is given to organizations whose programs align with the purpose of the MGF grant program. The application review and selection process consists of the following steps.
 - a) The Grant Coordinator collects and reviews each application for eligibility.
 - b) The Grant Coordinator conducts a risk assessment.
 - c) The Grant Coordinator submits eligible applications to the MGAC for consideration.
 - d) The MGAC evaluates applications and recommends goal modifications, if warranted, and funding for programs.
 - e) The Commissioner makes the final selections of award recipients and award amounts.



2. When the competitive application and review process is complete, the Grant Coordinator sends each applicant an award letter or letter of regret no later than the end of December of the year preceding the grant cycle year.

E. Public Records

- 1. Texas Public Information Act: All information, documentation, and other materials submitted are subject to public disclosure under the Texas Public Information Act (Texas Government Code Chapter 552), unless a specific exception applies.
- 2. A list of organizations selected for an award is published on the MGF webpage, located on the SML website (sml.texas.gov).
- 3. Information may be publicly available and published online (MGF webpage, SML website, or Finance Commission website).

X. Post-award Requirements

A. Grant Agreements

- 1. Grant Agreement has the meaning assigned in Appendix A, Definitions.
- 2. Once a Grantee has been selected, and prior to the Grantee beginning any funded grant activities, the Grantee and the Commissioner must sign the Grant Agreement.
- 3. The terms of the grant award are specified in the Grant Agreement
- 4. Expenses incurred before the beginning of or after the Grant Agreement ends are not eligible for reimbursement.
- 5. The Commissioner may withhold reimbursements when a grantee is not in compliance with the Grant Agreement or other requirements outlined in 7 Texas Administrative Code Section 52.6(g).
- 6. Unless otherwise specified by the Grant Agreement, the Grantee must collect required data and report grant-funded activities until the end of the grant cycle.

B. Mortgage Grant Fund's (Grantor) Obligation

- The Grantor reimburses the Grantee for actual, allowable, and allocable costs incurred by the Grantee pursuant to the Grant Agreement up to the maximum amount of the grant award.
- 2. The Grantor is not obligated to pay unauthorized costs. The Grantee must obtain prior written approval from the Grantor if the Grantee anticipates any of the following:



- a) altering the scope of the grant including changes to the approved budget or goals; or
- b) changing funds in any awarded budget category by more than 10% of the amount awarded for that category.
- 3. The Grantor's maximum liability under the Grant Agreement is amount of the grant award specified in the Grant Agreement.
- 4. Reimbursement of awarded funds is not an entitlement or right. Reimbursement depends on strict compliance with all terms, conditions, and provisions of the Grant Agreement, statutory requirements, and the MGAM.
- 5. The Grantor monitors Grantee performance and expenditures. The Grantor may conduct virtual or on-site audits of grant programs.

C. Grantee's Obligation

- 1. The Grantee must use grant funds in accordance with all the following:
 - a) all applicable federal and state laws and regulations;
 - b) the MGAM;
 - c) the Grant Agreement;
 - d) all reporting and monitoring requirements, as outlined in the Grant Agreement; and
 - e) any other guidelines and instructions posted on the MGF webpage for the applicable grant cycle.
- 2. The Grantee must cooperate fully with the Grantor.
- 3. The Grantee must notify the Grantor within 30 days of discovering any significant changes or events occurring during the term of the Grant Agreement that could potentially impact the progress or outcome of the grant program, including, but not limited to:
 - a) Changes in the Grantee's management personnel or other key individuals;
 - b) Changes in the Grantee's operating location, the location of business records, or the location where funded assets or equipment is located;
 - c) Loss of operating funds (other than MGF grant funds), including any funding disclosed in the grant application; and
 - d) Changes to the Grantee's non-profit status with the Internal Revenue Service, if applicable.



- 4. Failure to give the required 30-day notice of significant changes or events is grounds for termination of the Grant Agreement.
- 5. The Grantee's fiscal and programmatic management must include internal controls designed to:
 - a) ensure accountability for all funds and materials received from the Grantor;
 - b) compliance with the Grantor's rules, policies, and procedures, as well as applicable federal and state laws and regulations; and
 - c) correct fiscal and program management deficiencies identified through selfevaluation or the Grantor's monitoring processes.
- 6. The Grantee must develop, implement, and maintain all the following:
 - a) financial management and control systems that include appropriate financial planning, including the development of budgets that adequately reflect all functions and resources necessary to carry out authorized activities and the adequate determination of costs;
 - financial management systems, including accurate and complete payroll, accounting, and financial reporting records;
 - c) cost source documentation such as receipts, bills, invoices, and statements;
 - d) effective internal and budgetary controls to trace the use of MGF funds specifically and separately from other funds used to support the same program;
 - e) documentation evidencing determination of reasonableness, allocation of costs, and timely and appropriate audits and resolution of any findings; and
 - f) annual financial statements, including statements of financial position, activities, and cash flows, prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) or other recognized accounting principles deemed acceptable to the Grantor.
- 7. The Grantee must submit progress reports and reimbursement requests using the current forms prescribed by the Commissioner for the applicable grant cycle. The progress report must be detailed and include supporting documentation to justify the reimbursement request.
- 8. The Grantee must comply with all laws, regulations, requirements, and guidelines applicable to a Grantee providing services to the State of Texas, as these laws, regulations, requirements, and guidelines currently exist and as they are amended throughout the term of the Grant Agreement.



- 9. If a Grantee fails to use grant funds to Grantee's approved goals as specified in the Grant Agreement, the Grantor reserves the right to do one or more of the following:
 - a) terminate the Grant Agreement;
 - b) withhold grant funds;
 - c) require that the Grantee refund grant funds received;
 - d) submit an amended report to the Coordinator; and
 - e) determine that the Grantee is ineligible for future awards from the MGF.

D. Grantee's Reporting Requirements

- 1. MGF Semi-Annual Report: the Grantee must complete and submit a MGF Semi-Annual Report documenting all funded grant activities. The report is the mechanism by which reimbursement requests are made. The MGF Semi-Annual Report covers the following time periods for each grant year and has the following due dates:
 - a) January 1 through June 30, due no later than July 31; and
 - b) July 1 through December 31, due no later than January 31.
- 10. Supporting documentation: the Grantee must submit legible supporting documentation for all expenditures with the submission of the MGF Semi-Annual Report. Examples of supporting documentation include but are not limited to:
 - a) Pay stubs covering the hours and days worked on MGF related activities during the reimbursement request period.
 - Dated and itemized invoices, receipts, and contracts indicating services were rendered and payment was made during the semi-annual reporting period.
- 2. MGF Personnel Time Tracker: the Grantee must use and submit the MGF Personnel Time Tracker provided by the Grantor and submit the tracker and pay stubs, with their MGF Semi-Annual Report, only if submitting for reimbursement of salaries, wages, or fringe benefits. Pay stubs may be redacted to remove sensitive personal information, but must sufficiently identify personnel.
- Sign-In Sheets or Rosters: the Grantee must submit copies of sign-in sheets or rosters, physical or electronic, listing the name or initials of attendees, and title, date, and length of the education course. The MGF does not prescribe a format



- for sign-in sheets or rosters and accepts any format submitted by Grantee so long as it contains the information listed in this section.
- 4. Inventory Report: the Grantee must submit a current inventory report listing all equipment purchased with grant funds. The MGF does not prescribe a format for inventory reports and accepts any format submitted by the Grantee so long as it contains the following information: item, date of purchase, cost, where the equipment is being used (location of the property), percentage of time the equipment is being used for the program; and make, model, and serial number, if applicable.
- 5. MGF Budget or Goal Change Request: If the Grantee requests a +/-10% change to any approved budget category or their approved goals, the Grantee must submit the MGF Budget or Goal Change Request immediately
- 6. Reimbursement Request Discrepancy Form: If the Grantor discovers errors or missing information in a Grantee's reimbursement request, the Grantor will give the Grantee a completed EXE 6.1.1M MGF Reimbursement Request Discrepancy Form listing each discrepancy. The Grantee must document how the issue was resolved in the space provided. The Grantee must (1) complete all response fields, (2) attach any supporting documentation requested, and (3) resubmit corrected forms and documentation to the Grantor within the timeframe stated in the notification so processing can resume.
- 7. Pre- and Post-Program Surveys: Survey data is included in and is submitted with each MGF Semi-Annual Report. The Grantee must also submit the completed surveys to the Grant Coordinator. Surveys may be completed on paper or using an electronic survey mechanism as directed by the Grant Coordinator. Surveys should be provided to persons who attend the supported MGF program prior to the class, seminar, or similar event (pre-program survey) and after completion of the class, seminar, or similar event (post-program survey).
- 8. The Grantee must promptly answer any questions by the Grantor, whether in writing or otherwise, related to the grant.
- 9. If the Grantee fails to comply with any of the reporting requirements as set forth in the MGAM, the Grantor may do one or more of the following:
 - a) terminate the Grant Agreement;
 - b) withhold grant funds;
 - c) require that the Grantee refund grant funds received;
 - d) submit an amended report to the Coordinator; and



- e) determine that the Grantee is ineligible for future awards from the MGF.
- 10. If the Grantee exhausts all funds prior to the completion of the grant term, the Grantee is obligated to continue to track and report grant-related activities for the remaining duration of the term outlined in the Grant Agreement.

XI. Recordkeeping and Monitoring

A. Duty to Maintain Records

- 1. The Grantee must maintain adequate records to support its charges, procedures, and performance for all work related to the Grant Agreement.
- The Grantee must maintain records that are deemed necessary by the Grantor, the State Auditor's Office, other auditors of the State of Texas, or any other persons designated by the Grantor, to ensure proper accounting for all costs and performances related to the Grant Agreement.

B. Record Retention

- For three years after the end of the grant cycle or until full and final resolution of all audit or litigation matters that arise after the expiration of the term, whichever is later, the Grantee must maintain any records necessary to fully disclose the extent of services provided under the Grant Agreement. There are no exceptions to this requirement.
- 2. The three-year count begins on the date the Grant Coordinator notifies the Grantee that all administrative functions have been closed out for the grant cycle. The notification includes language advising the Grantee that the retention period has started and disposition instructions for equipment purchased using grant funds during the grant cycle.

C. Access by Grantor and State Auditor's Office

- 1. During the term of the Grant Agreement and for at least three years thereafter, the Grantee must allow the Grantor and the State Auditor's Office access to and the right to examine the organization, program, premises, books, accounts, records, files, and other papers or property belonging to or in use by the Grantee and pertaining to the Grant Agreement or the use of funds pursuant to the Grant Agreement, in order to ascertain full compliance with the provisions of the Grant Agreement and with MGF guidelines.
- 2. The Grantee must maintain records at a location that is readily accessible to the Grantor.



3. The Grantor has the right to inspect any assets, goods, or products purchased with grant funds.

D. Audits and Investigations

- Acceptance of grant funds under the Grant Agreement acts as acceptance of the Grantor's authority to conduct an audit or investigation related to grant funds.
- 2. The Grantee agrees to cooperate fully with the Grantor and the State Auditor's Office, or their successors, in the conduct of any audit or investigation, including providing all records requested.
- The Grantee must ensure that this clause concerning the authority to audit the funds received by the Grantee is included in any subcontract it awards.
- 4. Any audit of records may be conducted at the Grantee's principal place of business or a location of the Grantee's operations during the Grantee's normal business hours.

E. Disallowance of Grant Funds

The Grantee is liable to the Grantor for any costs disallowed as a result of an audit or investigation, and must, upon demand, immediately reimburse the Grantor for disallowed costs. See Grant Agreement Termination and Adverse Actions for more information.

XII. Risk Assessments

- The MGF Risk Assessment is a risk-based monitoring system applicable to MGF Applicants and each Grantee, used to analyze a program's potential risk levels and establish effective monitoring processes.
- 2. The Grant Coordinator performs a risk assessment for each Applicant after the completed application is received and before the MGAC reviews the application.
- 3. The Grant Coordinator performs a risk assessment for each Grantee approximately halfway through their grant cycle.
 - a) Grantees on a one-year grant cycle undergo a risk assessment approximately six months into their grant cycle.
 - b) Grantees on a two-year grant cycle undergo a risk assessment approximately one year into their grant cycle.
- 4. The Grant Coordinator may conduct subsequent additional analyses as needed to ensure the Grantee's program meets the goals specified in the Grant Agreement.



- 5. Monitoring actions are taken based on the low-risk, moderate-risk, or high-risk assessment provided by the risk assessment.
- 6. The Grantee is required to provide explanations to the Grant Coordinator, upon request and within 5 business days (Monday through Friday, and excluding federal holidays) of the request, on how the Grantee plans to minimize risks identified by the assessment.
- 7. Grantees are not automatically disqualified based on their risk level or if their risk level increases from a prior risk assessment. The risk level is considered when establishing effective monitoring practices. Higher risk levels may warrant increased scrutiny to ensure the program goals are met.

XIII. Use of Grant Funds and Property

A. Disbursement of Grant Funds

- Payments are made on a cost reimbursement basis after the Grantor receives the Grantee's Semi-Annual Report, including receipts and invoices for all expenditures and accompanying reports.
- 2. Receipts and invoices must match the funds requested on the Grantee's approved budget.

B. Allowable Expenditures

- Grantees may use the grant funds only for allowable expenditures and the goals identified in the Grant Agreement and allowable pursuant to the Texas Grant Management Standards (TxGMS) adopted by the Texas Comptroller of Public Accounts pursuant to Chapter 783 of the Texas Government Code.
- 2. Capital expenditures and real estate costs are generally unallowable unless pre-approved. Grantees may not use grant funds for the purchase or lease of real estate, construction, or building renovations. Equipment purchases over \$5,000 per item are also unallowable unless expressly pre-approved by the Grantor. Grantees must obtain written approval before incurring any such expenses to be eligible for reimbursement. Grantees must produce proof of payment such as stamped paid invoices or receipts of all allowable expenditures.
- 3. All costs must be directly attributable to the program's approved goals.
 - a) Salaries
 - Salary costs are reimbursed for direct program activity only. Any salary expenses sought for reimbursement must be accurately recorded. Grantees



must submit timesheets with specific duties performed in relation to grant activity for salary to be considered for reimbursement. This documentation is submitted with the Semi-Annual Report.

b) Consultant Services

- i. Grantees normally are expected to use the services of their own officers or employees to the maximum extent in managing and performing the activities supported by the MGF grant award. Where it is necessary for a Grantee to contract for the services of persons who are not its officers or employees, it is expected to do so in accordance with its own written organizational standards.
- ii. If the need for consultant services is anticipated, the grant application should provide appropriate rationale, and the summary proposal budget should estimate the amount of funds that may be required for this purpose. To the extent possible, consultant rates should show separate amounts for actual services and each of the components of the rate (such as fringe benefits, indirect costs, and other expenses).
- iii. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the performing organization are allowable when reasonable in relation to the services rendered. However, payment for a consultant's services may not exceed more than 20% of actual award unless approved by the Commissioner.
- iv. In determining the allowable costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors, among others, are relevant.
 - (1) The nature and scope of the service rendered in relation to the service required.
 - (2) The necessity of issuing securing the services of a third-party, considering the organization's capability in the particular area.
 - (3) The past pattern of such costs, particularly in the years prior to the grant award.
 - (4) The impact of government contracts and grants on the organization's total activity (i.e., what new problems have arisen).
 - (5) The service can be performed more economically by employing rather than by consulting.



- (6) The qualifications of the person rendering the service and the normal/customary fees charged and received by the person for comparable services.
- (7) The adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).
- (8) The extent to which the costs would be allowable if performed directly by the Grantee.

c) Travel Expenditures

- Travel costs are reimbursed for certain expenses at the rates authorized by the Grant Agreement and limited by <u>rules</u> and <u>rates</u> promulgated by the Texas Comptroller of Public Accounts (Comptroller).
- ii. All travel must be performed in conjunction with official MGF-related business. It is the responsibility of each Grantee to track and submit (with grant reports) the completed Mileage Log for travel reimbursement. Failure to comply with the travel guidelines will result in a delay of payment or rejection of travel reimbursement. When tracking mileage, Grantees must use the Mileage Log included with the grant report.
- iii. Grantees should use online mapping tools to compare and compute point-to-point mileage. The allowable reimbursement is determined using the lower of the actual miles driven or the mileage calculated, point-to-point. The Grantor is not required to reimburse Grantees at the maximum rate. The Grantor's maximum mileage reimbursement rate for travel by Grantees is in accordance with the Comptroller. Mileage to and from ordinary in-town errands is not reimbursed.
- iv. Mileage is consistent with state reimbursement rates set by the Comptroller and is subject to change. Refer to TxGMS for conditions related to all travel, lodging, and food-related reimbursement expenses. Refer to the Comptroller for specific travel allowances, definitions, and restrictions.
- v. Parking is eligible for reimbursement if it is incurred in connection with official MGF-related business.
- vi. Grantees are encouraged to compare airline costs and use the least costly option available, also considering the efficiency of such travel and employee compensation. To be reimbursed for airline travel, a Grantee must submit receipts that show, at a minimum: Grantee (employee)



name, airline, cost of airfare, travel dates, destinations, ticket number, and seating class. Grantees must also show proof of payment for airfare.

C. Property

1. Use of Property

During the term of the Grant Agreement, any property acquired in whole or in part with MGF funds, must be used for activities that advance the purposes of the MGF program. Property must remain under the control of the Grantee and be used as intended under the Grant Agreement.

2. Records of Property

The Grantee must maintain appropriate records of all equipment purchased with grant funds, and must develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of these goods or property. Property records must include:

- a) A description of the property;
- b) serial number or other identification number;
- c) source of funding;
- d) who holds the title;
- e) acquisition date;
- f) cost;
- g) location;
- h) use and condition; and
- i) disposition data (date, method, and sale price if applicable).
- 3. Purchase of Equipment; Title Upon Termination
 - a) The Grantee may not create a security interest, lien, or otherwise encumber any item of equipment purchased with grant funds.
 - b) The Grantee must permanently identify all equipment purchased using grant funds by affixing appropriate tags or labels to it.
 - c) The Grantee must maintain a current inventory of all equipment, or assets acquired using grant funds and always make said inventory available to the Grantor upon request. The Grantee must also administer a program of maintenance, repair, and protection of equipment or assets to ensure their full availability and usefulness.



d) If the Grantee is indemnified, reimbursed, or otherwise compensated for any loss of, destruction of, or damage to the assets obtained using grant funds, it must use the proceeds to repair or replace such equipment or assets. To the extent that the Grantor reimburses the Grantee for its purchase of equipment and supplies using grant funds, upon termination of the Grant Agreement, title to or ownership of all purchased equipment and supplies, at the sole option of the Grantor, will remain with the Grantor.

4. Intellectual Property

- a) Where funds obtained under the Grant Agreement may be used to produce original books, manuals, films, or other original material and intellectual property, the Grantee may copyright such material subject to a royalty-free, non-exclusive, fully paid-up, and irrevocable license that is reserved by the Grantor.
- b) The Grantor has the unrestricted right to use, copy, modify, prepare derivative works, publish, and distribute, at no additional cost to the Grantor, in any manner that the Grantor deems appropriate in its sole discretion, any component of intellectual property developed or created within the scope of the Grant Agreement.

D. Non-allowable Expenditures

Grantees may not use grant funds for any of the following (list is not exhaustive):

- 1. Advertising, except for hiring and contracting (does not include information sharing and promotion critical to program implementation);
- 2. Alcoholic beverages or other intoxicants;
- 3. Any salary or compensation for an elected or appointed city, county, or state government official;
- 4. Costs incurred outside the project period;
- 5. Fundraising;
- Mortgage payments;
- 7. Lobbying.

See Appendix 7, Selected Items of Cost Supplement Chart, in the <u>Texas Grant Management Standards (TxGMS)</u> for more information. The Grant Coordinator is available to address questions regarding expense eligibility.



E. Unlawful use of Grant Funds

- 1. The Grantor may require a refund of grant funds already disbursed to Grantee if one or more of the following events occur.
 - a) Grant funds are misused
 - b) Grant funds are used in an illegal manner
 - c) Grant funds are used for non-allowable expenses
 - d) The Grantee violates the terms or conditions of the Grant Agreement
 - e) The Grantor discovers that the Grantee made any material misrepresentations to the Grantor in obtaining the grant award.
- 2. This provision is not exclusive of other grounds for withholding or requiring the refunding of funds, or any other remedy, civil or criminal, which may be available to the Grantor.

XIV. Grant Agreement Termination and Adverse Actions

A. Grant Agreement Termination

- 1. Termination for Convenience
 - a) The Grantor or Grantee may terminate a Grant Agreement before the end of the term of the agreement, without cause, by delivering a written notice of termination to the other party at least 30 days before the termination.
 - b) Early termination of the Grant Agreement does not relieve the Grantee from reporting requirements, recordkeeping requirements, or liability to refund Grant funds in the event of misuse.
 - c) If the Grantee terminates the Grant Agreement after receiving reimbursements in an amount that exceeds a pro rata portion of the total amount awarded over the elapsed term of the Grant Agreement, the Grantee must refund the portion of the reimbursement that exceeds the pro rata portion of the total amount awarded.

2. Termination for Cause

If the Grantee fails to perform or comply with an obligation of the terms, conditions, and provisions of the Grant Agreement, the Grantor may, upon written notice of the breach to the Grantee, immediately terminate all or any part of the Grant Agreement.



3. No Reimbursement Upon Termination

In the event of termination of the Grant Agreement, the Grantor will make no further disbursement of grant funds to the Grantee beyond those already approved at the time of termination, and the Grantee specifically waives all rights to any of such funds.

B. Adverse Actions

1. Misuse of Grant Funds

If a Grantee fails to comply with reporting requirements or use grant funds in compliance with the Grant Agreement, the Grantor may do one or more of the following:

- d) terminate the Grant Agreement;
- e) withhold grant funds;
- f) require that the Grantee refund grant funds received;
- g) submit an amended report to the Coordinator; and
- h) determine that the Grantee is ineligible for future awards from the MGF.

2. Refund of Grant Funds

The Grantor may require the Grantee to refund grant funds already disbursed to the Grantee if one or more of the following events occur. This provision is not exclusive of other grounds for withholding or requiring the refunding of funds, or any other remedy, civil or criminal, which may be available to the Grantor.

- a) Grant funds are misused.
- b) Grant funds are used in an illegal manner.
- c) Grant funds are used for non-allowable expenses.
- d) The Grantee violates the terms or conditions of the Grant Agreement.
- e) The Grantor discovers the Grantee made any misrepresentations in obtaining the grant award.

3. Tax Delinguent Status

If the Texas Comptroller of Public Accounts or Texas Secretary of State (SoS) forfeits a Grantee's right to transact business in Texas because the Grantee is in a tax delinquent status with the SoS, the Grantor may do one or more of the following:



- a) Terminate the Grant Agreement.
- b) Suspend the Grant Agreement until the Grantee restores its right to transact business in Texas.
- c) Take any other action provided for in the Grant Agreement.

XV. Dispute Resolution – Mediation; Noncompliance Actions

- 1. To the extent authorized by law, the Grantor and Grantee may use a dispute resolution process before pursuing termination or litigation.
- 2. The Grantor and Grantee may sign an amended Grant Agreement or noncompliance action plan agreeing to the amended terms.
- 3. The noncompliance action plan may include increased communications between the Grantor and Grantee, site visits, audits, and additional reporting requirements.
- 4. The dispute may be mediated by a mutually acceptable third party.
- 5. If mediation occurs, the Grantor and Grantee (without using funds derived from the MGF) will pay all costs of any mediation equally.
- 6. The Grantor's participation in any mediation or nonbinding dispute resolution process will not be construed as a waiver (by the Grantor) of any of the following:
 - a) any rights, privileges, defenses, remedies, or immunities available to the Grantor as an agency or governmental unit of the State of Texas, or otherwise available to the Grantor;
 - b) the Grantor's termination rights; or
 - c) other termination provisions or expiration dates of the Grant Agreement.

XVI. Definitions

Auxiliary mortgage loan activity company: has the meaning assigned by Finance Code § 156.002.

Equipment: tangible personal property with a per-unit acquisition cost of \$5,000 or more and a useful life of more than one year.

Grant Agreement: the written contract between the Grantor and Grantee governing the terms and conditions of the grant award.

Grantee: a recipient of Mortgage Grant Funds awarded pursuant to a fully executed Grant Agreement.



Grantor: the Department of Savings and Mortgage Lending (SML) and the Mortgage Grant Fund. The Commissioner may authorize one or more persons, including the Grant Coordinator, to perform any action that the Commissioner is authorized to perform under the Grant Agreement.

Mortgage loan servicer: has the meaning assigned by Finance Code § 158.002 in defining "residential mortgage loan servicer."

Supplies: all tangible personal property that does not meet the threshold for equipment (e.g., office supplies, laptops under \$5,000).